Basel Committee on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel III G-SIB framework and review of D-SIB frameworks – United States

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Contents

Glossary

BHC	Bank holding company
C	Compliant (grade)
CCAR	Comprehensive Capital Analysis and Review
CET1	Common Equity Tier 1
D-SIB	Domestic systemically important bank
EU	European Union
EUR	Euros
FBO	Foreign banking organisation
FRB	Board of Governors of the Federal Reserve System
G-SIB	Global systemically important bank
LC	Largely compliant (grade)
LISCC	Large Institution Supervision Coordinating Committee
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
RCAP	Regulatory Consistency Assessment Programme
SIB	Systemically important bank
US	United States
USD	US dollars

Executive summary

The Basel Committee on Banking Supervision (Basel Committee) sets a high priority on the implementation of regulatory standards underpinning the Basel III framework. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel framework.

This report summarises the findings of the RCAP Assessment Team on the domestic adoption of the Basel global systemically important bank (G-SIB) framework in the United States. The focus of the assessment was on the consistency and completeness of the regulations in the United States with the Basel Committee's minimum requirements. An evaluation of the overall soundness and stability of the banking sector in the US, the capital levels of individual banks and the supervisory effectiveness of the US authorities was not in the scope of this assessment.

The report also presents a review of the US domestic systemically important bank (D-SIB) framework. Unlike the G-SIB assessment, this review was not graded, consistent with the high-level, principles-based nature of the Committee's D-SIB framework.

The RCAP Assessment Team was led by Mr Wayne Byres, Chairman of the Australian Prudential Regulation Authority. The Assessment Team comprised four experts drawn from the Basel Committee Secretariat, Brazil, India and Singapore. The main counterpart for the assessment in the US was the Board of Governors of the Federal Reserve System (FRB). The assessment and review of the US SIB frameworks was conducted alongside assessments and reviews in the other four jurisdictions that are currently home to G-SIBs: China, the European Union (EU), Japan and Switzerland.[1]

The US regulation implementing the G-SIB higher loss absorbency requirements was published in August 2015. The regulation implementing the G-SIB disclosure and reporting requirements was issued in December 2012 and has been periodically updated since. There are currently eight G-SIBs based in the US: Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street and Wells Fargo.[2]

The G-SIB framework in the US is assessed as compliant with the Basel G-SIB framework. This is the highest overall grade. Both subcomponents of the G-SIB framework, higher loss absorbency and disclosure requirements, are assessed as compliant.

Some aspects of the G-SIB framework in the US are more conservative than the Basel framework. This includes an alternative assessment methodology that generally results in higher minimum capital requirements and broader and more frequent disclosure requirements. These aspects are listed in Annex 5 but have not been taken into account for the final assessment of compliance, as per the agreed assessment methodology.

The Assessment Team identified one issue, on the use of non-euro-based thresholds for disclosure and reporting, where further clarification from the Basel Committee is sought.

The Assessment Team's review of the US D-SIB framework found it to be broadly aligned with the Basel Committee's D-SIB principles. The US D-SIB framework, finalised in 2015, replicates the G-SIB assessment methodology. Based on their results, the US currently does not identify any additional D-SIBs beyond those already designated as G-SIBs. In addition to a higher loss absorbency requirement, these banks are also subject to additional heightened regulatory and supervisory requirements, including stress testing, capital buffer and liquidity requirements, and strengthened expectations for risk management.

1 The other reports are available on the BIS website at www.bis.org/bcbs/implementation/l2.htm.

2 As published by the Financial Stability Board in November 2015. See www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf.

The RCAP Assessment Team acknowledges the professional cooperation received from the FRB during the assessment and review. The Assessment Team hopes that the RCAP exercise will contribute to the sound initiatives that have been undertaken in the US and to strengthening further the prudential effectiveness and full implementation of these G-SIB and D-SIB frameworks.

Response from the US authorities

The Federal Reserve welcomes the opportunity to respond to the Basel Committee on the report's findings concerning the US implementation of the Basel G-SIB framework as well as express our thanks to Mr Wayne Byres and the Assessment Team for their professionalism and integrity throughout this process.

The assessment of the US implementation of the Basel G-SIB framework was conducted entirely off-site and the Federal Reserve believes this was an effective approach for purposes of this assessment. The approach enabled a detailed and robust assessment of the US implementation of the Basel G-SIB framework in an efficient manner.

The Federal Reserve concurs with the report's overall rating of compliant as well as with each of the subcomponent ratings of compliant for the higher loss absorbency and disclosure requirements of the G-SIB framework.

Overall, the Federal Reserve believes that assessments of this type promote a level playing field among Basel member jurisdictions and improve transparency. The assessment shows that the Federal Reserve has achieved a robust application of the Basel G-SIB framework in the United States.

1. G-SIB assessment

1.1 Context

Introduction to the Basel G-SIB framework

The Basel Committee published the G-SIB framework in 2011 and updated it in 2013. It comprises an assessment methodology for global systemic importance, the magnitude of additional loss absorbency that G-SIBs should have and arrangements for phasing in the requirements. Based on the Basel Committee's assessment methodology, the Financial Stability Board published a list of G-SIBs in 2011 and has updated it annually since.

The G-SIB framework is set out in *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement* (July 2013).[3] This document was the basis for the RCAP assessment. The RCAP Assessment Team focused on the key requirements of the G-SIB framework, namely: (i) the level and composition of the higher loss absorbency requirement and coordination with other regulatory requirements; and (ii) the reporting requirements for and public disclosure by banks.

In the Basel G-SIB framework, the higher loss absorbency requirements come into effect between 1 January 2016 and 31 December 2018, in parallel with the Basel III capital conservation and countercyclical buffers. Disclosure requirements apply from 2014. The assessed jurisdictions implemented G-SIB frameworks between 2012 and 2016, with higher loss absorbency requirements being phased in until 2019.

Status of US implementation

The *Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act) mandates that the FRB adopt, among other prudential measures, enhanced capital standards to mitigate the risk posed to financial stability by systemically important financial institutions. The FRB is thus responsible for identifying and regulating G-SIBs in the US.

The FRB issued *Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies: Final Rule* in August 2015. This implements the Basel higher loss absorbency requirements in the US from 1 January 2016, becoming fully effective on 1 January 2019. In December 2012, the FRB issued *Agency Information Collection Activities: Announcement of Board Under Delegated Authority and Submission to OMB* (the FR Y-15 notice), which implemented the G-SIB disclosure and reporting requirements. This was subsequently amended in December 2013 and December 2015.

Regulatory system, model of supervision and binding nature of prudential regulations

The US has a dual banking system in which a bank may choose to be chartered by the federal government or by a state. Banks chartered at the state level are supervised by both federal and state supervisors. Every US bank is regulated, supervised and examined by a primary federal banking supervisor: the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation or the Federal Reserve System (Federal Reserve). For all G-SIBs, the primary federal banking supervisor is the Federal Reserve.

The US federal banking agencies have the authority to regulate and supervise banks and bank holding companies (BHCs) subject to their jurisdiction. The hierarchy of legal instruments relevant to prudential regulation is set out in Annex 2. As a general principle, RCAP assessments only take into consideration documents that implement Basel standards in a manner that provides a formal basis for regulators, banks and associated third parties to ensure compliance with the minimum requirements. The

[3] See www.bis.org/publ/bcbs255.htm.

regulatory documents set out in Annex 2 were considered binding and therefore eligible for the purpose of the G-SIB assessment.

Structure of the banking sector

There are currently eight G-SIBs based in the US. These banks comprise almost 50% of the total exposures of the US banking system. As at end-2015, their weighted average total capital ratio and Common Equity Tier 1 (CET1) ratios were 17.0% and 12.8%, respectively. Their business models and characteristics vary considerably. Table 1 shows the ranking of each US G-SIB in the list of G-SIBs published in November 2015.

US G-SIBs

Table 1

	G-SIB bucket	CET1 additional higher loss absorbency
JPMorgan Chase	4	2.5%
Citigroup	3	2.0%
Bank of America Goldman Sachs Morgan Stanley	2	1.5%
Bank of New York Mellon State Street Wells Fargo	1	1.0%

Source: Financial Stability Board, www.fsb.org/wp-content/uploads/2015-update-of-list-of-global-systemically-important-banks-G-SIBs.pdf.

1.2 Scope of the assessment

Scope

The RCAP Assessment Team has considered all binding documents that effectively implement the Basel G-SIB framework in the US as of 1 April 2016 (the cut-off date for the assessment). The assessment had two dimensions:

- a comparison of domestic regulations with the Basel G-SIB framework, to ascertain that all the required provisions have been adopted (the *completeness* of US domestic regulation); and
- whether there are any differences in substance between the domestic regulations and the Basel G-SIB framework and, if so, their significance (the *consistency* of US regulation).

Any identified deviation was assessed for its materiality (current and potential, or having an insignificant impact) by using both quantitative and qualitative information. In addition to the available data, the assessment relied on expert judgment on whether the domestic regulations met the Basel framework in letter and spirit. While informed by some aspects of supervisory practice in the US and the nature of the banking system, the assessment did not evaluate the adequacy of capital or resilience of the banking system in the US or of the US G-SIBs or the supervisory effectiveness of the US regulatory authorities.

Assessment methodology and grading

This cross-jurisdictional assessment followed the Committee's standard RCAP assessment process.[4] Before an assessment starts, the Committee agrees the principles and process for the type of assessment and the Team Leader agrees the specific arrangements for the particular exercise with counterparts in the assessed jurisdictions. The assessment itself comprises three phases: (i) self-assessment by the relevant authorities; (ii) an assessment phase; and (iii) a post-assessment review phase.

During the assessment phase, the RCAP Assessment Team compared the domestic regulations with the corresponding Basel framework. The Assessment Team identified observations for discussion with the relevant authorities. Following feedback from the FRB, the list of observations was developed into a structured list of preliminary findings. The materiality of quantifiable deviations was primarily assessed in terms of their current or, where applicable, potential future impact (or non-impact) on capital ratios of the US G-SIBs. The non-quantifiable aspects of identified deviations were discussed and reviewed in the context of the prevailing regulatory practices and processes with the US authorities. The Assessment Team also considered the impact of the deviations on the collective G-SIB scoring mechanism.

As per the RCAP methodology approved by the Basel Committee, the outcome of the assessment was summarised using a four-grade scale (compliant, largely compliant, materially non-compliant or non-compliant), both at the level of each of the two subcomponents of the Basel G-SIB framework and for the overall assessment of compliance.[5]

Ultimately, the assignment of the assessment grades was guided by the collective expert judgment of the Assessment Team. In doing so, the Assessment Team relied on the general principle that the burden of proof rests with the assessed jurisdiction to show that a finding is not material or potentially material. A summary of the materiality analysis is given in Annex 4.

The Basel G-SIB framework builds on other parts of the Basel capital framework. For example, the higher loss absorbency requirements for G-SIBs are defined with reference to the Basel III definitions of CET1 and risk-weighted assets. All the assessed jurisdictions had already been assessed in terms of their implementation of the Basel risk-based capital standards. This assessment of G-SIB frameworks did not repeat those previous assessments, nor did it penalise a jurisdiction a second time where the relevant part of the capital framework was found to be less than compliant in the risk-based capital assessment. Similarly, this assessment of G-SIB frameworks relied on the previous RCAP assessments of the degree to which regulations in each jurisdiction are binding.

Aspects of the US rules go beyond the minimum requirements in the Basel framework. Although these elements provide for a more rigorous implementation of the G-SIB framework in some respects, they have not been taken into account for the assessment of compliance under the RCAP methodology as per the agreed assessment methodology (Annex 5 lists areas of super-equivalence).

[4] For more information on the RCAP, see www.bis.org/publ/bcbs264.htm.

[5] This four-grade scale is consistent with the approach used for assessing countries' compliance with the Basel Committee's *Core principles for effective banking supervision*. The actual definition of the four grades has been adjusted to take into account the different nature of the two exercises. See www.bis.org/publ/bcbs264.htm for further details.

1.3 Main findings

A summary of the main findings is given below.

Summary assessment grading

Table 1

Key components of the Basel G-SIB framework	Grade
Overall grade	C
Higher loss absorbency	C
Disclosure requirements	C

Compliance assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

Main findings by component

Higher loss absorbency

The US implementation of the G-SIB higher loss absorbency requirements is judged to be compliant with the Basel framework.

Three deviations have been identified. One relates to the US capital planning framework and one to the year-end used to set the higher loss absorbency requirements for US G-SIBs in 2016. Finally, the US has adopted different phase-in arrangements for different categories of banks. None of these deviations is considered material.

The Assessment Team has two observations on the additional G-SIB higher loss absorbency requirements applied in the US and the date of implementation of the final G-SIB rule. These are included for information only.

Disclosure requirements

The US implementation of the G-SIB disclosure requirements is judged to be compliant with the Basel framework.

Two deviations have been identified, neither of which is considered to be material. The thresholds used for G-SIB disclosure and reporting in the US G-SIB regulations use a different metric to that in the Basel framework. Also, the US G-SIB indicators are not disclosed in US banks' financial statements; instead, the US authorities themselves disclose the indicators.

The Assessment Team has two observations on the US G-SIB reporting and disclosure requirements. One relates to the role of the US authorities in the disclosure of G-SIB indicators.

The other observation relates to the use of non-euro-based thresholds for disclosure and reporting. Thresholds for G-SIB reporting and disclosure are expressed in euros in the Basel G-SIB framework. The US authorities have implemented these requirements using thresholds expressed in US dollars (USD). Under this approach, although the conversion may be accurate at the time local regulations are put in place, if the exchange rate shifts over time, then the thresholds included in local regulation could depart (potentially materially) from the euro thresholds in the Basel framework (though the US thresholds are set such that only very significant changes in the exchange rate would have an effect on the consistency of the frameworks). The Assessment Team considers that the Basel Committee should provide guidance to national supervisors on how to incorporate appropriate and relevant thresholds into domestic regulation and on how to ensure such thresholds can be aligned to the euro-based thresholds in the Basel framework when there are movements in the exchange rate over time.[6] This is discussed further in Annex 6. This issue is listed as an observation in the assessment and is not considered to affect the compliance of the US rules with the Basel framework.

1.4 Detailed assessment findings

The component by component details of the assessment of compliance with the Basel Committee G-SIB framework are given below. The focus of this section is on findings that are assessed as deviating from the minimum requirements under the Basel framework and their materiality. Section 1.5 lists observations and other findings specific to the implementation practices in the US. Observations do not indicate sub-equivalence.

Higher loss absorbency

Section grade	Compliant
Summary	Three deviations have been identified, on the submission of capital remediation plans and the basis for the first year of higher loss absorbency requirements for US G-SIBs. None of the findings are considered material.
Basel paragraph number	57
Reference in the domestic regulation	G-SIB rule, § 217.1(f) (3); § 217.403(b) (1); Preamble II.D
Findings	In the case of a breach of the higher loss absorbency requirement, the Basel framework requires a bank to produce a capital remediation plan over a fixed time frame. Because the G-SIB higher loss absorbency requirement extends the capital conservation buffer, this requires in effect a capital remediation plan for a breach of the combined buffer (taking into account the capital conservation buffer, the countercyclical capital buffer, where relevant, and the G-SIB surcharge). The US G-SIB regulations do not contain an explicit requirement for a capital remediation plan over a fixed time frame. However, the FRB ensures robust capital planning for all BHCs with more than USD 50 billion in total consolidated assets under its Comprehensive Capital Analysis and Review (CCAR) framework. Under the CCAR, the Federal Reserve may require a BHC to re-submit its capital plan within 30 days if the Federal Reserve or the BHC determines that there has been a material change in the firm's risk profile, financial condition or corporate structure. A rapid decrease in the firm's capital levels would be an example of such a material change. Unlike the Basel framework, the US regulations do not explicitly link the submission of a capital plan to a breach of the combined buffer. However, the capital planning requirements in the CCAR framework are sufficiently thorough that this slight difference in approach is unlikely to have any significant impact.
Materiality	Not material
Basel paragraph number	62
Reference in the domestic regulation	G-SIB rule, Preamble II.E.2; § 217.300(a)(2); § 217.400(b)(3)
Findings	Preamble II.E.2 of the US G-SIB rule sets the higher loss absorbency requirements for January 2016 based on end-2014 data, rather than end-2013 data as envisaged in the Basel framework. The US authorities provided information on the surcharges that would apply based on data from the above two dates. There is no difference between the surcharges. After 2016, the basis for the US G-SIB higher loss absorbency requirements follows the Basel framework. The deviation is not considered material.

6 The use of euro-based thresholds has also been identified as an area for further guidance from the Basel Committee in the RCAP assessments of the risk-based capital framework for Switzerland and Saudi Arabia.

Materiality	Not material
Basel paragraph number	62
Reference in the domestic regulation	G-SIB rule, Preamble II.E.2; § 217.300(a)(2); § 217.400(b)(3)
Findings	The Basel framework requires the G-SIB higher loss absorbency requirement to be phased in from 1 January 2016. There are different phase-in arrangements for two categories of US banks. • Advanced approaches Board-regulated institutions with more than USD 700 billion in total assets or more than USD 10 trillion assets in custody must calculate their G-SIB surcharge by 31 December 2015. • Other advanced approaches Board-regulated institutions must calculate their G-SIB surcharge by 31 December 2016. In theory, this allows a US G-SIB having less than USD 700 billion in total assets or less than USD 10 trillion of assets under custody to implement the surcharge from 31 December 2016, rather than 1 January 2016 as required under the Basel framework. However, at present none of the US G-SIBs are below these criteria.
Materiality	Not material

Disclosure requirements

Section grade	Compliant
Summary	There are two deviations, with respect to the thresholds used for G-SIB disclosure and reporting and the institution responsible for disclosing the US G-SIB indicators. Neither deviation is considered material.
Basel paragraph number	42
Reference in the domestic regulation	FR Y-15 reporting instructions
Findings	The EUR 200 billion threshold in the Basel framework has been transposed as a USD 50 billion threshold in the US rules text. However, instead of referring to a total leverage ratio exposure (as in the Basel framework), the US framework refers to "total consolidated assets". This measure does not include certain off-balance sheet exposures that are captured by the total leverage ratio exposure measure. The US authorities explained that, because the threshold in the US framework (USD 50 billion of total consolidated assets, which is equal to approximately EUR 44 billion using exchange rates as of June 2016) is significantly smaller than the Basel threshold, all the banks that meet the disclosure threshold under the Basel framework, plus 19 other banks, are required to disclose information.
Materiality	Not material
Basel paragraph number	45
Reference in the domestic regulation	FR Y-15 reporting instructions
Findings	The Basel G-SIB framework requires that banks above the EUR 200 billion threshold publish their G-SIB indicators. Under the US framework, G-SIB indicators do not need to be disclosed in US banks' financial statements, nor must a direct link be provided to these disclosures. Instead, the US authorities themselves disclose the indicators. The Federal Reserve makes all reported information for each BHC publicly and centrally available in multiple accessible formats on the National Information Center website (available at www.ffiec.gov/nicpubweb/nicweb/Y15SnapShot.aspx).
Materiality	Not material

1.5 Observations specific to implementation practices in the US

The following list describes the Assessment Team's observations regarding US implementation of the G-SIB framework. These observations are consistent with the Basel framework and are provided here for background information only.

Higher loss absorbency

Basel paragraph number	46 and 47
Reference in the domestic regulation	G-SIB rule, § 217.403
Findings	Under US regulations, there are two methods for calculating the higher loss absorbency requirements applicable to US G-SIBs. The first method is identical to that under the Basel framework. The second method replaces the substitutability category used in the Basel assessment methodology with a measure of a G-SIB's reliance on short-term wholesale funding, which generally results in greater higher loss absorbency requirements than those under the first method. US G-SIBs will be subjected to the greater of the requirements calculated under each method.
Basel paragraph number	63
Reference in the domestic regulation	FR Y-15 notice, Part D, 76486 FR Y-15 revisions notice, Part C, 77129 – 77131
Findings	The Basel framework states that "to enable timely implementation of [G-SIB rules] on 1 January 2016, national jurisdictions should implement official regulations/legislations by 1 January 2014 that establish the reporting and disclosure requirements necessary to ensure the indicator-based measurement approach can be applied during 2014 based on publicly available end-2013 data". This requirement was not fulfilled in the US, as the final G-SIB rule was effective only on 1 December 2015.

Disclosure requirements

Basel paragraph number	42
Reference in the domestic regulation	FR Y-15 reporting instructions
Findings	The Basel framework determines that banks below the EUR 200 billion threshold that have been added to the sample by supervisory judgment would also be required to comply with the disclosure requirements. This is not required under the US legal texts. However, the FRB reserves authority under Section 217.400(c) (1) of the rule to apply any portion of the rule to any firm under its jurisdiction. Specifically, the rule states: "The Board may apply this subpart to any Board-regulated institution, in whole or in part, by order of the Board based on the institution's capital structure, size, level of complexity, risk profile, scope of operations, or financial condition." This means that the FRB has the power to extend the disclosure requirements to banks added to the sample by supervisory judgment in the future. The FRB has already applied disclosure requirements to all banks with total consolidated assets of at least USD 50 billion. These entities that already report the Y-15 comprise the likely set of firms that would reasonably be considered under Section 217.400(c)(1) for application of the subpart (the G-SIB framework). As noted above, the US application of disclosure requirements covers 19 banks more than would be captured under the Basel thresholds. Therefore, it is likely that any firm added to the sample by supervisory judgment in the short to medium term would already be meeting the disclosure requirement.

Basel paragraph number	42
Reference in the domestic regulation	FR Y-15 reporting instructions
Findings	The Basel framework determines that banks above the EUR 200 billion threshold should disclose the 12 indicators. The thresholds for the disclosure and reporting requirements in the US are expressed in USD. In theory, using a local currency equivalent to the euro thresholds in the G-SIB framework could lead to a departure from the Basel framework as the exchange rate shifts over time. However, the thresholds for disclosure and reporting requirements in the US are significantly below the thresholds in the Basel framework (even with a different metric), at USD 50 billion (currently equivalent to around EUR 44 billion). This issue is discussed further in Annex 6.

2. D-SIB review

2.1 Context

Introduction to the Basel D-SIB framework

The Basel Committee published its D-SIB framework in 2012.[7] The framework comprises a set of principles on the assessment methodology and the higher loss absorbency requirement for D-SIBs. These principles allow appropriate national discretion to accommodate structural characteristics of domestic financial systems, including the possibility for countries to go beyond the minimum D-SIB framework. The Committee considers that it would be appropriate for banks identified as D-SIBs by their national authorities to be required by those authorities to comply with the principles from January 2016 (in line with the phase-in arrangements for the G-SIB framework).

Status of US implementation

The US SIB framework is implemented as the 2015 *Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies* (Federal Register Vol. 80, No. 157, hereafter "Federal Register"). Section 165 of the Dodd-Frank Act codified under Chapter 5365 of Title 12 of the *US Code* (US Code) provides for additional requirements.

Significance of D-SIBs in the banking sector

As described in Section 2.3, the US considers the US G-SIBs to be those banks that would be designated as US D-SIBs. There are currently eight designated G-SIBs in the US, as described in Section 1.1. These are: Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street and Wells Fargo.

2.2 Scope and methodology of the review

The review of the D-SIB framework was done in parallel with the G-SIB assessment, but was not performed on a graded basis. Instead, the Assessment Team collected information on the implementation of the Basel D-SIB framework in the US (as well as China, the EU, Japan and Switzerland) and developed a qualitative narrative. This approach is consistent with the Basel Committee's objectives: valuable information is collected on implementation, while respecting the high-level, principles-based nature of the D-SIB framework.

The RCAP Assessment Team considered all binding documents that effectively implement the Basel D-SIB framework in the US as of 1 April 2016 (the cut-off date for the assessment and review). These documents were compared to the Basel Committee's D-SIB principles.[8]

Differences between the principles and the US framework were considered and discussed with the FRB. The Assessment Team did not assess the materiality of these differences.

As for the G-SIB assessment, the D-SIB review did not evaluate the adequacy of capital or resilience of the banking system in the US or of the US D-SIBs or the supervisory effectiveness of the US regulatory authorities.

[7] See Basel Committee on Banking Supervision, *A framework for dealing with domestic systemically important banks*, October 2012, www.bis.org/publ/bcbs233.pdf.

[8] See Basel Committee, op cit.

2.3 Results of the review

Assessment methodology

The Dodd-Frank Act provides that the FRB should establish prudential standards for BHCs in order to prevent or mitigate risks that could arise from the material financial distress or failure of large interconnected financial institutions. As noted in the Federal Register, the underlying assumption is that the failure of a US banking organisation that makes up a significant proportion of the aggregate global indicator amounts would lead to a significant disruption of the US financial system (in addition to the global financial system).

BHCs are assessed on the basis of total consolidated assets. In addition, the Federal Reserve assesses the systemic importance of subsidiaries of foreign banking organisations (FBOs) with more than USD 50 billion in assets in US subsidiaries. These entities are required to transfer ownership interest in virtually all US subsidiaries to an intermediate holding company, which is then subject to heightened prudential and supervisory requirements on a consolidated basis.

The Federal Register establishes the US methodology for assessing G-SIBs (see Section 1 for an assessment of this methodology). Under this methodology, the US authorities identify G-SIB scores based on measures of a firm's systemic importance relative to global aggregates.

The US authorities have indicated that the Federal Reserve has replicated this methodology for all BHCs with USD 50 billion or more in total consolidated assets, replacing aggregate US values for those used in the global denominators under the G-SIB framework. Given the significant difference between the scores for the G-SIBs and the scores for other banks, there is, effectively, no difference in the firms identified as G-SIBs and those that would be designated as US D-SIBs.

In addition to the methodologies described in Section 1, in 2010 the Federal Reserve established the Large Institution Supervision Coordinating Committee (LISCC), which currently conducts intensive supervision for the eight US G-SIBs, amongst other banks, at the consolidated level.[9] These firms are selected based on their size, their interconnectedness, the lack of readily available substitutes for the services they provide, their complexity and their global activities.

US regulations highlight that more stringent prudential standards, including risk-based capital requirements, can be differentiated amongst banks taking the following into consideration:

- capital structure
- riskiness
- complexity
- financial activities
- size
- any other risk-related factors deemed appropriate

Given the overlap with the G-SIB assessment conducted by the Basel Committee and the Financial Stability Board, the Federal Reserve's assessment to identify US SIBs is effectively conducted on an annual basis. In addition, as of the second quarter of 2016, BHCs with more than USD 50 billion in total consolidated assets will report all indicators on a quarterly basis, which will allow the US authorities to conduct an ongoing review.

[9] The LISCC portfolio also includes four foreign banking organisations with substantial US operations, which are not considered US SIBs. They may be US subsidiaries of G-SIBs based in other jurisdictions.

The G-SIB methodologies are laid out in the Federal Register. As noted above, the Federal Reserve replicates this exercise replacing the global denominators with US denominators. While the aggregated US denominators are not explicitly published, all data are published and stakeholders should be able to calculate them based on the more granular data.

Higher loss absorbency

Given the overlap in the G-SIB and (effective) D-SIB assessments, the higher loss absorbency surcharge applied in the US is effectively demonstrated through the published G-SIB rules (as well as international standards, such as the Basel Committee's July 2013 G-SIB framework[10] and the Financial Stability Board's annual designation of G-SIBs). This overlap assures that the G-SIB and D-SIB frameworks are compatible.

As noted above, FBOs with USD 50 billion in non-branch assets must place virtually all US subsidiaries under an intermediate holding company. Any potential designation of an intermediate holding company as a D-SIB would be discussed during ongoing dialogue with the home country supervisors of the global consolidated firm.

Since the D-SIB regime effectively replicates the global definition of the higher loss absorbency requirement, the capital surcharge must be fully composed of CET1. All large US BHCs are subject to a set of enhanced prudential and supervisory requirements, including the CCAR, Dodd-Frank Act stress testing, liquidity standards, general risk governance standards and subsidiarisation for relevant FBOs. In addition to the higher loss absorbency surcharge, designated SIBs must also meet an enhanced supplementary leverage ratio.

10 See Basel Committee on Banking Supervision, *Global systemically important banks: updated assessment methodology and the higher loss absorbency requirement*, July 2013, www.bis.org/publ/bcbs255.htm.

Annexes

Annex 1: RCAP Assessment Team, Review Team and Peer Review Board

Assessment Team Leader

Mr Wayne Byres	Australian Prudential Regulation Authority

Assessment Team Members

Ms Fabiana Ladvocat Cintra Amaral Carvalho	Central Bank of Brazil
Ms Tamara Gomes	Basel Committee Secretariat
Mr Manoj Kumar Poddar	Reserve Bank of India
Mr Choon Mun Yong	Monetary Authority of Singapore

Supporting Members

Mr David Orsmond	Reserve Bank of Australia
Ms Louise Eggett	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team

Ms Valeria Salomao Garcia	World Bank
Mr Brad Shinn	Office of the Superintendent of Financial Institutions, Canada
Mr Rob Urry	South African Reserve Bank
Mr Sunny Yung	Hong Kong Monetary Authority

Peer Review Board

Mr Pascual O'Dogherty	Bank of Mexico
Mr Arthur Yuen	Hong Kong Monetary Authority
Mr Aditya Narain	International Monetary Fund

Annex 2: Local regulations issued by the US authorities to implement the Basel G-SIB framework

Overview of G-SIB rules and issuance dates

Table A.1

Domestic regulations	Version and date
Dodd-Frank Wall Street Reform and Consumer Protection Act	Signed into law on 21 July 2010
Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies: Final Rule (80 FR 49082)	Published in US Federal Register on 14 August 2015
Agency Information Collection Activities: Announcement of Board Under Delegated Authority and Submission to OMB (the FR Y-15 notice) (77 FR 76484)	Published in US Federal Register on 28 December 2012
Amended by:	
Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB (FR Y-15 revisions notice) (78 FR 77128)	Published in US Federal Register on 20 December 2013
Agency Information Collection Activities: Announcement of Board Approval Under Delegated Authority and Submission to OMB (FR Y-15 revisions notice) (80 FR 773344)	Published in US Federal Register on 14 December 2015

Source: FRB.

Hierarchy of US laws and regulatory instruments

Table A.2

Level of rules (in legal terms)	Type
Federal statutes and legislative mandates	Enacted by US Congress
Regulations	Issued by US regulatory agencies
Reporting requirements	Issued by US regulatory agencies
Policy statements	Issued by US regulatory agencies
Interpretations	Issued by US regulatory agencies
Supervisory guidance	Issued by US regulatory agencies
Supervisory manuals	Issued by US regulatory agencies

Source: Basel Committee on Banking Supervision, ‚*RCAP Assessment of Basel III regulations – United States of America*, December 2014, www.bis.org/bcbs/publ/d301.pdf.

The RCAP assessment of the US implementation of the Basel capital standards considered the binding nature of regulatory documents in the US. The findings of that assessment are given in Annex 7 of the previous RCAP assessment report.[11] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous RCAP findings.

[11] See Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – United States of America*, December 2014, www.bis.org/bcbs/publ/d301.pdf.

Annex 3: Financial indicators of the US banking system and SIBs

Overview of the US banking system and systemically important banks

As of 31 December 2015 — Table A.3

Size of banking system (at consolidated level, EUR billions)	
Total assets of all banks operating in the jurisdiction (including off-balance sheet exposures)	18,514
Total consolidated assets of all G-SIBs	9,466
Number of banks	
Number of banks operating in the US	528
Number of G-SIBs	8
Number of designated D-SIBs	8
Capital adequacy of G-SIBs (EUR billions, per cent)	
Total regulatory capital	1,089
Total CET1 capital	818
Total risk-weighted assets	6,453
Capital adequacy ratio (weighted average)	17.0%
CET1 ratio (weighted average)	12.8%
CET1 ratio (minimum amongst US G-SIBs)	11.1%
CET1 ratio (maximum amongst US G-SIBs)	16.4%

The US considers the US G-SIBs to be those banks that would be designated as US D-SIBs. Therefore, indicators on D-SIBs are not presented separately.

"Total assets of all banks" reflects the sum of: (i) the on-balance sheet assets as reported by bank holding companies with more than USD 1 billion and less than USD 50 billion in total consolidated assets as of year-end 2015; and (ii) the total exposure (on-balance sheet assets plus certain off-balance sheet assets) of banking holding companies with more than USD 50 billion in total consolidated assets as of year-end 2014.

The number of banks operating in the US is the number of top-tier bank holding companies with USD 1 billion or more in total consolidated assets.

The measures of capital adequacy for G-SIBs reflect regulatory capital and risk-weighted assets as reported by US G-SIBs under the standardised approach.

Overview of the US banking system and systemically important banks

As of 31 December 2014, in EUR billions and per cent Table A.4

Total exposures	13,167	17.8%
Intra-financial system assets	1,591	20.2%
Intra-financial system liabilities	1,766	19.9%
Securities outstanding	2,629	21.5%
Total payments	863,538	40.5%
Assets under custody	71,169	61.3%
Underwriting activity	1,810	34.0%
Notional amount of over-the-counter derivatives	221,344	34.7%
Trading and available-for-sale securities	1,138	34.7%
Level 3 assets	193	29.3%
Cross-jurisdictional claims	2,274	13.2%
Cross-jurisdictional liabilities	2,260	14.4%

The indicators of systemic importance are based on the total sample of banks in the US used for the Basel Committee and Financial Stability Board's G-SIB identification data collection exercise. This comprises all banks with a leverage ratio exposure measure exceeding EUR 200 billion or which were designated as G-SIBs in the previous year's G-SIB assessment.

Annex 4: Materiality assessment

The assessment of materiality distinguished between quantifiable and non-quantifiable gaps. The Assessment Team attempted to quantify the impact of all quantifiable gaps for each G-SIB. In total, five gaps were assessed based on information provided by the US authorities. The Assessment Team also considered the impact of the deviations on the collective G-SIB scoring mechanism.

In those cases where the computation of the impact was not straightforward, the computation erred on the conservative side. Where no data were available to quantify gaps, the Assessment Team relied on expert judgment. Following this approach, the Assessment Team determined whether gaps were likely to be "not material", "potentially material" or "material".

Number of gaps by component

Table A.5

Component	Not material	Potentially material	Material
Higher loss absorbency	3	0	0
Disclosure requirements	2	0	0

Annex 5: Areas where US requirements are stricter than the minimum requirements in the Basel G-SIB framework

In some places, the US authorities believe that they have adopted a stricter approach than the minimum requirements in the Basel G-SIB framework. The following list provides an overview of these areas. The information in this annex has been provided by the FRB and has not been cross-checked or assessed by the RCAP Assessment Team. These areas have not been taken into account as mitigating factors in the overall assessment of compliance.

Areas of super-equivalence in the US G-SIB framework

Table A.6

Basel paragraph(s)	Domestic rule-making	Additional requirements
Higher loss absorbency		
46	G-SIB rule, section 217.403	Under the FRB's G-SIB rule, there are two methods for calculating the surcharge applicable to BHCs that have been identified as G-SIBs. The first method (Method 1) is identical to the surcharge calculation under the Basel framework. The second method (Method 2) replaces the substitutability category with a measure of a G-SIB's reliance on short-term wholesale funding. Method 2 generally results in higher surcharges than Method 1. US G-SIBs will be subject to the higher of the surcharges calculated under each method. The rule maintains the surcharges calculated according to the Basel framework as a floor.
Disclosure requirements		
42	FR Y-15 revisions notice, Part D, 77131	The full breakdown of the indicators is disclosed for BHCs with total consolidated assets of USD 50 billion or more. In addition, beginning in the second quarter of 2016, these BHCs will report data on the FR Y-15 on a quarterly rather than annual basis.

Annex 6: Areas for further guidance from the Basel Committee

Disclosure requirements

The Basel G-SIB framework uses euro-based thresholds for G-SIB reporting and disclosure requirements.

National supervisors could incorporate such thresholds into domestic regulation by specifying local requirements using euro amounts. This would ensure alignment with the Basel G-SIB framework over time, notwithstanding any movements in the exchange rate between the local currency and the euro. This approach means that banks would need to monitor the exchange rate to know whether they are captured by G-SIB disclosure and reporting requirements.

Alternatively, national supervisors could convert the euro threshold into a local currency equivalent. Under this approach, although the conversion may be accurate at the time local regulations are put in place, if the exchange rate shifts over time, then the thresholds included in local regulation could depart (potentially materially) from the euro thresholds in the Basel framework.

The US has taken the latter approach in implementing the G-SIB reporting and disclosure thresholds. The Assessment Team notes that the current thresholds in the US framework are significantly below the euro-based thresholds in the Basel framework (albeit using a different metric), so only very significant changes in the EUR/USD exchange rate would have an effect on the consistency of the frameworks.

The Assessment Team considers that the Basel Committee should provide guidance to national supervisors on how to incorporate appropriate and relevant thresholds into domestic regulation and on how to ensure such thresholds can be aligned to the euro-based thresholds in the Basel framework when there are movements in the exchange rate over time.[12]

In the case of the assessment of the US G-SIB framework, this issue is listed as an observation and is not considered to affect the compliance of the US rules with the Basel framework.

[12] The use of euro-based thresholds has also been identified as an area for further guidance from the Basel Committee in RCAP assessments of the risk-based capital framework for Switzerland and Saudi Arabia. It is also highlighted in the RCAP-SIB assessment of China.

Annex 7: The FRB's summary of its Pillar 2 supervisory review process, as applied to G-SIBs and D-SIBs

The higher loss absorbency requirement for G-SIBs incorporates elements of both Pillar 1 and Pillar 2. The indicator-based measurement approach, the pre-specified requirements for banks within each bucket and the fixed consequences of not meeting the requirements can be considered close to Pillar 1. However, the use of supervisory judgment to finalise the allocation of individual banks to buckets can be considered close to Pillar 2. In some jurisdictions, Pillar 2 may adapt to accommodate the existence of the G-SIB higher loss absorbency requirements, but capital meeting the G-SIB higher loss absorbency requirement should not be used simultaneously to meet Pillar 2 requirements relating to other risks.

As a general matter, the Federal Reserve does not use explicit Pillar 2 add-ons. Thus, the overlap issue does not arise in the US.

The US Pillar 2 process is described in Annex 14 of the RCAP assessment of the US implementation of the Basel capital standards.[13]

[13] See Basel Committee on Banking Supervision, *RCAP Assessment of Basel III regulations – United States of America*, December 2014, www.bis.org/bcbs/publ/d301.pdf.