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Enhanced Prudential Standards for Foreign Banking Organizations: The US Approach to Ring-Fencing

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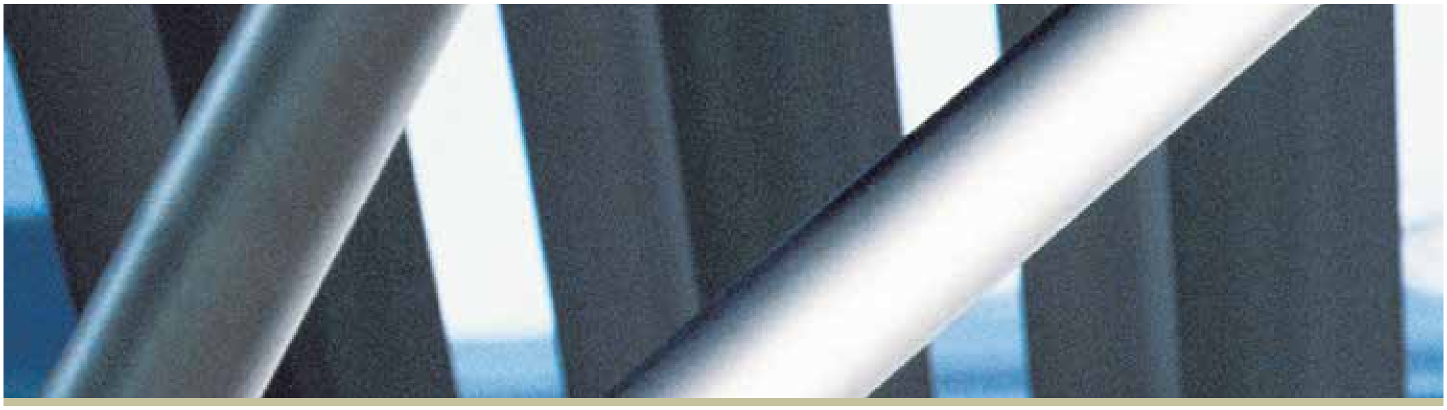
Enhanced Prudential Standards for Foreign Banking Organizations: The US Approach to Ring-Fencing



The Board of Governors of the Federal Reserve System ("Board") on February 18, 2014 adopted a final rule ("Final Rule") to implement enhanced capital, liquidity and other prudential standards for foreign banks with US branches, agencies, commercial lending company subsidiaries or US bank subsidiaries ("foreign banking organizations").[1] Though not expressly dictated by the Dodd-Frank Act, the Final Rule requires unprecedented ring-fencing of capital and liquidity in the United States. A foreign banking organization may continue to conduct its banking activities in the United States through branches and agencies, *but* must maintain liquid assets in the United States to support those activities. Control of a US bank, brokerage firm, investment manager or other nonbank also continues to be permitted *but*, if those activities reach specified asset levels, they are to be corralled into a US intermediate holding company ("IHC") that must meet capital and liquidity requirements substantially similar to those required for US bank holding companies that control a US bank.

The Final Rule categorizes foreign banking organizations based on global assets, assets in the United States and the distribution of US assets among branch and nonbranch operations, in each case with assets as defined by the Final Rule. Each category requires compliance with incrementally stringent enhanced standards. The Board staff estimates that approximately 126 foreign banking organizations with existing US banking operations will be subject to one category or another of the Final Rule's enhanced standards and that 15 to 20 of those will fall within the category requiring formation and ring-fencing of capital and liquidity in an IHC.[2]

If you have questions or comments regarding this Report, please contact one of the lawyers listed below:[*]

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1 The Final Rule is adopted as amendments to Board Regulation YY. Board, Final Rule on Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations (February 18, 2014) ("Release"), available at *http://www.federalreserve.gov/newsevents/press/bcreg/bcreg20140218a1.pdf*. The draft of the Final Rule presented for Board approval was accompanied by a memorandum of Board staff ("Board Staff Memo") dated February 7, 2014 available at *http://www.federalreserve.gov/aboutthefed/boardmeetings/memo_20140218.pdf*.

This Alert discusses the Final Rule enhanced standards that apply to foreign banking organizations. The Final Rule also includes enhanced standards for US bank holding companies that draw largely on existing capital and other standards applicable to US bank holding companies.

2 The Final Rule applies only to foreign banking organizations that maintain a US banking presence through a US branch, agency, or commercial lending company subsidiary or that control a US bank. The Final Rule does not apply to foreign banking organizations that do not maintain a US branch, agency or commercial lending company subsidiary or control a US bank. Foreign banks that have only a US representative office or US nonbank subsidiaries are not covered by the Final Rule irrespective of their global or US asset size. Release at 282 – 283; Board Staff Memo at 1. US branches and agencies are referred to in this Report as "US branches".

* The assistance of Roseann Cook, our Bank Regulatory Analyst, in the preparation of this Report is gratefully acknowledged.

How This Report Is Organized

The Final Rule establishes enhanced standards for capital, liquidity, risk management, stress testing and debt-to-equity limits and a requirement to form an IHC that is itself subject to its own enhanced standards. The enhanced standards increase in stringency based on a foreign banking organization's global and US assets and whether its US assets are located in a branch or agency or a US subsidiary. The effect is to create four distinct categories of foreign banking organizations as defined below.

This Alert summarizes the categories of foreign banking organizations and the enhanced standards that apply to each in the Highlights section that follows. Each enhanced standard is presented in detail in the sections of this Alert entitled Final Rule Enhanced Standards and IHC Enhanced Standards. A number of charts are attached as appendices to this Alert to serve as reference tools to assist a foreign banking organization in determining the category into which it falls and the particular enhanced standards that apply to that category. Those charts include:

- **Appendix A—The FBO Categories** illustrates how foreign banking organizations are divided into categories and the types of enhanced standards that apply to each category.
- **Appendix B—The Enhanced Standards** by FBO Category illustrates the incremental enhanced standards that apply to each category of foreign banking organization.
- The remaining charts offer a detailed outline of all Final Rule enhanced standards that apply based on the category in which the foreign banking organization finds itself:
  - **Appendix C—Category 1 FBO Enhanced Standards** details the enhanced standards that apply to a foreign banking organization with at least US$10 billion, but less than US$50 billion, in total *global* consolidated assets (referred to in this Alert as "Category 1").
  - **Appendix D—Category 2 FBO Enhanced Standards** details the enhanced standards that apply to a foreign banking organization with US$50 billion or more in total *global* consolidated assets, but less than US$50 billion in combined US assets (referred to in this Alert as "Category 2").
  - **Appendix E —Category 3 FBO Enhanced Standards** details the enhanced standards that apply to a foreign banking organization with US$50 billion or more in combined US assets, but less than US$50 billion in US nonbranch (subsidiary only) assets (referred to in this Alert as "Category 3").
  - **Appendix F—Category 4 FBO and IHC Enhanced Standards** details the enhanced standards that apply to a foreign banking organization with US$50 billion or more in US nonbranch (subsidiary only) assets (referred to in this Alert as "Category 4") and those that apply to the IHC that a foreign banking organization in this category is required to form.

Table of Contents

Highlights of the Final Rule

With the exception of increasing the threshold for establishing an IHC from US$10 billion to US$50 billion in US subsidiary assets, the Final Rule is little changed from the Board's original proposal to implement enhanced prudential standards ("Proposed Rule")[3] and contains few, if any, surprises. What the Final Rule does offer is a challenging set of standards for foreign banking organizations, one that for some at least may raise the question of whether the cost and inconvenience of compliance outweighs the potential return of sustaining a sizeable presence in the United States.

The Final Rule is premised on ring-fencing in the United States of:*

- Capital sufficient for an IHC, as the holding company for US subsidiaries, to meet US Basel III capital requirements if those subsidiaries have combined assets of US$50 billion or more
- Highly liquid assets sufficient to meet the liquidity needs of all US branches and agencies over the first 14 days of a 30-day stressed period if the foreign banking organization has combined US branch and subsidiary assets of US$50 billion or more and
- Highly liquid assets sufficient to meet the liquidity needs of all US subsidiaries over a 30-day highly stressed period if those subsidiaries have combined assets of US$50 billion or more and are required to be placed into an IHC

Key Provisions of the Final Rule

- Compliance with the enhanced standards is required by July 1, 2016.
- Foreign banking organizations that, as of June 30, 2014, have US$50 billion or more in US subsidiary assets must prepare a detailed implementation plan for its IHC and submit the plan to the Board by January 1, 2015.
- Every foreign banking organization with a US branch or bank subsidiary that has at least US$10 billion in total *global* consolidated assets is covered by the Final Rule, irrespective of the size or form of its US banking presence.
- The Final Rule enhanced standards include standards relating to risk-based and leverage capital, liquidity, risk management, stress testing and debt-to-equity limits. Some standards may be met through compliance with home-country supervisory requirements. Others, however, require compliance with US-specific requirements irrespective of home-country regimes.
- Foreign banking organizations are divided into categories based on (i) total *global* consolidated assets, (ii) combined US (branch and subsidiary) assets (iii) US nonbranch (subsidiary) assets. The Final Rule creates four categories of foreign banking organizations:
  - foreign banking organizations with at least US$10 billion but less than US$50 billion in total *global* consolidated assets ("Category 1")
  - foreign banking organizations with at least US$50 billion in total *global* consolidated assets but less than US$50 billion in combined US branch and subsidiary assets ("Category 2")
  - foreign banking organizations with at least US$50 billion in combined US branch and subsidiary assets but less than US$50 billion in US subsidiary assets ("Category 3") and
  - foreign banking organizations with at least US$50 billion in US nonbranch (subsidiary) assets ("Category 4")

  Note: The chart entitled "The FBO Categories" included as Appendix A to this Alert illustrates how foreign banking organizations are divided into categories.
- A foreign banking organization must comply with enhanced standards that increase in stringency depending on the category in which the foreign banking organization finds itself.

Category 1. A Category 1 foreign banking organization must:

- Be subject to and pass annual home-country stress testing or maintain specified US asset reserves and
- Maintain a board of directors-level US risk committee, except those that have no publicly traded securities

Category 2. A Category 2 foreign banking organization must:

- Comply with Category 1 requirements
- Meet home-country Basel III capital standards or limit its US activities as directed by the Board
- Conduct liquidity stress tests and
- Limit debt-to-equity to no more than 15-to-1, if found by the Financial Stability Oversight Counsel ("FSOC") to pose a "grave threat" to US financial stability

3 Board, Proposed Rule on Enhanced Prudential Standards for Foreign Banking Organizations, 77 Fed. Reg. 76628 (December 28, 2012) ("Proposed Rule Release").

*State and federally licensed branches of foreign banking organizations are already subject to ring-fencing.

Category 3. A Category 3 foreign banking organization must:

- Comply with Category 1 and Category 2 requirements
- Maintain a 14-day liquidity buffer in the United States for its US branches and agencies
- Maintain a contingency plan for funding during stress events
- Produce daily short-term and monthly longer-term cash flow projections
- Establish liquidity risk and liquidity exposure limits
- Conduct annual internal reviews of liquidity risk management
- Have a US chief risk officer and
- Establish a US risk-management framework

Category 4. A Category 4 foreign banking organization must:

- Comply with Category 1, 2 and 3 requirements,
- Ring-fence its US subsidiaries, other than sections 2(h)(2) subsidiaries or DPC branch subsidiaries, as defined below, under a single US IHC and
- Enable the IHC to:
  - meet US Basel III risk-based and leverage capital minimums
  - maintain a 30-day liquidity buffer
  - comply with US internal and supervisory stress testing requirements, including the US capital plan rule
  - establish a risk-management framework, including a US risk committee and an IHC chief risk officer (each of which may also perform the same role for the foreign banking organization's combined US operations) and
  - limit debt-to-equity to no more than 15-to-1, if found by the FSOC to pose a "grave threat" to US financial stability

Note: The chart entitled "The Enhanced Standards by FBO Category" included as Appendix B to this Report illustrates the incremental enhanced standards that apply to each category of a foreign banking organization.

What's New From the Proposed Rule

In spite of Board consideration of the extensive comments received, the Final Rule remains largely as originally proposed. The few notable changes include:

- An IHC must be formed upon reaching US nonbranch (subsidiary) assets of US$50 billion, rather than US$10 billion as had been proposed. The IHC enhanced standards apply based on the IHC having US$50 billion or more of US subsidiary assets, as originally proposed and, hence, under the Final Rule, apply immediately upon the IHC's formation.
- Initial compliance is pushed back by one year to July 1, 2016 to give foreign banking organizations additional time to manage the cost of moving or raising additional capital to capitalize their IHCs, among other reasons.[4]
- A foreign banking organization with US$50 billion or more in US nonbranch (subsidiary) assets as of June 30, 2014 is required to prepare and submit an IHC implementation plan to the Board by January 1, 2015, even though its IHC does not have to be formed until July 1, 2016.
- An IHC that is not a US bank holding company (i.e., does not control a US bank) does not have to apply the US advanced approaches in calculating risk-based capital, as had been proposed, and an IHC that is a US bank holding company may ask the Board for an exemption from the US advanced approaches. The Board's statement in the Release accompanying the Final Rule seems to indicate that *any* US bank holding company subsidiary, whether or not an IHC or part of an IHC, may seek Board approval to opt out of the US advanced approaches.[5]
- Compliance with home-country Basel III minimum leverage requirements is not required until January 1, 2018, to correspond with the end of the parallel run of the leverage ratio.[6]
- The Final Rule enhanced standards do not apply to any foreign nonbank designated by the FSOC as systemically important, as had been proposed. A designated foreign nonbank will instead be subject to tailored standards based on the Board's assessment of the foreign nonbank's business model, capital structure and risk profile.

4 Board Staff Memo at 15.

5 Release at 156 – 157. This may be relevant for the US bank holding company subsidiaries of foreign banking organizations currently relying on the Board's exemption from US capital requirements that expires as of July 1, 2015. *See* Board Supervision and Regulation Letter SR01-01 (2001) (expiring July 1, 2015).

6 The parallel run and the other provisions of Basel III were established by the Basel Committee on Banking Supervision ("Basel Committee"). See Basel Committee, *Basel III: A global regulatory framework for more resilient banks and banking systems* (revised version June 2011).

What's Still to Come

The Final Rule does not include single counterparty credit limits or an early remediation framework as required by the Dodd-Frank Act and as included in the Proposed Rule. The Final Rule also does not include any of the additional standards that the Dodd-Frank Act leaves to the Board's discretion to implement, such as short-term debt limits and a contingent capital requirement.

Basel III Liquidity Ratios. Foreign banking organizations with combined US branch and subsidiary assets of at least US$50 billion can expect the Board to require them to certify that they meet the minimum liquidity coverage ratio and net stable funding ratio established by the Basel Committee as part of Basel III. The Board deferred including this requirement in the Final Rule pending completion by the Basel Committee of its calibration of final minimum ratio requirements. As with Basel III capital adequacy standards, it is expected that a foreign banking organization will have to certify to the Board that it is subject to and meets a home-country minimum liquidity coverage ratio that is in line with the minimums set by the Basel Committee as part of Basel III.

Single Counterparty Credit Limits. The Board's proposed single counterparty credit limits would have limited the net credit exposure of a foreign banking organization's combined US branch and subsidiary operations to any single counterparty to no more than 25 percent of the foreign banking organization's capital stock and surplus or to a lesser percentage if the foreign banking organization and counterparty each had US$500 billion or more in consolidated assets. The Board has decided to defer implementing a single counterparty credit limit until the Basel Committee issues its final framework on consistent global exposure limits.[7]

Early Remediation Framework. The Dodd-Frank Act requires the Board to establish an early remediation framework for banking organizations subject to enhanced prudential standards, including foreign banking organizations. "Early remediation" includes a range of limitations on permissible activities beginning with restrictions on capital distributions, ongoing and new activities to required reduction of activities.[8] Limitations are to be imposed as a banking organization's capital and liquidity approach prescribed enhanced minimums and an increase in stringency if those minimums are breached. Limits are to be placed on dividends and other capital distributions, acquisitions and asset growth at the early stages of decline and on capital raising, asset sales, management changes and transactions with affiliates if the decline progresses. The proposed early remediation framework included in the Proposed Rule would have triggered required remedial action if a foreign banking organization failed to meet the prescribed minimum standards for capital, liquidity, risk management and stress testing. The Board in issuing the Final Rule says simply that it continues to review comments received on its proposal and that an early remediation framework for foreign banking organizations remains under development.[9]

Short-Term Wholesale Funding. The Board solicited comment on whether short-term debt limits which are permitted, but not required, should be set.[10] None are included in the Final Rule. The Board, however, indicates that it is "continuing to evaluate the benefits of short-term debt limits on systemic stability."[11] One point being considered is whether short-term debt limits are necessary for the success of a single-point-of-entry resolution regime.[12]

Contingent Capital Requirements. The Dodd-Frank Act permits, but does not require, the Board to have banking organizations maintain a specified level of contingent capital that would be convertible into equity in times of material financial distress.[13] Congress directed the FSOC to consider the financial stability benefits of the use of contingent capital and to recommend suggested provisions for such capital to the Board.[14] The FSOC concluded that at least for now contingent capital should remain an area for private sector innovation, rather than part of the US regulatory capital framework.[15] The Board in issuing the Final Rule does not mention whether it has given or plans to give any consideration to a contingent capital requirement for US bank holding companies or IHCs. The FSOC conclusions and the concerns expressed by certain members of the Board as to the use of contingent and bail-in capital in lieu of common equity capital make it appear unlikely that the Board will look to add a contingent capital requirement in the near term.[16] This leaves open the question of how the Board will treat contingent capital included in an IHC's capital structure. It should stand to reason that contingent capital that is treated as converted into common equity for purposes of meeting Basel III common equity Tier 1 capital ratios under home-country stress testing regimes should count as common equity Tier 1 capital under Board and internal stress testing required by the Final Rule.

7 Release at 17.

8 Dodd-Frank Act §166.

9 Release at 17 and 97.

10 Dodd-Frank Act §165(b)(1)(B)(iii).

11 Release at 83 – 84.

12 Speech by Gov. Tarullo, *Toward Building More Effective Resolution Regimes: Progress and Challenges* (October 18, 2013).

13 Dodd-Frank Act §165(c).

14 Dodd-Frank Act §115(c).

15 FSOC, *Report to Congress on Study of a Contingent Capital Requirement for Certain Nonbank Financial Companies and Bank Holding Companies* (July 2012).

16 Speech of Gov. Tarullo, *Regulating Systemically Important Financial Institutions* (June 3, 2011).

The Final Rule Reshapes Longstanding Principles of US Banking Law

Ring-fencing of a foreign banking organization's US activities and the capital and liquidity to support those activities is not mentioned or required by the Dodd-Frank Act. The Board finds ring-fencing necessary to achieve the Act's stated goal of protecting the financial stability of the United States by imposing enhanced prudential standards on "systemically important" financial institutions, including expressly any foreign banking organization with US$50 billion or more in total *global* consolidated assets. The Act leaves broad discretion to the Board in determining the appropriate enhanced standards to implement. Enhanced standards for foreign banking organizations are to reflect national treatment and equality of competitive opportunity and comprehensive consolidated supervision by home-country supervisors, well-established principles of US banking law that have long informed the Board's approval and supervision of the US activities of foreign banking organizations.[17]

The decision to adopt a ring-fencing approach represents a significant shift in the Board's longstanding approach to the supervision of the US activities of foreign banking organizations in reliance on those principles. The Final Rule, on the one hand, narrows its historical interpretation of national treatment and equality of competitive opportunity and, on the other, significantly lessens historical reliance on comprehensive consolidated supervision ("CCS") by home-country authorities.

The Principle of National Treatment and Equality of Competitive Opportunity Is Strictly Applied

Under the principles of national treatment and equality of competitive opportunity, foreign banking organizations are to be treated in a manner similar to, or at least no less favorably than, US bank holding companies.[18] The Board notes that this principle was a central consideration in drafting the Final Rule.[19] Despite commenter concerns that the IHC creates less favorable treatment of foreign banking organizations because of the required ring-fencing of capital and liquidity, the Board found the IHC to be a structural element necessary to create a level playing field.[20] The Board notes that foreign banking organizations remain free to continue to operate in the United States through branches and agencies that are entitled to rely on home-country capital and stress testing requirements rather than comply with the IHC ring-fencing requirement.[21] The Board does not address how required maintenance of capital and liquidity in the United States is comparable to the treatment of US bank holding companies, which are entitled to meet enhanced standards on a consolidated basis without regard to where in the world capital and liquidity are located.

Reliance on Home-Country Standards Is Limited

The IHC ring-fencing requirement reflects a more limited willingness on the Board's part to rely on home-country CCS. Historically, the Board has relied on home-country supervisors to ensure that a foreign banking organization has adequate capital and liquidity, wherever located, to support its global operations, and to ensure that it will serve as a source of strength to its US subsidiaries. Under the Final Rule, no degree of home-country CCS, regardless of how stringent its prudential requirements, may serve as an alternative to ring-fencing of IHC capital and liquidity in the United States.

The Board notes in proposing enhanced standards that an important part of its supervision of foreign banking organizations rests on ongoing assessment of home-country CCS.[22] The Board nonetheless rejects reliance on home-country CCS as an alternative to its own set of enhanced standards. The Board notes a concern that meaningful inconsistencies between the treatment of US and foreign banking organizations could result if they relied on home-country CCS as an adequate alternative to the Final Rule enhanced standards. It may be as well that ongoing assessment of the comparability of home-country CCS standards would strain the Board's supervisory resources beyond what it can feasibly handle.

Reliance on home-country CCS is permitted for certain enhanced standards applicable to the foreign banking organization as a whole. The deference, however, is limited. Only home-country stress-testing regimes are accepted at face value. Reliance on home-country capital adequacy standards is permitted only to the extent that home-country requirements are Basel III–compliant and the foreign banking organization so certifies. It is not clear how a foreign banking organization is to make the determination that its home-country regime is consistent with Basel III. Presumably, the Board will provide guidance, but, given that it appears to be limiting the time spent on assessing home-country CCS, that may not be the case. It may be that home-country supervisors

17 Dodd-Frank Act §165(b)(2) (requiring the Board to give due regard to the principle of national treatment and equality of competitive opportunity and to take into account the extent to which a foreign financial company is subject on a consolidated basis to home-country standards comparable to those applied to financial companies in the United States).

18 12 U.S.C. §§3101 et seq.

19 See discussion in Release at 107 – 109.

20 Release at 115.

21 Release at 108.

22 Proposed Rule Release, 77 Fed. Reg, 76636.

will offer reassurance that their capital regimes are adequately Basel III–compliant for purposes of the Final Rule. But where neither the Board nor home-country supervisors make this clear, a foreign banking organization will be left on its own to determine if it can certify to the Board that it is subject to a home-country regime that is consistent with Basel III.

Home-country risk-management requirements pass muster only if in line with Basel Committee standards, but, no matter how stringent, they cannot satisfy the requirement for a US risk committee and US chief risk officer. The Board notes that such limited reliance is merited given that no home-country supervisor, even if applying CCS, would have as its goal mitigating risks to US financial stability.[23] Home-country CCS supervision that implicitly or explicitly requires a foreign banking organization to serve as a source of strength to its worldwide operations was not found sufficient to accomplish that goal.

The Board is not the only host-country supervisor that is supplementing traditional reliance on home-country CCS. The UK's Prudential Regulatory Authority ("PRA") has proposed a new supervisory approach for non-EU foreign banks with branches in the UK. In addition to its traditional approach of looking to whether home-country CCS is equivalent to that of the PRA, the PRA plans to limit the UK branches of non-EU banks to those whose home-country resolution regime offers the PRA a "very high level of assurance" that the resolution of the bank may be accomplished in a way that reduces the impact on UK financial stability.[24]

Standards Are Tailored Based Solely on Asset Size and Location

The shift in how national treatment and equality of competitive opportunity and home-country CCS are applied is compounded by the Board's limited tailoring of the enhanced standards. Standards are tailored based solely on asset size and location. Though the Dodd-Frank Act presumes that a banking organization is systemically important based solely on its total consolidated assets, it does permit the Board to tailor enhanced standards based on a range of factors other than size. Those factors include a foreign banking organization's riskiness, complexity and interconnectedness, whether it controls a US bank, and the range of nonbank activities that it conducts in the United States. The Final Rule considers only the size and location of a foreign banking organization's assets, which may or may not be indicators of systemic importance. The result is that a foreign banking organization whose US operations consist solely of US branches engaged in commercial lending activities is treated no differently from a foreign banking organization that engages in a range of nonbank activities in the United States, unless the latter has at least US$50 billion in subsidiary assets. A foreign banking organization with a single US branch with assets well below the US$50 billion systemic threshold is required to comply with US-specific enhanced standards simply because of its global asset size.

The Board May Impose More Stringent Standards

While the Board declined to use indicia other than asset size and location to limit application of the enhanced standards, the Final Rule expressly reserves the Board's authority to impose stricter standards.[25] The Final Rule reserves the Board's authority to:

- Impose additional enhanced standards on one or more covered banking organizations as it sees fit to carry out the financial stability purpose of the Dodd-Frank Act
- Take supervisory or enforcement action to address unsafe and unsound practices or conditions or other violations of US banking law and regulation and
- Accelerate or extend the date for compliance with any of the provisions of the Final Rule as the Board deems appropriate taking into account how a shorter or longer compliance date will protect US financial stability

The Effective Date of the Final Rule

The Final Rule is effective as of June 1, 2014, but compliance with each of its enhanced standards, including the need to form an IHC, is not required until July 1, 2016.

A foreign banking organization that, as of June 30, 2014, has US subsidiary assets that meet or exceed the US$50 billion threshold to establish an IHC must by January 1, 2015 prepare and file with the Board an IHC implementation plan. The implementation plan must outline how the IHC will be formed and comply with the Final Rule's capital, liquidity and other enhanced standards. An IHC implementation plan is required to be submitted even if a foreign banking organization plans to reduce its US subsidiary assets below the IHC threshold before the July 1, 2016 date by which the IHC is required to be formed. In such case, the implementation plan should address how the foreign banking organization plans to reduce its US subsidiary holdings below the IHC asset threshold.

23 Release at 105.

24 UK Prudential Regulatory Authority, *Consultation Paper on Supervising International Banks: The Prudential Regulatory Authority's Approach to Branch Supervision* (February 2014).

25 Final Rule §252.3.

Foreign Financial Entities Covered

Foreign Banking Organizations

Like the final rule to implement the Volcker Rule, the Final Rule applies to a foreign banking organization, i.e., a foreign bank that maintains a US banking presence and a foreign bank or company that controls a foreign bank that maintains such a presence. The Board's regulations and the Final Rule refer to such a foreign bank as a foreign banking organization. Only those foreign banking organizations with at least US$10 billion in total *global* consolidated assets are subject to the Final Rule. Foreign banking organizations with less than US$10 billion in total *global* consolidated assets are not subject to any provision of the Final Rule.

The Final Rule defines a foreign banking organization by reference to the Board's Regulation K to include any foreign bank that:[26]

- Operates a branch, agency or commercial lending company subsidiary in the United States
- Controls a bank in the United States and/or
- Controls an Edge corporation

The definition also includes as a foreign banking organization any company that controls a foreign banking organization, whether or not that company is itself a foreign bank, except any top-tier company that is a US company.

A foreign bank that maintains only nonbanking subsidiaries in the United States is not a foreign banking organization covered by the Final Rule.

Designated Foreign Nonbanks

The Dodd-Frank Act requires the FSOC, the US financial stability oversight agency created by the Dodd-Frank Act, to designate "systemically important" US and foreign nonbanks for supervision by the Board. A designated nonbank is to be subject to enhanced prudential standards determined by the Board. The Board had proposed making designated nonbanks subject to the same enhanced standards as proposed for banking organizations. The Final Rule, however, excludes designated nonbanks. Because designated nonbanks may cover a range of businesses, structures and activities and present risks different from those presented by banking organizations, the Board has decided instead to tailor enhanced standards to specific designated nonbanks based on its assessment of the business model, capital structure and risk profile of each designee.[27]

The Dodd-Frank Act permits tailored application of enhanced standards for nonbanks and requires only that designated nonbanks be subject to risk-based and leverage capital standards at least as stringent as the US Basel I standards in place at the time the Dodd-Frank Act became effective.[28]

The Board expects to establish tailored enhanced standards for each designated nonbank or a group of designees in the same business using Board orders. Designees, at least, would be given the opportunity to comment on any standards proposed.[29] The FSOC to date has not indicated that it is considering the designation of any foreign financial company as systemically important.

A foreign banking organization that sells or closes all its US branches, agencies and bank subsidiaries would no longer be a foreign banking organization under either the BHC Act or the International Banking Act of 1978 and would not be subject to the Final Rule enhanced standards. However, a foreign banking organization that has US$50 billion or more in total *global* consolidated assets is required to be treated as if it were designated as a systemically important nonbank if the foreign banking organization received any funds under the US TARP program established in the wake of the 2008 global financial crisis.[30] Such a foreign banking organization would be subject to tailored enhanced standards developed by the Board if it were to cease to have a US banking presence. Those standards might be the same as those imposed on US designated nonbanks in the same lines of business, such as insurance, securities and commodities brokerage. The Board has not issued any tailored enhanced standards in respect of the US insurance and finance companies designated as systemically important by the FSOC to date. It is not clear whether the Board would require a foreign bank with no US banking operations that is designated as systemically important to ring-fence its US nonbank subsidiaries into an IHC. A foreign banking organization considering ceasing its US banking activities might want to seek Board guidance on the standards that the Board would apply to any continuing US nonbank activities.

26 Final Rule §252.12(j).

27 Release at 21 – 22. The FSOC to date has designated three US nonbanks as systemically important and therefore subject to board supervision, including two insurance companies and one finance company. The FSOC has not designated any foreign nonbanks.

28 Dodd-Frank Act §§165(a)(2)(A) and 171(b).

29 Release at 22.

30 Dodd-Frank Act §117 (known as the "Hotel California" provision referring to the Eagle's song of the same title which includes the lyric "you can check out any time you like, but you can never leave.")

The Categories of Foreign Banking Organizations

The Dodd-Frank Act requires enhanced standards to increase in stringency based on a number of criteria. These include the nature, scope, size, scale, interconnectedness and mix of activities of a foreign banking organization; the extent of its leverage and off-balance sheet exposures; its importance as a source of credit to US consumers, minorities, underserved communities and for low-income housing; whether the foreign banking organization controls a US bank, the scope of its nonfinancial activities, and the extent to which assets are managed rather than owned; and the extent to which the foreign banking organization is subject to comparable prudential standards imposed under a home-country CCS regime.[31] The Dodd-Frank Act also permits the Board to tailor application of enhanced standards based on a covered financial organization's structure, riskiness, complexity, financial activities, size or other risk factors the Board deems appropriate.[32]

As noted, the Final Rule enhanced standards increase in stringency based solely on a foreign banking organization's global and US asset size and are tailored based solely on whether a foreign banking organization's US assets are located in a US branch versus a US bank or nonbank subsidiary.

Note: The chart attached as Appendix B illustrates the four categories of foreign banking organizations.

The first category covers foreign banking organizations with total *global* consolidated assets of at least US$10 billion but less than US$50 billion. The Dodd-Frank Act requires enhanced standards for "systemically important" foreign banking organizations, defined as those with US$50 billion or more in total *global* consolidated assets, but also expressly requires that banking organizations with US$10 billion or more in total *global* consolidated assets be subject to specified enhanced standards. These include annual capital stress testing and maintaining a risk committee of its board of directors if it has any publicly traded securities.[33] The Final Rule, therefore, establishes a first category of foreign banking organizations with total *global* consolidated assets of at least US$10 billion but less than US$50 billion.[34]

The remaining three categories apply to foreign banking organizations with US$50 billion or more in total *global* consolidated assets, distinguishing them based on the size and type of their US assets.

Any such foreign banking organization with any US branch, agency and subsidiary assets aggregating less than US$50 billion falls in the second category.

The third and fourth categories cover foreign banking organizations with US$50 billion or more in combined US branch and subsidiary assets. The same enhanced standards apply to all foreign banking organizations with US$50 billion or more in combined US branch and subsidiary assets. The difference being that those with US$50 billion or more in US nonbranch assets are required to form an IHC that must comply with its own set of enhanced standards. For this purpose, US nonbranch assets are assets held in US subsidiaries, rather than branch offices. US subsidiaries are not distinguished based on whether the subsidiary is a US bank or nonbank or whether the subsidiary is functionally regulated by a US federal banking or financial regulatory agency other than the Board. US subsidiary assets are counted irrespective of the business conducted by the subsidiary or whether it is subject to supervision or regulation, but expressly exclude section 2(h)(2) subsidiaries and DPC branch subsidiaries, as defined below. DPC branch subsidiary assets, however, are counted in determining combined US branch and subsidiary assets, though section 2(h)(2) subsidiaries are not.

Board staff estimates that at present 24 foreign banking organizations have US$50 billion or more in combined US assets and that 15 to 20 of those will be required to form an IHC.[35]

How the Final Rule Measures Assets

Determining the enhanced standards that apply to a foreign banking organization is a numbers game wholly dependent on how assets are measured. The Final Rule enhanced standards apply based solely on the foreign banking organization's total *global* consolidated assets and the assets of its US branches and subsidiaries, not the business that the foreign banking organization conducts in the United States or the operations that it maintains in the United States to conduct those activities. The need to establish an IHC is based solely on the amount of assets in US subsidiaries rather than branches.

The exclusive reliance on assets may, as Board staff and some of the Board's members recognized in the meeting approving the Final Rule, fosters some degree of arbitrage. A foreign banking organization that limits its US presence to US branches could have unlimited assets in the United States and not be subject

31 Dodd-Frank Act §165(b)(3).

32 Dodd-Frank Act §165(a)(B).

33 Dodd-Frank Act §§165(h) and (i)(2).

34 Dodd-Frank Act §§165(h) and (i)(2).

35 Release at 282 – 283. Board staff Memo at 1.

to ring-fencing of those assets in an IHC. Only US branch and subsidiary assets are counted toward the US asset triggers. Business involving US counterparties or customers that is conducted with assets held directly through non-US branches or subsidiaries would not be counted toward the enhanced standard asset triggers. Assets held in the form of noncontrolling investments in US companies would not be counted, unless held as an asset of a US branch or subsidiary.

Whether a foreign banking organization is subject to the Final Rule depends solely on its "total (*global*) consolidated assets." The level of enhanced standards to which it will be subject depends solely on its "combined US assets" and "US nonbranch assets."

Total (Global) Consolidated Assets

"Total consolidated assets" is the figure used to determine whether a foreign banking organization is subject to the Category 1 enhanced standards that apply if total consolidated assets equal at least US$10 billion and less than US$50 billion. Every foreign banking organization with total consolidated assets of at least US$50 billion falls into one of the remaining categories based on its US assets. The Final Rule does not define "total consolidated assets," but does specify how the figure is to be calculated:

- A foreign banking organization is deemed to have at least US$50 billion in total consolidated assets if the average of total assets reported on its four most recent consecutive FR Y-7Q quarterly filings equals at least US$50 billion.[36]

- A foreign banking organization is deemed to have at least US$10 billion in total consolidated assets if the average of total assets reported on its two most recent FR Y-7 annual filings equals at least US$10 billion.[37]

In other words, total *global* consolidated assets as are reported on a consolidated basis for US regulatory purposes. The Final Rule does not provide for the Board to rely on alternative reporting of total consolidated assets or to make any adjustments to total assets as reported on FR Y-7Q or FR Y-7. In each case, the resulting average represents the foreign banking organization's total consolidated assets to be used to determine whether the foreign banking organization falls into the first category of enhanced prudential standards or one of the last three. Off-balance sheet assets not reported in total assets for FR Y-7Q or FR Y-7 purposes would not be counted toward total consolidated assets even if those assets are located in United States.

Combined US Assets

"Combined US assets" are used to determine whether the enhanced standards applicable to a foreign banking organization will be limited to compliance with home-country risk-based and leverage capital, capital and liquidity stress testing and the requirement to have a committee of its board of directors oversee the risk management of its US operations (as would be the case for a foreign banking organization with less than US$50 billion in combined US assets) or require compliance with more stringent US-specific enhanced standards, including a US liquidity buffer and a US chief risk officer (as would be the case for foreign banking organizations with US$50 billion or more in combined US assets).

"Combined US assets" means the sum of (i) the consolidated assets of each top-tier US subsidiary, excluding the assets of any section 2(h)(2) subsidiary and (ii) the total assets of each US branch and agency.[38] As with total consolidated assets, combined US assets are based on the average of the assets as reported in the four most recent consecutive FR Y-7Q quarterly filings. The resulting average represents the foreign banking organization's combined US assets as of the quarter-end date of the most recent FR Y- 7Q filing. Any US *and* non-US subsidiaries included in the consolidated assets of a top-tier US subsidiary would be picked up in the combined US assets.

Top-tier is not defined but is meant to refer to the US subsidiary in the ownership chain whose shares are held directly by a non-US company. Subsidiary means:[39]

- Any US company over which the foreign banking organization controls, directly or indirectly, the power to (a) vote 25 percent or more or any class of its voting securities, (b) elect a majority of the members of its board of directors or (c) exercise a controlling influence over its management or policies, if so determined by the Board and

- Any service company that is owned in whole or in part by any US bank subsidiary of the foreign banking organization or any of its subsidiaries

The assets of any top-tier subsidiary are to be measured on a consolidated basis, including any direct or indirect subsidiaries of the top-tier subsidiary, whether US companies or not.

A company that is not controlled by a foreign banking organization under the Bank Holding Company ("BHC") Act definition of control is not a subsidiary and is not counted toward determining

36 Final Rule §252.142(b)(1). For a foreign banking organization that has not filed FR Y-7Qs for the four most recent consecutive quarters, the average of total assets in its two most recent FR Y-7Q filings will be used.

37 Final Rule §252.121(a)(2).

38 Final Rule §§252.142(b)(2) and 252.152(b)(1).

39 Final Rule §252.12(u) (defining subsidiary by reference to the definition of subsidiary in the Federal Deposit Insurance Act). See 12 U.S.C. §1813.

combined US assets or US nonbranch assets, unless the noncontrolling investment is held as an asset of a US branch, agency or subsidiary. There is a nonrebuttal presumption of control at levels as defined above. A US company in which a foreign banking organization has an ownership interest, board representation or involvement in the company's management or affairs below the control definition thresholds might, depending on the facts and circumstances, be able to rebut a presumption of control, which, if rebutted, would not require an investment in the US company to be counted as a US subsidiary for purposes of the Final Rule asset tests or application of its enhanced standards.

A "section 2(h)(2) company" is defined by reference to the BHC Act to mean a non-US company engaged in permissible commercial activities in the United States, either directly or through a subsidiary.[40] The exclusion of section 2(h)(2) companies from the definition of combined US assets means that the assets of any section 2(h)(2) company in which a foreign banking organization holds a controlling interest are not counted toward combined US assets.[41]

US Nonbranch Assets

"US nonbranch assets" is the measure used to determine if a foreign banking organization is required to ring-fence all its US subsidiaries in an IHC that would be subject to its own set of enhanced prudential standards. "US nonbranch assets" is defined as the sum of the consolidated assets of each top-tier US subsidiary, excluding the assets of any section 2(h)(2) subsidiary and any DPC branch subsidiary.[42] As noted above, top-tier is not defined but taken to mean any US subsidiary in which a controlling interest is held directly by the foreign banking organization or other non-US company in the ownership chain.

US nonbranch assets, like combined US assets, are calculated excluding the assets of any section 2(h)(2) companies. US nonbranch assets also exclude the assets of any DPC branch subsidiary. A "DPC branch subsidiary" is any subsidiary of a US branch formed for the sole purpose of acquiring, securing or collecting debt previously contracted in good faith by that branch.[43] DPC branch subsidiary assets, however, are included for the purposes of calculating combined US assets. The Board agreed with commenter requests to exclude DPC assets from counting toward the IHC threshold, recognizing that Board regulations limit to a short-term the amount of time that DPC assets may be held (typically two to five years) and require good-faith efforts to dispose of those assets.[44]

The Board also considered, but declined, commenter requests to exclude other US subsidiaries from the IHC requirement, including merchant banking investments, joint ventures, property casualty insurers and investment funds.[45]

Determining Consolidated Assets

Assets for each threshold are based on two-year look-back to average consolidated assets at each quarter end over the eight quarters preceding the one for which assets are being measured. Consolidated assets take into account only the entities whose assets are included in the test. The treatment of intercompany transactions and balances in determining consolidated assets, therefore, will vary.

Total *global* consolidated assets are as reported in FR Y-7Q or FR Y-7 filings. FR Y-7Q requires reporting on a consolidated basis.[46] FR Y-7 filings must be on a consolidated or combined basis (including unconsolidated subsidiaries) and must include the assets of all subsidiaries in which at least 50 percent of the voting shares are owned. [47] The assets of subsidiaries in which 25 percent or more of the voting shares are owned may be included on a consolidated basis (with minority interests deducted) if all such subsidiaries are included. In the case of a multi-tiered foreign banking organization, the total assets reported in the FR Y-7Q filing of each foreign banking organization within the group would be used to determine the particular enhanced standards applicable to that member.

For the purposes of determining combined US assets, the assets of each US branch and subsidiary are consolidated, eliminating intercompany balances between them. Intercompany balances between a US branch or subsidiary and any non-US affiliate that is not to be included in the IHC are not eliminated, regardless of whether such balances are eliminated in reporting the total *global* consolidated assets of the foreign banking organization.

40 Final Rule §252.12(q).

41 Release at 127.

42 Final Rule §252.152(b)(2).

43 Final Rule §252.12(i).

44 Release at 131 – 132.

45 Release at 130 – 131.

46 Instruction on Report Item 5 to the Board's General Instructions for the Preparation of FR Y-7Q Capital and Asset Report of Foreign Banking Organizations.

47 Instruction on Report Item 4(c) to the Board's General Instructions for the Preparation of FR Y-7 Annual Report of Foreign Banking Organizations.

The Board intends that "a foreign banking organization should measure its US non-branch assets using a similar methodology to that used by a US bank holding company to measure its total consolidated assets for purposes of [the enhanced prudential standards]," namely one that includes all on-balance sheet assets, but excludes off-balance sheet exposures.[48] Total US nonbranch (subsidiary) assets, the threshold used to determine the need to form an IHC, are to be calculated net of intercompany balances between the US subsidiaries that would be included in an IHC. IHC consolidated assets, however, are to include balances between each US subsidiary that is to be included in the IHC and (i) any non-US subsidiary or affiliate or (ii) any US or non-US branches of the foreign banking organization, regardless of whether such balances are eliminated in determining the foreign banking organization's total *global* consolidated assets.[49]

Whether intercompany balances represent net due from or net due to positions for the IHC also will factor into the calculation of the IHC's risk-based capital ratios and the amount of capital the IHC is required to have in place to meet the Final Rule enhanced capital standard applicable to IHCs. IHC asset transfers that reduce or eliminate a net due to position would be beneficial, whereas those that add to a net due from position would not. Similarly, the conversion to regulatory capital of the net due to positions or other receivables of the IHC or its investments in US subsidiaries to regulatory capital would boost the IHC's capital adequacy ratios, as would any capital contribution to the IHC from the foreign banking organization. Conversion of intercompany payables or liabilities of the IHC or other non-regulatory capital of the IHC would not, however, work to reduce IHC assets counted toward the US$50 billion threshold.

48 Release at 125 – 126.

49 Release at 126 – 127.

Risk-Based & Leverage Capital

Total Global Consolidated Assets:	US$10 Billion to <US$50 Billion	US$50 Billion+			
Combined US (Branch & Subsidiary) Assets:	Any	<US$50 Billion	US$50 Billion+		
US Nonbranch (Subsidiary Only) Assets:	Any	Any	<US$50 Billion	US$50 Billion+	
Category of Enhanced Standards That Apply:	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Category 4**
Entity to Which Enhanced Standard Applies	FBO	FBO	FBO	FBO	IHC
Risk-Based & Leverage Capital					
■ Home-Country Basel III		✓	✓	✓	
■ US Basel III					✓
■ US Capital Plan Rule					✓

No risk-based or leverage capital requirement is imposed on a foreign banking organization with less than US$50 billion in total *global* consolidated assets. Every foreign banking organization with US$50 billion or more in total *global* consolidated assets, however, is required to certify to the Board that it meets home-country capital adequacy standards on a global consolidated basis that are consistent with the Basel III framework adopted by the Basel Committee, as amended from time to time.[50] A foreign banking organization is to make this certification concurrently with each FR Y-7Q filing. The certification requirement applies irrespective of the form (branch or subsidiary) of a foreign banking organization's US operations or the size of its combined US assets.

To be deemed consistent with the Basel III framework, home-country standards must include all minimum risk-based capital and leverage ratios and all restrictions placed on capital buffers as set forth in the Basel III framework published by the Basel Committee in 2010. On a fully phased-in basis as of January 1, 2019, the Basel III framework requires a covered banking organization to meet the following minimum requirements:

- A risk-weighted common equity ratio of 4.5 percent
- A risk-weighted Tier 1 capital ratio of 6.0 percent
- A risk-weighted total capital ratio of 8.0 percent
- A leverage ratio of Tier 1 capital to on- and off-balance sheet assets of 3.0 percent
- A conservation buffer of 2.5 percent of risk-weighted common equity and
- Any countercyclical buffer of up to 2.5 percent that is implemented at the discretion of the home-country supervisory authority

The Final Rule expressly specifies that, to be deemed "consistent" with Basel III, home-country regimes must provide restrictions on capital distributions and discretionary bonuses if a banking organization breaches any of the Basel III buffers. The Board left a placeholder in the Final Rule to add a requirement that a foreign banking organization named as a global systemically important bank ("G-SIB") by the Financial Stability Board ("FSB") also must certify to the Board that it is subject to and has in place a common equity buffer at least equal to the G-SIB capital surcharge set by the FSB.[51]

The Final Rule does not define how much latitude the Board will tolerate in determining that home-country capital adequacy standards are "consistent with Basel III," nor does it make reference to how "consistent" risk-weights are to be calculated (e.g., using Basel I standardized approaches, Basel II advanced approaches, the market risk capital rule, etc.). The Board does offer that "it intends to consider materiality when assessing consistency" of home-country standards with Basel III.[52] That may well require an increase in Federal Reserve supervisory staff and would seem counterintuitive to the Final Rule logic of placing less reliance on assessment of home-country CCS.

50 Final Rule §252.143(a).

51 Final Rule §§252.143(a)(1)(ii) and 252.154(a)(1)(ii). *See also*, Proposed Rule Release, 77 Fed Reg. at 76641.

52 Release at 169.

The Board offers some insight into what it will look at to determine if home-country Basel III is consistent with the Basel Committee version. Timely implementation by home-country supervisors will be one factor considered by the Board in determining consistency. The Board will measure timely implementation based on the Basel III phase-in schedule established by the Basel Committee for the period between the Final Rule's July 1, 2016 effective date and the January 1, 2019 full phase-in date for Basel III.[53]

In determining consistency, the Board also plans to take into account analyses of the comparability of a home-country's capital standards to Basel III, such as the Basel Committee's periodic peer reviews of Basel III implementation.[54] These peer reviews to date have found a number of preliminary material noncompliance issues, including, among others, in respect of the treatment of capital surplus, minority interests and goodwill (since corrected by the relevant home-country authorities).[55] Would one or more of those deviations, if uncorrected, cause the Board to determine that a foreign banking organization's home-country Basel III regime is not consistent with Basel III for purposes of the Final Rule? Ironically, the US banking agencies, in response to the Basel Committee peer review of US Basel III, pointed out the need for the Basel Committee to define "materiality" more precisely so that assessments could focus on those areas "where differences really matter."[56] It is not clear to what extent the Board will heed this advice in determining if a foreign banking organization is subject to capital standards consistent with Basel III for purposes of the Final Rule.

The Basel Committee also recently completed a Basel III monitoring exercise in which it asked 227 of the largest internationally active banks to provide information on a voluntary and confidential basis about their current level of Basel III compliance.[57] The exercise found that, while progress continues to be made, shortfalls remain in banks having the common equity and Tier 1 capital to meet Basel III risk-based and leverage minimums. The extent of the shortfall is based on the assumption, among others, that the stricter set of deductions from common equity required by the Basel III framework (e.g., goodwill, deferred tax assets, minority interests, etc.) have been made. It is not clear if a home-country regime that allowed otherwise would be deemed consistent with Basel III for purposes of the Final Rule.

A foreign banking organization will have the opportunity to demonstrate to the Board's satisfaction that it meets Basel III capital standards notwithstanding that its home-country authority is found not to have implemented standards consistent with Basel III.[58] It is not clear who is to determine that a home-country supervisor has implemented Basel III–consistent standards—the Board or the foreign banking organization, or perhaps even the Basel Committee. It may be that home-country supervisors will provide banking organizations with that assurance so that they can so certify to the Board. The Board does not indicate that it will be consulting with home-country supervisors in making a determination. This may be an indirect method for the Board to criticize a home-country supervisor's inadequate implementation of Basel III standards.

If assurance on Basel III consistency does not come from home-country supervisors or the Board, then it will be for a foreign banking organization to determine if it can certify to the Board that home-country standards are consistent with Basel III. Where a home-country regime is found not to be consistent, a foreign banking organization will be given a one-time 14-day window to present arguments why the Board should not impose additional requirements, conditions or restrictions on the US operations of the foreign banking organization as a result of its not meeting Basel III capital standards.[59] This has the potential to put the foreign banking organization in an awkward position.

The Final Rule does not require a foreign banking organization to meet capital requirements that the Board and the other US banking supervisors may impose on US bank holding companies over and above Basel III. For instance, the Final Rule would not require foreign banking organizations to comply with the leverage buffer proposed by the US banking supervisors for US bank holding companies. If adopted, the leverage buffer will require US top-tier bank holding companies with at least US$700 billion in total consolidated assets or at least US$10 trillion in assets under custody to maintain a leverage buffer of Tier 1 capital equal to at least 2 percent of on- and off-balance sheet assets on top of the Basel III 3 percent leverage requirement.[60]

The Final Rule does not specify the additional requirements, conditions or restrictions that the Board may impose on a foreign banking organization found not to meet requirements consistent with Basel III.

53 Release at note 76.

54 Release at 169.

55 Basel Committee peer reviews to date have been conducted on Basel III implementation in the United States, Japan, the EU, Singapore, Switzerland, China and Brazil. The reports on those reviews are available at *http://www.bis.org/bcbs/implementation/l2.htm*.

56 Basel Committee, Regulatory Consistency Assessment Preliminary Report: United States (October 2012) at 15, available at *http://www.bis.org/bcbs/implementation/l2_us.pdf*.

57 Basel Committee, *Basel III Monitoring Report* (March 2014).

58 Final Rule §§ 252.143(a)(2) and 252.154 (a)(2).

59 Final Rule §§ 252.143(c) and 252.154 (c).

60 US Banking Agencies, Proposed Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions, 78 Fed. Reg. 51101 (August 20, 2013).

Liquidity Requirements

Total Global Consolidated Assets:	US$10 Billion to <US$50 Billion	US$50 Billion+			
Combined US (Branch & Subsidiary) Assets:	Any	<US$50 Billion	US$50 Billion+		
US Nonbranch (Subsidiary Only) Assets:	Any	Any	<US$50 Billion	US$50 Billion+	
Category of Enhanced Standards that Apply:	Category 1	Category 2	Category 3	Category 4	Category 4
Entity to Which Enhanced Standard Applies	FBO	FBO	FBO	FBO	IHC[61]
Liquidity					
■ Branch Liquidity Buffer (14 – day)			✓	✓	
■ IHC Liquidity Buffer (30 – day)					✓
■ Liquidity Stress Testing		✓	✓	✓	✓
■ Liquidity Risk & Exposure Limits			✓	✓	✓
■ Liquidity Cash Flow Projections			✓	✓	*
■ Contingency Funding Plan			✓	✓	*

The Final Rule enhanced standards establish a series of incremental liquidity requirements for foreign banking organizations that are aimed at ensuring that US branch and subsidiary operations maintain sufficient liquidity. These include a required framework for managing the liquidity risk of a foreign banking organization's combined US operations, including required ring-fencing of IHC and US branch highly liquid assets in the United States.

A foreign banking organization is required to comply with some or all of the liquidity requirements based on its global and US asset size. A foreign banking organization with less than US$50 billion in total *global* consolidated assets is not subject to any liquidity requirements under the Final Rule. Foreign banking organizations with at least US$50 billion in combined US branch and subsidiary assets are required to create a more substantial liquidity risk-management framework that includes setting liquidity risk tolerance and exposure limits, a branch liquidity buffer, periodic liquidity cash flow projections and a contingency funding plan, in addition to liquidity stress testing, which is required for all foreign banking organizations with at least US$50 billion in total global assets. The Final Rule also requires oversight of compliance with the required liquidity management framework by the foreign banking organization's US risk committee and its US chief risk officer, as well as through independent internal control functions.

Unlike the enhanced standards for Basel III capital, the Final Rule does not require express reporting to the Board of compliance with the liquidity enhanced standards. The Board examiners likely will include such a review as part of their onsite examinations.

Liquidity Stress Testing

Periodic liquidity stress testing is required by all foreign banking organizations with at least US$50 billion in total *global* consolidated assets, irrespective of the amount of assets in their combined US branch and subsidiary operations. Each foreign banking organization with US$50 billion or more in total *global* consolidated assets must conduct periodic internal liquidity stress testing of its combined US branch and subsidiary operations to assess the potential impact of potential stress events on cash flows, liquidity, profitability and solvency.

A foreign banking organization with less than US$50 billion in combined US branch and subsidiary assets must conduct liquidity stress tests at least annually that:[62]

- Cover either its worldwide operations or its combined US operations
- Are consistent with Basel Committee liquidity risk-management principles and
- Incorporate 30-day, 90-day and one-year horizons

A foreign banking organization that does not comply with the stress testing requirement is required to limit the daily net aggregate amount due to its combined US operations from its non-US branches, subsidiaries and affiliates to no more than 25 percent of the third-party liabilities of the combined US operations.

61 Items requiring the IHC must meet its own standalone enhanced standard are marked with a check (✓). The standards for which the FBO must include the IHC within the requirement, but for which the IHC does not have a standalone requirement are marked with an asterisk (*).

62 Final Rule § 252.145.

A foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets is required to conduct at least monthly liquidity stress tests of its combined US branch and subsidiary operations and separately of its IHC, if one is required. Stress tests conducted on a worldwide level may not be used to satisfy this requirement. The Board may require that liquidity stress tests be conducted more frequently than monthly to address rapidly emerging risks or the effect of sudden events, such as a deterioration in earnings, negative trends in a particular product offered by the US operations or an increase in off-balance sheet exposures.[63] Stress tests must encompass:[64]

- Overnight, 30-day, 90-day and one-year horizons
- Adverse market conditions, an idiosyncratic stress event and a combined market and idiosyncratic stress event and
- Application of diversified liquid assets used to offset a "stressed" funding need based on discounted valuations to reflect credit risk and market volatility

A foreign banking organization is to develop its own stress scenarios and to use internal models in conducting the liquidity stress tests, including run-off rates and haircuts appropriate for its business model.[65] The Board reserves the right to review scenarios and models used, and the assumptions that underlie each. The US chief risk officer must review liquidity stress scenarios at least quarterly and approve the liquidity stress testing practices, methodologies and assumptions.[66]

Stress test results are to be made available to the Board in a "timely manner," though not within the 14-day period that had been specified in the Proposed Rule.[67] This change was made in an effort to reduce the reporting burden. The Final Rule, however, does not elaborate on what "timely" means or the form that reporting of stress test results to the Board should take.

The Board chose to establish a US-specific liquidity requirement and not to defer to liquidity standards imposed by home-country supervisors, as it believes that direct supervision is needed to adequately address foreign banking organizations' liquidity risk in the United States and the associated risks to US financial stability.[68] This is consistent with the Basel Concordat which establishes that liquidity is a responsibility of both home-country and host-country supervisors. The liquidity stress test requirements are meant to complement the liquidity coverage ratio ("LCR") that the Basel Committee has added to its Basel III framework. Unlike the enhanced capital standard, the Final Rule liquidity standard does not reference Basel III. The liquidity stress testing and liquidity buffer requirements are unique to the Final Rule. The intent, however, is to follow the approach of the LCR ratio, which establishes standardized stress scenarios and requires a covered banking entity to maintain adequate liquidity to meet projected cash outflows.[69] The Board indicates that it may require foreign banking organizations to certify that they are subject to and meet a home-country LCR that is comparable to the Basel III standard once calibrated. The Board also may impose a US LCR ratio requirement in respect of the combined US operations of at least some of the foreign banking organizations subject to the Final Rule.[70] No mention is made of including a liquidity requirement similar to the net stable funding ratio ("NSFR"), the longer-term cousin to the LCR included in Basel III by the Basel Committee.

Branch Liquidity Buffer

The Final Rule requires a foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets to establish and maintain a liquidity buffer in the United States to ensure that its US branches have sufficient liquidity to withstand net stressed cash flow needs over a specified period of stress. No liquidity buffer is required for foreign banking organizations with less than US$50 billion in combined US assets. A separate liquidity buffer, as discussed below, is required for a foreign banking organization's IHC.

A foreign banking organization's branch liquidity buffer must be sufficient to meet the projected net stressed cash outflow of the US branches over the first 14 days of a 30-day stress period.[71] The 30-day liquidity stress tests, as described above, are used to determine the amount of the liquidity buffer. Though the test is for a 30-day period, only liquid assets needed to sustain the first 14 days of the stressed period are included in the liquidity buffer that must be maintained in the United States.

The liquidity buffer must consist solely of unencumbered, highly liquid assets. Highly liquid assets consist only of cash, US federal, state and agency government securities, and any publicly traded asset that the Board agrees to be of low credit and market risk and

63 Release at 209.

64 Final Rule § 252.157.

65 Release at 208.

66 Final Rule §252.157(a)(7)(ii).

67 Release at 210 – 211.

68 Release at 193.

69 The Board and the other US banking agencies have proposed a rulemaking to implement the Basel III LCR in respect of US banking organizations covered by US Basel III. Release at 193.

70 Release at 193 – 194.

71 Final Rule §252.157(c)(3).

historically to be purchased in periods of financial market distress during which market liquidity has been impaired.[72] The Board does not offer any examples of what those securities would be. The assets in the liquidity buffer must be free of any legal or other restriction on the ability to liquidate, sell or transfer the asset and may not be pledged or used to secure, or to provide credit enhancement to, any borrowing or other transaction.[73] Liquidity buffer assets other than cash may be held in an account at the foreign banking organization's IHC, if one exists, or any subsidiary of the IHC.[74] Any cash portion of the liquidity buffer must be held through an entity not affiliated with the foreign banking organization.

Liquidity Cash Flow Projections

A foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets must produce comprehensive liquidity cash flow projections for its combined US operations, including any IHC, including short-term projections prepared on a daily basis and longer-term projections prepared on a monthly basis.[75] The liquidity cash flow projections must include:

- Cash flows from contractual maturities, intercompany transactions, new business, funding renewals, customer options and any other cash flow events
- Reasonable assumptions as to assets and liabilities, including off-balance sheet exposures
- Identification of any cash flow mismatches on a cumulative basis and
- Any details as to business line, currency or other factors needed to assess the foreign banking organization's capital structure, risk profile, complexity and currency exposure

The Final Rules do not require cash flow projections for all activities conducted in US dollars, only those activities conducted by a foreign banking organization's combined US operations. US-dollar funding activities of foreign banking organizations are a concern that informed the form of the Board's rulemaking. The Board notes that it "sees value in foreign banking organizations producing US-dollar cash-flow statements on a periodic basis to help identify potential US dollar mismatches."[76] However, recognizing the resources that would be required to produce such reporting, the Board does not set any requirement but notes that it may separately seek comment in the future on regulatory reporting requirements or information collections pertaining to a company's global US-dollar cash flow activities. It may be that the Board will settle on requiring such information to be available upon request.

Liquidity Contingency Funding Plan

A foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets must have in place, and update at least annually, a contingency funding plan for its combined US operations, including any IHC. The contingency funding plan must include:[77]

- Quantitative assessment of funding available and needed to meet ongoing liquidity needs
- A process for managing liquidity stress events, including an action plan and dedicated management team
- Procedures for monitoring emerging liquidity risks and
- Periodic testing to assess the operational elements and reliability of the contingency funding plan

Lines of credit and Federal Reserve discount window access, each based on existing terms, may be included as sources of funding for purposes of the contingency funding plan.[78] In each case, however, the funding plan should consider alternative funding sources that would be available in their absence.

Liquidity Corporate Governance Requirements

In addition to specific liquidity stress testing, buffer and planning requirements outlined above, the Final Rule establishes a series of corporate governance requirements for liquidity risk management. A foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets must ensure that its liquidity framework is reviewed and overseen by its US risk committee and US chief risk officer and that it is subject to independent review under its internal controls function.

72 Final Rule §252.157(c)(7)(i).

73 Final Rule §252.157(c)(7)(ii).

74 Final Rule §252.157(c)(4).

75 Final Rule §252.156(d).

76 Release at 201.

77 Final Rule §252.156(d).

78 Release at 202- 203.

A foreign banking organization must set prescribed liquidity risk limits and liquidity exposure limits. The Final Rule charges the US risk committee and the US chief risk officer to ensure that those limits are not breached and that each of the Final Rule's liquidity requirements is met. The US risk committee of a foreign banking organization's board of directors, established as required by the risk-management standards described below, must:[79]

- Approve at least annually the liquidity risk limits and risk tolerance established for the combined US operations (which is to be concurrently approved by the board of directors or the global risk committee)
- Periodically receive information from senior management as to compliance with established liquidity risk tolerance and
- Approve at least annually the contingency funding plan of the combined US operations

The US chief risk officer also must:[80]

- Evaluate and approve each new product or business line of the combined US operations that could have a significant effect on the liquidity risk profile of the combined US operation
- Review established liquidity risk limits, liquidity stress testing and cash flow projections at least quarterly
- Approve liquidity stress testing practices, methodologies and assumptions and
- Approve the size and composition of the branch and IHC liquidity buffers

In addition to the corporate governance activities of the US risk committee and the US chief risk officer, a foreign banking organization must establish an independent internal review function to evaluate its liquidity risk-management framework for its combined US operations. The independent internal review must cover the adequacy of liquidity risk-management processes and compliance with applicable laws, regulations and supervisory guidance and provide for reporting directly to the US or global board-of-director risk committee of any material issues that require corrective action.[81]

79 Final Rule §252.156(a).

80 Final Rule §252.156(b).

81 Final Rule §252.156.

Risk Management

Total Global Consolidated Assets:	US$10 Billion to <US$50 Billion	US$50 Billion+			
Combined US (Branch & Subsidiary) Assets:	Any	<US$50 Billion	US$50 Billion+		
US Nonbranch (Subsidiary Only) Assets:	Any	Any	<US$50 Billion	US$50 Billion+	
Category of Enhanced Standards that Apply:	Category 1	Category 2	Category 3	Category 4	Category 4
Entity to Which Enhanced Standard Applies	FBO	FBO	FBO	FBO	IHC
Risk Management					
■ US Risk Committee	✓	✓	✓	✓	✓
■ US Chief Risk Officer			✓	✓	✓
■ US Risk Management Framework			✓	✓	✓

The Final Rule establishes risk-management requirements in respect of the US operations of foreign banking organizations. These requirements do not require ring-fencing of financial assets. They do require the board of directors and senior management of a covered foreign banking organization to identify the members of the board of directors and a particular member of the foreign banking organization's US management who will be responsible for ensuring that the Final Rule risk-management standards are met. The Final Rule includes three distinct enhanced standards for the risk management of foreign banking organizations: a US risk committee of the board of directors of the foreign banking organization or its IHC; a US chief risk officer; and a US risk-management framework. The three requirements apply to every foreign banking organization that has US$50 billion or more in total *global* consolidated assets. The US risk committee requirement applies more broadly to include all foreign banking organizations with at least US$10 billion but less than US$50 billion in total *global* consolidated assets that has outstanding any class of securities traded on a registered national exchange in the United States or anywhere in the world. A publicly traded ADR is considered a publicly traded class of securities for this purpose.[82]

US Risk Committee

Every foreign banking organization with US$50 billion or more in total *global* consolidated assets and every foreign banking organization with at least US$10 billion in total *global* consolidated assets and a class of securities that is traded on a registered national exchange in the United States or elsewhere must have a board of directors–level risk committee responsible for overseeing the risk-management framework of the foreign banking organization's combined US branch and subsidiary operations.[83]

In deference to home-country governance standards, the placement of the US risk committee is left to the foreign banking organization.[84] The US risk committee may be either:[85]

- A part of the global risk committee of the board of directors
- A separate, standalone committee of the board of directors or
- If the foreign banking organization is required to have an IHC, either:
  - a standalone committee of the IHC's board of directors that is responsible for risk management of the foreign banking organization's IHC and its US branches or
  - a joint committee of the board of directors of the foreign banking organization and the risk committee of the IHC's board of directors

The intent is that responsibility for oversight of the risks of the foreign banking organization's combined US operations be overseen at its board-of-directors level. The Board finds this to be necessary, noting that a committee made up of members of management of a foreign banking organization's US operations might lack the requisite ability to oversee the risks of the combined US operations.[86]

Wherever situated, the US risk committee must include:[87]

- At least one member with experience in identifying, assessing and managing risk exposures of large, complex firms and

82 Release at 177.

83 Final Rule §§252.132(a), 252.144(a) and 252.155(a).

84 Release at 172.

85 Final Rule §§252.132(a), 252.144(a) and 252.155(a)(3).

86 Release at 184.

87 Final Rule §§252.132(a)(2), 252.144(a)(2) and 252.155(a)(5).

- If the foreign banking organization has US$50 billion or more in combined US branch and subsidiary assets, at least one independent member who is not, and over the previous three years was not, an officer or employee of the foreign banking organization or its affiliates or an immediate family member of any person that is or in the preceding three years was an executive officer of the foreign banking organization or any affiliate. The US risk committee of a foreign banking organization with less than US$50 billion in combined US branch and subsidiary assets is not required to include an independent director.[88]

The member with risk-management expertise is not required to meet any specific educational requirements or to have any specific professional credentials, but should have experience sufficient to provide an objective view on a risk-management framework based on the capital structure, risk profile, complexity, activities, size and other appropriate risk-related factors of the foreign banking organization's combined US branch and agency operations. The Final Rule does not require a foreign banking organization to clear the US risk committee member with expertise with the Board. Given the lack of specific criteria as to the qualifications required for the member to be deemed to have sufficient "large-complex firm" expertise, foreign banking organizations may want to seek informal Board clearance of nominees.

A single US risk committee wherever situated within the foreign banking organization is expected to monitor all the US activities of the foreign banking organization whether conducted through US branches, standalone US subsidiaries or an IHC.[89]

The US risk committee of a foreign banking organization with US$50 billion or more in combined US assets must meet at least quarterly or as otherwise needed and must document and keep records of its meetings.[90] The Final Rule does not provide a specific requirement for the frequency or documentation of meetings of the required US risk committees of foreign banking organizations with a smaller US presence. The requirement to document and keep records of US risk committee meetings suggests that the Federal Reserve examiners will want to review those records in the course of their examinations.

Every required US risk committee must oversee the risk-management policies of the foreign banking organization's combined US assets. The US risk committee of a foreign banking organization with US$50 billion or more in combined US assets also is responsible for:[91]

- Periodically reviewing and approving the risk-management policies for the combined US operations
- Approving at least annually the acceptable liquidity risk limits for the combined US operations
- Reviewing whether the combined US operations operate within prescribed liquidity risk tolerance and
- Reviewing and approving the contingency funding plan for the combined US operations at least annually

The Proposed Rule had left the responsibility for review of the contingency funding plan of the combined US operations with the US chief risk officer. The placement of this responsibility with the US risk committee, rather than the US chief risk officer, is meant to correspond to the guidance adopted by the US banking agencies, including the Board, to implement the Basel Committee framework for liquidity risk management.[92]

Foreign banking organizations with less than US$50 billion in combined US branch and subsidiary assets are required to certify annually to the Board concurrently with their FR Y-7 annual reports that they maintain a US risk committee. The Final Rule does not include a specific certification requirement for the US risk committee of a foreign banking organization with combined US branch and subsidiary assets of US$50 billion or more. It is expected that the Federal Reserve supervisory staff will verify the existence and role of the US risk committee of foreign banking organizations with a larger US presence through its ongoing supervision of those foreign banking organizations, including examiner visits to the foreign banking organization's head office.

US Chief Risk Officer

Each foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets must have a US chief risk officer.[93] The US chief risk officer is a central component of the Final Rule's risk management and liquidity risk standards. The US chief risk officer is subject to significant responsibility as the "single point of contact within a foreign banking organization that is required to oversee the management of risks within the organization's combined US operations," including the IHC, if one is required.[94] It should be anticipated that the Board will expect the US chief risk officer to act as a central supervisory contact for Federal Reserve supervisory staff in connection with examinations and any other Board communication, and will place considerable

88 Release at 178.

89 Release at 172.

90 Final Rule §252.155(a)(4).

91 Final Rule §§252.155(a) and 252.156(a).

92 Release at 197 – 198. See Board Supervision Letter 10-6, *Interagency Policy Statement on Funding and Liquidity Risk Management* (March 2010) and Basel Committee, *Principles for Sound Liquidity Risk Management and Supervision* (September 2008).

93 Final Rule §252.155(b).

94 Release at 186.

supervisory emphasis on who fills this role and how these duties are performed.

The US chief risk officer must:

- Have experience in identifying, assessing and managing risk exposures of a large, complex firm, as is required for at least one US risk committee member
- Be an employee of a US branch or subsidiary, including the IHC if one is required
- Be located in the United States in a US branch or subsidiary of the foreign banking organization or its IHC, if one is required and
- Report directly to the US risk committee and the foreign banking organization's global chief risk officer

The Board expects the US chief risk officer to be a separate individual from the global chief risk officer and not to have responsibility for any duties within the foreign banking organization other than those prescribed by the Final Rule.[95] The Final Rule does not set express compensation parameters but does state that compensation and incentives received by the US chief risk officer must be consistent with promoting an objective assessment of risk.[96]

The Final Rule specifies a broad range of responsibilities for the US chief risk officer. These include:[97]

- Overseeing the US risk-management framework, including how risks are measured, aggregated and monitored
- Developing and implementing policies and procedures, and processes and systems necessary to carry out the US risk-management framework
- Monitoring, reporting and resolving deficiencies in the US risk-management framework
- Evaluating and approving the liquidity risk of any new product or business line of a US branch or subsidiary and whether it could have a significant effect on the liquidity risk profile of the combined US operations
- Approving liquidity stress-testing methodologies, practices and assumptions
- Reviewing liquidity risk limits, cash flow projections and stress test results on at least a quarterly basis
- Determining whether the combined US operations operate within the established liquidity risk limits set by the US risk committee
- Reviewing the adequacy of management strategies and policies to manage any real or perceived inability to meet the cash and collateral obligations of the combined US operations
- Reporting to the US risk committee at least semi-annually on the adequacy of the liquidity risk profile and liquidity risk tolerance of the combined US operations and
- Approving the size and composition of the liquidity buffer

US Risk-Management Framework

Each foreign banking organization with US$50 billion or more in combined US branch and subsidiary assets must have a risk-management framework in place for its combined US operations that is commensurate with the structure, risk profile, complexity, activities and size of its combined US operations.[98]

The US risk-management framework must include:

- Policies and procedures for the structure and governance of the framework
- Processes and systems to identify and report deficiencies and emerging risks
- Processes and systems to establish the responsibilities and duties of management and employees to monitor and implement the framework and
- Processes and systems to ensure the independence of the risk-management function

95 Release at 187.

96 Final Rule §252.155(b)(3)(i).

97 Final Rule §§252.155(b)(2) and 252.156(b).

98 Final Rule § 252.155(a)(2).

The compensation structure of the foreign banking organization's employees responsible for overseeing and implementing the US risk-management framework should be consistent with the objectives of the US risk-management framework.

Foreign banking organizations will be expected to integrate the US risk-management framework with their global risk-management practices. The Board in this regard notes that it will continue to work through the Basel Committee and other international supervisory bodies to promote safe and effective risk-management practices.[99] The Final Rule, however, does not contemplate that adherence to any home-country risk-management requirements, even if in accordance with internationally agreed upon standards, may replace the Final Rule requirements for a US risk committee, US chief risk officer or US risk-management framework.

The Final Rule risk-management framework is meant to supplement, not replace, the Board's existing risk-management guidance and supervisory expectations for foreign banking organizations.[100] The US national bank subsidiaries and federal branches of foreign banking organizations soon may be required to address guidelines for heightened risk management as well. The Office of the Comptroller of the Currency ("OCC"), in February 2012, issued proposed guidelines on the risk governance framework for large banking organizations that it supervises.[101] The guidelines, if adopted, would require senior management to be directly responsible for establishing a strategic risk plan, a risk appetite statement, specified risk concentration limits, an internal audit function, risk data aggregation and reporting, a procedure for addressing risk limit breaches and a compensation program to ensure the independence of the risk-management function. The board of directors of a covered banking organization would be required to establish the risk-management framework and play an active and direct role in overseeing that it is properly implemented.

99 Release at 173.

100 Release at 174. *See* Board Supervision and Regulation Letter SR 08-8 (Oct. 16, 2008).

101 OCC, Guidelines Establishing Heightened Standards for Certain Large Insured National Banks, Insured Federal Savings Associations, and Insured Federal Branches (January 14, 2014).

Capital Stress Testing

Total Global Consolidated Assets:	US$10 Billion to <US$50 Billion	US$50 Billion+			
Combined US (Branch & Subsidiary) Assets:	Any	<US$50 Billion	US$50 Billion+		
US Nonbranch (Subsidiary Only) Assets:	Any	Any	<US$50 Billion	US$50 Billion+	
Category of Enhanced Standards That Apply:	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Category 4**
Entity to Which Enhanced Standard Applies	FBO	FBO	FBO	FBO	IHC
Capital Stress Testing					
■ Home-Country Stress Testing	✓	✓	✓	✓	
■ FRB Stress Testing					✓

Capital stress testing is the one enhanced standard that applies to *every* foreign banking organization subject to the Final Rule starting from those with at least US$10 billion in total *global* consolidated assets. This highlights the emphasis that the Board has placed on ensuring that banking organizations have sufficient regulatory capital to withstand the next financial crisis, not simply to meet capital adequacy standards.

Every foreign banking organization subject to the Final Rule must be subject to and must meet minimum home-country annual capital stress testing requirements or maintain specified asset reserves, as defined below, in its US branches *and* conduct stress testing of the adequacy of capital of its US subsidiaries, if any.[102]

Home-country capital stress testing satisfies the Final Rule requirement for it if:

- Stress testing is conducted at least annually (i) by the home-country supervisor or (ii) by the foreign banking organization, provided that such internal tests are evaluated and reviewed by the home-country supervisor and
- The stress testing is subject to corporate governance and internal controls by the foreign banking organization's management and board of directors

The Final Rule does not prescribe specific scenarios that must be tested or the scope of testing that must be prescribed in order for a home-country stress testing regime to satisfy this requirement. Unlike the Final Rule requirements for regulatory capital, the stress-testing requirement is not defined by reference to standards established by banking supervisors through multinational forums such as the Basel Committee and does not specify any required criteria for home-country stress testing to be considered to satisfy this requirement.[103] This leaves open that the range of scenarios and assumptions used in home-country tests could vary significantly from those used by the Board in its annual supervisory testing. Presumably a passing grade would require the foreign banking organization to maintain capital at least equal to Basel III throughout the period tested.

No specific reporting to the Board is required of the home-country stress test results of a foreign banking organization with less than US$50 billion in combined US assets. A foreign banking organization with US$50 billion or more in combined US assets is required to report to the Board the detailed results of annual home-country stress testing by January 5 of each calendar year. Such reporting must include:

- A description of the risks, scenarios and methodologies used in the stress test
- Stress test financial results, including estimated aggregate losses, revenues before loan loss provisions, loan loss provisions and pretax income
- Pro forma regulatory capital ratios and an explanation of the most significant causes of changes in capital ratios and
- If the foreign banking organization's US branches maintain a net due from position in respect of the foreign banking organization's non-US offices and affiliates, (i) a detailed description of methodologies used to estimate losses, revenues and changes in capital, (ii) estimated realized gains (losses) on securities held as available-for-sale or held-to-maturity, trading and counterparty losses and loan losses and (iii) any other information the Board may request

102 Final Rule §§252.122, 252.146 and 252.158.

103 Following the 2008 global financial crisis, the Basel Committee established sound principles for bank and supervisory capital stress testing and conducted peer reviews in 2012 that found stress testing to have become an increasingly important supervisory tool, though one in various degrees of implementation across home-country regimes. See, Basel Committee, *Principles for Sound Stress Testing Practices and Supervision* (May 2009) and Basel Committee, *Peer Review of Supervisory Authorities' Implementation of Stress Testing Principles* (April 2012).

A foreign banking organization that does not meet the home-country stress-test requirement must comply with the Final Rule's asset maintenance and stress testing requirements for its US operations. These include:

- Branch Asset Maintenance Reserves. A foreign banking organization that does not meet the home-country stress-testing requirement must maintain daily reserves of "eligible assets" in its US branches equal to:
  - not less than 105 percent of average daily total liabilities of all US branches over the preceding quarter, if the foreign banking organization's combined US assets are less than US$50 billion or
  - not less than 108 percent of average daily liabilities of all US branches over the preceding quarter, if the foreign banking organization's combined US assets equal at least US$50 billion

"Eligible assets" is defined as net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the Board during its examinations. Total liabilities include contingent liabilities, but not amounts due to the head office or affiliates or loan loss or other reserves.

- US Subsidiary Stress Testing. A foreign banking organization that does not meet the home-country stress testing requirement and that does not hold its US subsidiaries in an IHC must conduct and report to the Board the results of annual capital stress tests of all US subsidiaries. If approved by the Board, this requirement may be met with stress testing of the foreign banking organization as a whole.

Return to TOC

Debt-to-Equity Limits

Total Global Consolidated Assets:	US$10 Billion to <US$50 Billion	US$50 Billion+			
Combined US (Branch & Subsidiary) Assets:	Any	<US$50 Billion	US$50 Billion+		
US Nonbranch (Subsidiary Only) Assets:	Any	Any	<US$50 Billion	US$50 Billion+	
Category of Enhanced Standards That Apply:	Category 1	Category 2	Category 3	Category 4	Category 4
Entity to Which Enhanced Standard Applies	FBO	FBO	FBO	FBO	IHC
Debt-to-Equity Limits					
■ 15-to-1 Limit, if a "Grave" threat		✓	✓	✓	✓

The Dodd-Frank Act requires the FSOC to determine whether a US or foreign banking organization poses a threat to the financial stability of the United States. Those found to pose a "grave threat" must be subject to debt-to-equity limits. The Final Rule requires that a foreign banking organization that is designated as posing a grave threat must either:[104]

- Limit the debt-to-equity ratio of any US subsidiary, including any IHC, to no more than 15-to-1 and
- Maintain daily eligible assets in its US branches equal to at least 108 percent of the average daily total liabilities of all its US branches over the preceding quarter

Eligible assets and total liabilities are as defined in respect of the asset reserve required in lieu of meeting the Final Rule stress testing requirements.

104 Final Rule §225.220.

IHC Requirement and Enhanced Standards

Total Global Consolidated Assets:	**US$10 Billion to <US$50 Billion**	**US$500 Billion+**			
Combined US (Branch & Subsidiary) Assets:	**Any**	**<US$500 Billion**	**US$500 Billion+**		
US Nonbranch (Subsidiary Only) Assets:	**Any**	**Any**	**<US$500 Billion**	**US$500 Billion+**	
Category of Enhanced Standards That Apply:	**Category 1**	**Category 2**	**Category 3**	**Category 4**	**Category 4**
Entity to Which Enhanced Standard Applies	**FBO**	**FBO**	**FBO**	**FBO**	**IHC[61]**
US IHC					
■ Required IHC					✓
■ IHC Implementation Plan					✓

As noted in the Introduction to this Alert, the chart attached to this Alert as Appendix F offers a detailed outline of the enhanced standards applicable to an IHC.

Forming an IHC

The Dodd-Frank Act does not require a foreign banking organization to form an IHC. The IHC requirement is an "additional" prudential standard adopted by the Board under its statutory authority to add any standard it deems appropriate.[105] The Board views the requirement to form an IHC as appropriate to increase the resiliency of a foreign banking organization's US operations and thereby reduce any risk to US financial stability, a stated statutory purpose of enhanced standards.[106]

The Final Rule requires a foreign banking organization with US$50 billion or more in US nonbranch assets to form an IHC to hold all direct and indirect US subsidiaries of the foreign banking organization.[107] For this purpose:

- A subsidiary is any company directly or indirectly controlled by the foreign banking organization based on the BHC Act definition of "control."
- US nonbranch assets are all of the assets of all US subsidiaries other than any section 2(h)(2) subsidiary or DPC branch subsidiary.
- Assets are counted on a consolidated basis and would include the assets of any non-US subsidiary directly or indirectly controlled through a US subsidiary.
- If the US$50 billion threshold is met, all subsidiaries counted toward the asset test are to be transferred to the IHC.

One notable change from the Board's original proposal is that an IHC is not required to be formed until a foreign banking organization reaches threshold US nonbranch (subsidiary) assets of at least US$50 billion. The Proposed Rule would have required a foreign banking organization to form an IHC upon reaching US$10 billion in US subsidiary assets, though the IHC would not have been required to comply with any enhanced standards until reaching US$50 billion in consolidated asset size.[108]

The Board considered, but rejected, comments to restrict the IHC requirement.

- The Board rejected limiting the IHC requirement to only those foreign banking organizations with a US bank subsidiary.[109] Any company controlling a US bank would be a bank holding company subject to the enhanced standards for US bank holding companies. The Board acknowledges that an IHC that does not control a US bank would not itself be a US bank holding company, but believes that the IHC structure remains appropriate to facilitate consolidated supervision of the US activities of a foreign banking organization. Because a US branch may access the Federal Reserve discount window in much the same way as a US bank, the Board finds that all US activities of the foreign banking organization operating the US branch should be treated as conducted through a "bank holding company," and, hence, required to comply with enhanced standards.
  - The Board also rejected excluding from the IHC requirement any foreign banking organization whose US subsidiaries are subject to comprehensive consolidated supervision by home-country supervisors.[110] No specific reason why was offered.

105 Dodd-Frank Act §165(b)(1)(B)(iv).

106 Release at 114.

107 Final Rule §252.153(a)(1).

108 Release at 121.

109 Release at 123 – 124.

Return to TOC

The IHC may be a newly formed or existing US subsidiary, but, if the latter, it must be a company directly controlled by the foreign banking organization or a non-US subsidiary.[111] The IHC must be organized under US federal or state law as a US company governed by a board of directors that is elected by its shareholders and has rights, powers and duties equivalent to those of the board of a traditional US company.[112]

In general, all US subsidiaries must be held in a single IHC. The Board may permit a foreign banking organization to use multiple IHCs or adopt an alternative structure where it finds home-country legal restrictions or the complexity of the foreign banking organization's US activities do so merit. The Board also may require multiple IHCs to permit the Board to impose additional standards or a supervisory agreement on only certain subsidiaries of a foreign banking organization.[113]

The Board staff estimates that some 15 to 20 foreign banking organizations will be required to form an IHC based on their current US asset size.[114]

IHC Initial Implementation Date

A foreign banking organization is required to form an IHC and transfer its US subsidiaries to the IHC by the first day of the quarter two years after reaching US$50 billion in US nonbranch (subsidiary) assets.[115] A foreign banking organization that meets the asset threshold as of June 30, 2014 is required to form an IHC and transfer any US bank and bank holding company subsidiaries and substantially all other US subsidiary assets to the IHC by July 1, 2016.[116] A foreign banking organization meeting the threshold on this initial compliance date also must prepare and submit an implementation plan as discussed below.

The IHC Implementation Plan

The Final Rule establishes a one-time requirement for a foreign banking organization that has at least US$50 billion in US nonbranch (subsidiary) assets as of June 30, 2014 to prepare and submit to the Board an implementation plan for its IHC. The IHC implementation plan, which is required to be submitted to the Board by January 1, 2015, must include:[117]

- A list and organizational chart of all US subsidiaries
- A description of each section 2(h)(2) and DPC branch subsidiary that will not be included in the IHC
- Any request to exclude other US subsidiaries
- A projected timeline for transferring subsidiary assets to the IHC
- Quarterly pro forma projected IHC financial statements through January 1, 2018
- A timeline of the corporate actions to facilitate creation of the IHC and its meeting the Final Rule enhanced standards
- A description of how the Final Rule risk-management requirements will be met and
- A description of how the Final Rule liquidity buffer and other requirements will be met

In connection with preparing an IHC implementation plan that includes a US bank, the Board also expects foreign banking organizations to identify instances where the affiliate transaction limits of section 23A of the Federal Reserve Act may come into play. The Final Rule does not grant a waiver from application of section 23A in connection with transfers to an IHC. The Board expects that where a waiver is necessary, a foreign banking organization will make such a request with the appropriate federal bank supervisor as provided in section 23A.[118]

A foreign banking organization that meets the IHC asset threshold as of June 30, 2014, but that plans to reduce its US subsidiary assets below the IHC threshold before July 1, 2016, must include a discussion in its implementation plan of how it plans to do so.

The Board may impose an implementation plan requirement on any foreign banking organization that crosses the IHC asset threshold after June 30, 2014.

IHC Enhanced Standards

An IHC is treated as a bank holding company for purposes of application of enhanced standards, whether or not the IHC actually controls a US bank and therefore fits within the BHC Act definition of a bank holding company. An IHC that does not control a US

110 Release at 121.

111 Release at 127 – 128.

112 Final Rule §252.153(a)(2).

113 Final Rule §252.153(c).

114 Board Staff Memo at 1.

115 Final Rule §252.152(a)(2).

116 Final Rule §252.152(c).

117 Final Rule §252.153(d).

118 Release at 140 – 141.

bank, however, would not be a bank holding company for purposes of the BHC Act and the requirements of the Board's Regulation Y.

IHC Risk-Based and Leverage Capital

An IHC is required to meet US Basel III risk-based capital and leverage requirements applicable to US bank holding companies, with the following exceptions:[119]

- The Final Rule alleviates the need for a foreign banking organization to develop US-specific models for calculating risk weights by permitting an IHC, regardless of its size, to calculate risk-weighted assets under the US standardized approach even if meeting the asset size requiring use of the US advanced approaches (i.e., US$250 billion or more in total global consolidated assets or at least US$10 billion in trading assets).[120] An IHC that controls a US bank, and, therefore, is a bank holding company, must receive the Board's prior approval to opt out of using the US advanced approaches.[121]

- An IHC that but for the Final Rule exception would be subject to the US advanced approaches also is not required to deduct expected credit loss in excess of eligible credit reserves in calculating common equity or tier-1 capital.[122] An IHC is not required to comply with the US Basel III leverage ratio requirement until January 1, 2018, the end of the Basel Committee calibration period for the ratio, unless the Board decides to accelerate an IHC's required compliance with the leverage ratio upon a finding that the foreign banking organization has taken actions to evade its application.[123] In the interim, any US bank holding company or US bank subsidiary of a foreign banking organization that is to become part of an IHC is required to comply with the existing "generally applicable" US minimum leverage ratio requirement of 4.0 percent tier-1 capital to average consolidated assets.[124]

US Basel III establishes the same minimum risk-based capital ratio requirements as established by the Basel III framework, namely:

- A minimum risk-weighted common equity ratio of 4.5 percent
- A minimum risk-weighted tier-1 capital ratio of 6.0 percent
- A minimum risk-weighted total capital ratio of 8.0 percent
- A conservation buffer of 2.5 percent of risk-weighted common equity and
- A countercyclical buffer of up to 2.5 percent as may be implemented at the discretion of the Board

US Basel III also establishes two leverage requirements:

- A minimum "generally applicable" leverage ratio requirement of tier-1 capital to average total consolidated assets of 4.0 percent for all banking organizations and
- A minimum "supplementary" leverage ratio of 3.0 percent of tier-1 capital to total leverage exposure (on- and off-balance sheet assets) that applies only to US bank holding companies required to use the US advanced approaches. The supplementary leverage ratio applies to an IHC that meets the asset size requirements for the US advanced approaches notwithstanding that the IHC is not subject to the advanced approaches[125]

Unlike the enhanced capital standards applicable to a foreign banking organization, an IHC will be subject to any capital requirements that the US banking supervisors adopt in addition to Basel III. As noted above, the Board and the other US federal banking agencies have proposed a leverage buffer that, if adopted, will require US top-tier bank holding companies with at least US$700 billion in total consolidated assets or at least US$10 trillion in assets under custody to maintain a leverage buffer of tier-1 capital equal to at least 2 percent of on- and off-balance sheet assets on top of the supplementary leverage ratio requirement.[126]

An IHC that is a bank holding company is required to serve as a source of strength to its US bank subsidiary.[127] An IHC, however, is not required to serve as a source of strength to its subsidiaries other than a US bank.[128]

IHC Capital Plan Requirement

Every IHC, whether or not also a bank holding company, is required to comply with the Board's existing capital plan rule as of July 1, 2016.[129] The Board calls its capital plan rule a "critical element" of the Board's overall capital adequacy framework.[130]

119 Final Rule 52.153(e)(2)(i)(referencing the Board's Regulation Q implementing US Basel III).

120 Final Rule §252.153(e)(2)(i). An IHC that is also a US bank holding company to which the US advanced approaches would otherwise apply must seek Board prior written approval to use the US standardized approaches instead. Final Rule §252.153(e)(2)(ii).

121 Release at 156 – 157.

122 Release at 157.

123 Final Rule §252.153(e)(1)(ii)(B).

124 Release at 161 – 162.

125 Release at 157.

126 US Banking Agencies, Proposed Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions, 78 Fed. Reg. 51101 (August 20, 2013).

127 12 U.S.C. §1831o-1.

128 Release at 141.

Return to TOC

The capital plan rule requires covered banking organizations to project capital sources, and to submit a plan annually to the Board indicating how the IHC plans to sustain risk-based and leverage capital above the US Basel III minimum requirements under those stressed scenarios. For instance, the capital plan rule requires covered banking organizations to maintain a tier-1 common risk-based ratio of at least 5 percent over the stressed period versus a US Basel III minimum tier-1 common ratio of 4.5 percent. IHC internal stress testing as required under the Final Rule and as discussed below could be used to satisfy the capital plan stress testing requirement.[131]

An IHC's proposed dividend and other capital distributions or share repurchases for the ensuing year are permitted only to the extent that the Board finds the banking organization passes the stress testing. The capital plan rule requires annual stress tests to be conducted as of September 30 with results submitted to the Board by January 5 of the following year and the Board's approval or disapproval of planned capital distributions communicated to banking organizations, including IHCs, in March. The first capital plan for IHCs formed as of July 1, 2016 will be required to be submitted to the Board by January 5, 2017. At that point, the current Board exemption provided for the US bank holding company subsidiaries of certain foreign banking organizations will no longer apply.[132]

IHC Liquidity Buffer

An IHC is covered under the enhanced liquidity standards applicable to the foreign banking organization, as discussed above, including cash flow projections, contingency funding plan and independent internal reviews of liquidity risk-management practices that are conducted for the foreign banking organization's combined US operations. While the IHC is to be included in the required liquidity stress tests for the combined US operations, a separate liquidity stress test also must be conducted with the IHC applying the same test requirements as applicable to the combined US operations. The results of the IHC stress tests are to be used in connection with determining the IHC's required liquidity buffer.

An IHC is required to maintain a buffer of highly liquid assets sufficient to meet projected net stressed cash flow need over a 30-day stressed period.[133] The buffer must be comprised solely of cash, US federal and state government securities and any other publicly traded security that the Board approves as being of low credit and market risk, and historically used for market liquidity. While the definition of highly liquid assets does not expressly include foreign sovereign debt, the Board does indicate the intent for highly liquid assets to include all assets permissible to meet the US regulation implementing the Basel III liquidity coverage ratio, when finalized.[134] Liquidity buffer assets other than cash may be held in an account located at the US branch of the IHC's parent foreign banking organization. The cash portion of any liquidity buffer must be held through an entity not affiliated with the foreign banking organization.

Net stressed cash flow need is defined to mean the IHC's projected cash flow need over a 30-day period to meet (a) cash out-flows for all transactions with entities not affiliated with the IHC, net of projected cash inflows from nonaffiliates and (b) the amount of any cash outflow resulting from transactions with affiliates net of the amount of any cash inflow sourced from any affiliate to the extent that the term of the funding is the same as, or shorter than, the term of the internal cash flow need.[135]

IHC Risk-Management Standards

In addition to the risk-management standards applicable to the combined US operations of a foreign banking organization, an IHC must comply with standalone enhanced risk-management standards including:

- **US Risk Committee.** The IHC must maintain a US risk committee of its own board of directors, which may also serve as the US risk committee for the combined US operations of the foreign banking organization. A US risk committee situated outside the IHC, however, cannot be a substitute for the required IHC US risk committee. The IHC or US risk committee must:
  - approve the IHC's risk-management policies and oversee their implementation and
  - approve the acceptable level of liquidity risk for the IHC, monitor that the acceptable liquidity tolerance is not exceeded and approve the IHC's contingency funding plan
- **US Chief Risk Officer.** The IHC must have a US chief risk officer that is an officer of the IHC, but who may also be responsible for the risk management of the foreign banking organization's combined US operations. The US chief risk officer must:

129 Final Rule §252.153(e)(2)(ii).

130 Release at 167.

131 12 C.F.R. §225.8.

132 Board Supervision and Regulation Letter SR01-01 (2001) (expiring July 1, 2015). The Board specifies that a US bank holding company subsidiary currently relying on the SR 01-01 exemption must begin to comply with the capital plan rule as of the test cycle beginning on October 1, 2015 (one year before the capital plan rule will apply to an IHC). Release at 300.

133 Final Rule §252.157(c).

134 Release at 229.

135 Final Rule §252.157(c)(2)(ii). Release at 220.

- oversee implementation and adherence to the IHC's risk-management framework, including related processes and procedures to identify and timely report deficiencies, maintain an independent risk-management function and ensure timely testing of risk-control parameters
- evaluate and approve IHC new product and business lines
- review IHC liquidity risk limits, cash flow projections and liquidity stress test results
- approve the size and composition of the liquidity buffer and
- ensure that the IHC policies allow it to operate within prescribed liquidity tolerance limits and to meet cash and collateral obligations when due.

- **US Risk-Management Framework.** The IHC must establish and maintain its own risk-management framework including:
  - corporate governance, procedures and infrastructure to implement and maintain risk-management policies and procedures
  - processes and systems to identify risk-management deficiencies and emerging risks
  - processing and systems to monitor the independence of the risk-management function and
  - processes and systems to harmonize compensation structure with management goals

IHC Required Capital Stress Testing

An IHC must comply with the Board's enhanced standard for company-run and supervisory stress testing by US bank holding companies as previously adopted by the Board.[136] Those stress test requirements include:

- **Semi-annual internal stress tests.** An IHC must conduct internal stress tests as of September 30 of each year with a semi-annual test as of each March 31 under baseline, stressed and severely stressed scenarios dictated by the Board. These tests are used to develop the capital plan required under the Board's capital plan rule, as discussed above. Test results must be reported to the Board and summary results must be disclosed publicly.
- **Board annual stress tests.** Each IHC will be subject to Board annual capital stress tests under baseline, adverse and severely adverse scenarios as of each September 30. Summary results of Board tests are publicly disclosed and are required to be used by IHC management in developing the IHC's capital plan, for the subsequent year, its resolution and recovery plan, and in assessing exposure and concentration risks.

An open question in respect of IHC stress testing is how the Board will treat contingent capital as required under home-country regimes that is included in the IHC's capital. It should stand to reason that contingent capital that is treated as converted into common equity for purposes of meeting Basel III common equity tier-1 capital ratios under home-country stress testing regimes should count as common equity Tier 1 capital under the Board and internal stress testing required by the Final Rule. The Board does not give an indication of how contingent capital at the IHC level will be treated.

IHC Debt-to-Equity Limits

An IHC that controls a US bank (and hence is a bank holding company) may be required to limit its debt-to-equity to no more than 15-to-1 if determined by the FSOC to pose a "grave threat" to US financial stability.

136 12 CFR §252 subparts E and F.

Return to TOC

WHITE & CASE

Enhanced Prudential Standards for Foreign Banking Organizations: The US Approach to Ring-Fencing

Appendix A—The FBO Categories

Total *Global* Consolidated Assets

- **US$10 billion to less than US$50 billion** → Category 1
- **US$50 billion or more** → **Total US Combined Assets** (US branches, agencies & subsidiaries)
  - **Less than US$50 billion** → Category 2
  - **US$50 billion or more** → **Total Combined US Subsidiary Assets**
    - **Less than US$50 billion** → Category 3
    - **US$50 billion or more** → Category 4

Category 1 Enhanced Standards

Home Country

- Annual stress tests

US Specific

- US risk committee (if publicly traded)

Category 2 Enhanced Standards

Home Country

- Annual stress tests
- Basel III

US Specific

- US risk committee
- *Annnual* liquidity stress tests
- Debt-to-equity limits if a "grave" threat

Category 3 Enhanced Standards

Home Country

- Annual stress tests
- Basel III

US Specific

US risk committee
- US chief risk officer
- US risk management framework
- *Monthly* liquidity stress tests
- Branch 14-day liquidity buffer
- Liquidity risk & exposure limits
- Liquidity cash flow projections and contingency funding plan
- Debt-to-equity limits if a "grave" threat

Category 4 Enhanced Standards

Home Country

- Annual stress tests
- Basel III

US Specific

- Form an IHC
- IHC implementation plan
- US risk committee
- US chief risk officer
- US risk management framework
- *Monthly* liquidity stress tests
- Branch 14-day liquidity buffer
- Liquidity risk & exposure limits
- Liquidity cash flow projections and contingency funding plan
- Debt-to-equity limits, if a "grave" threat

For the IHC

- US Basel III
- US capital plan rule
- IHC risk committee
- IHC chief risk officer
- IHC risk framework
- IHC liquidity stress tests
- IHC 30-day liquidity buffer
- FRB annual stress tests

Return to TOC

Appendix B—Enhanced Prudential Standards by FBO Category

The Enhanced Prudential Standards by FBO Category

	Category 1	Category 2	Category 3	Category 4	
Total *Global* Consolidated Assets:	US$10 Billion to <US$50 Billion	US$50 Billion+			
Combined US (Branch & Subsidiary) Assets:	Any	<US$50 Billion	US$50 Billion+		
US Nonbranch (Subsidiary Only) Assets:	Any or None	Any or None	<US$50 Billion	US$50 Billion+	
Entity to which Enhanced Standard Applies	*FBO*	*FBO*	*FBO*	*FBO*	*IHC*[1]
US IHC					
■ Required US IHC					✓
■ US IHC Implementation Plan					✓
Risk-Based & Leverage Capital					
■ Home-Country Basel III		✓	✓	✓	
■ US Basel III					✓
■ US Capital Plan Rule					✓
Liquidity					
■ Branch Liquidity Buffer (14-day)			✓	✓	
■ IHC Liquidity Buffer (30-day)					✓
■ Liquidity Stress Testing		✓	✓	✓	✓
■ Liquidity Risk & Exposure Limits			✓	✓	✓
■ Liquidity Cash Flow Projections			✓	✓	✱
■ Contingency Funding Plan			✓	✓	✱
Risk Management					
■ US Risk Committee	✓	✓	✓	✓	✓
■ US Chief Risk Officer			✓	✓	✓
■ US Risk-Management Framework			✓	✓	✓
Capital Stress Testing					
■ Home-Country Stress Testing	✓	✓	✓	✓	
■ FRB Stress Testing					✓
Debt-to-Equity Limits					
■ 15-to-1 Limit, if a "grave" threat		✓	✓	✓	✓

1 Items requiring the US IHC to meet its own standalone enhanced standard are marked with a check (✓). Those standards for which the FBO must include the IHC within the requirement, but for which the IHC does not have a standalone requirement, are marked with an asterisk (✱).

Return to TOC

Appendix C—Category 1 FBO Enhanced Prudential Standards

Total (Global) Consolidated Assets:	**At least US$10 billion, but less than US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Any, up to less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any or none**

Enhanced Standard	Final Rule Requirement
Initial Applicability	July 1, 2016
FBOs Covered	
Global Asset Size	An FBO that has ***at least US$10 billion, but less than US$50 billion***, of total global consolidated assets
US Asset Size	An FBO that has: ■ ***Any*** US branch, agency or commercial lending company assets and ■ ***Any or no*** US subsidiary assets
Intermediate Holding Company	
Applicability	***None.*** Formation of an IHC is not required by an FBO in this category.
Risk-Based & Leverage Capital	
Applicability	***None.*** No enhanced risk-based capital, leverage capital or capital planning requirements are imposed on an FBO in this category.
Liquidity Requirements	
Applicability	***None.*** No liquidity buffer, stress testing or other enhanced liquidity requirements are imposed on an FBO in this category.
Liquidity Buffer	***None.*** No FBO in this category is required to maintain a liquidity buffer.
Liquidity Stress Testing	***None.*** No FBO in this category is required to comply with liquidity stress testing requirements.
Single Counterparty Credit Limits	
Applicability	***None*** at present. Enhanced standard may be imposed based on FRB evaluation of the single large exposure regime to be implemented by the Basel Committee and/or the FRB's quantitative impact studies.
Risk Management	
Applicability	An FBO in this category that has a class of outstanding ***publicly traded securities*** registered on a national exchange in the US or elsewhere must establish a US risk committee and comply with the risk management requirements, including annual certification to the FRB, regardless of its combined US asset size.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$10 billion in total global assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$10 billion in total global assets
Required Committee Structure	The US risk committee must be a committee of the FBO's board of directors that is either: ■ A standalone US risk committee or ■ Part of the global risk management committee

Total (Global) Consolidated Assets:	**At least US$10 billion, but less than US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Any, up to less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any or none**

Enhanced Standard	Final Rule Requirement
Required Committee Members	The US risk committee must include at least one member with experience in identifying, assessing and managing risk exposures of large, complex firms.
US Risk Committee Duties	The US risk committee must oversee the risk management policies of the FBO's combined US operations.
Required US Chief Risk Officer	***No FBO*** in this category is required to have a US chief risk officer.
US Chief Risk Officer Duties	Not applicable.
FBO Responsibilities	An FBO must take appropriate measures to ensure that: ■ Its combined US operations implement the US risk committee's risk management policies and ■ Provide the US risk committee sufficient information to allow the committee to carry out its responsibilities
Required Reporting	An FBO must file an annual certification with the FRB of its compliance with the US risk committee requirement concurrently with its annual FR Y-7 filing. Initial certifications will be due with FR Y-7 annual filings for 2016.
FRB Actions for Noncompliance	An FRB may impose requirements, conditions or restrictions on the US operations and activities of an FBO that it finds not to satisfy the US risk committee requirement or not to implement the risk management policies established by its US risk committee. An FBO will be given a one-time opportunity to ask the FRB to reconsider implementing such requirements.
Internal Stress Testing	
Applicability	***Every FBO*** in this category must comply with the internal capital stress testing requirements, regardless of the asset size of its US branches, agencies or commercial lending company subsidiaries or whether the FBO has any US subsidiaries.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$10 billion in total global assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$10 billion in total global assets
Stress Testing Requirement	An FBO must either: ■ Be subject to ***and meet*** minimum standards of a home-country capital stress testing regime or ■ Comply with specified FRB alternative requirements
Home Country Stress Test Requirement	To meet the home-country stress test requirement, an FBO must be subject to ***and meet*** the minimum standards of a home-country regime that includes either: ■ Annual capital stress testing by the FBO's home-country supervisor or ■ Annual internal capital stress testing by the FBO that is subject to: – evaluation and review by its home-country supervisor and – governance and controls of stress testing practices by the FBO's relevant management and board of directors

Total (Global) Consolidated Assets:	**At least US$10 billion, but less than US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Any, up to less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any or none**

Enhanced Standard	Final Rule Requirement
FRB Alternative Requirements	An FBO that does not meet the home-country stress test requirement must comply with FRB alternative requirements to: ■ Maintain daily eligible asset* reserves at its US branches and agencies equal to at least 105% of the average daily total liabilities** of all of the FBO's US branches and agencies over the preceding quarter ■ Conduct annual internal stress tests of its US subsidiaries (or of the FBO, if approved by the FRB) to determine if capital is adequate to absorb losses in adverse economic conditions and ■ Report the results of such stress tests annually to the FRB, including: – the risks measured in the stress testing – the scenarios tested – the methodologies used – test results, including estimated aggregate losses, net revenues before loan loss provisions, total loan loss provisions, pretax income and pro forma regulatory capital ratios calculated per home-country requirements and any other capital ratios and – any explanation of the most significant causes of any change in capital ratios that resulted in the stress test ______ * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.
FRB Stress Testing	
Applicability	***None.*** No FBO in this category is subject to FRB stress testing.
Debt-to-Equity Limits	
Applicability	***None.*** No debt-to-equity limits may be imposed on an FBO in this category.

Appendix D—Category 2 FBO Enhanced Prudential Standards

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any up to less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Initial Applicability	July 1, 2016
FBOs Covered	
Global Asset Size	An FBO that has ***US$50 billion or more*** of total global consolidated assets.
US Asset Size	An FBO that has ***less than US$50 billion*** of "combined US [branch and subsidiary] assets" consisting of: ■ The assets of each US branch, agency or commercial lending company and ■ The consolidated assets of each top-tier US subsidiary, if any, other than a section 2(h)(2) subsidiary
Excluded US Subsidiaries	Combined US (branch, agency and subsidiary) assets are calculated excluding the assets of any ***section 2(h)(2) subsidiary***, meaning any US subsidiary of a non-US company principally engaged in business outside of the United States.
Intermediate Holding Company	
Applicability	***None.*** Formation of an IHC is not required by an FBO in this category.
Risk-Based & Leverage Capital	
Applicability	***Every FBO*** in this category, regardless of the asset size of its US branches, agencies or commercial lending company subsidiaries or whether the FBO has any US subsidiaries.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in total global assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in total global assets
Required Minimum Capital	The FBO must meet minimum *Basel III capital adequacy standards* on a consolidated basis based on either: ■ Being subject to and meeting home-country requirements on a consolidated basis that are consistent with *Basel III capital adequacy standards* or ■ Demonstrating to the FRB's satisfaction that the FBO meets *Basel III capital adequacy standards* on a consolidated basis *Basel III capital adequacy standards* means the framework adopted by the Basel Committee, as phased in, including: ■ Basel III minimum risk-based capital ratios ■ Basel III conservation buffer and countercyclical capital buffer, if applicable, including restrictions on capital distributions and incentive compensation payments if the buffers are not in place and ■ Any Basel III minimum leverage ratio
Required Reporting	An FBO must report its Basel III capital adequacy ratios to the FRB on a quarterly basis concurrently with its FR Y-7Q reports. Initial reporting will be due with the September 30, 2016 FR Y-7Q filings.
Capital Plan Requirement	The FRB capital plan rule does not apply to FBOs in this category.
FRB Actions for Noncompliance	The FRB may impose requirements, conditions or restrictions on the US operations or activities of an FBO that it finds not to meet minimum Basel III capital adequacy standards, including risk-based or leverage capital standards or other requirements as deemed appropriate by the FRB.

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any up to less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Liquidity Requirements	
Applicability	***Every FBO*** in this category, regardless of the asset size of its US branches, agencies or commercial lending company subsidiaries or whether the FBO to has any US subsidiaries.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in total global assets as of June 30, 2015 or ■ First day of quarter after two years of reaching more than US$50 billion in total global assets
Buffer Requirement	***None.*** No FBO in this category is required to maintain a liquidity buffer.
Liquidity Stress Testing Requirement	An FBO must either: ■ Conduct annual internal liquidity stress tests of either its combined US operations or its worldwide operations that: – are consistent with Basel Committee liquidity risk management principles and – incorporate 30-day, 90-day and one-year stress test horizons; or ■ Limit the daily net aggregate amount due to the FBO's combined US operations from its non-US offices and affiliates to no more than 25% of the third-party liabilities of the FBO's combined US operations
Single Counterparty Credit Limits	
Applicability	***None*** at present. Enhanced standard may be imposed based on FRB evaluation of the single large exposure regime to be implemented by the Basel Committee and/or the FRB's quantitative impact studies.
Risk Management	
Applicability	***Every FBO*** in this category, regardless of the asset size of its US branches, agencies or commercial lending company subsidiaries or whether the FBO has any US subsidiaries.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in total global assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in total global assets
Required Committee Structure	The US risk committee must be a committee of the FBO's board of directors that is either: ■ A standalone US risk committee or ■ Part of the global risk management committee
Required Committee Members	The US risk committee must include at least one member with experience in identifying, assessing and managing risk exposures of large, complex firms.
US Risk Committee Duties	The US risk committee must oversee the risk management policies of the FBO's combined US operations.
Required US Chief Risk Officer	***No FBO*** in this category is required to have a US chief risk officer.
US Chief Risk Officer Duties	Not applicable.
FBO Responsibilities	The FBO must take appropriate measures to ensure that: ■ Its combined US operations implement the US risk committee's risk management policies and ■ Provide the US risk committee sufficient information to allow the committee to carry out its responsibilities.
Required Reporting	An FBO must file an annual certification with the FRB of its compliance with the US risk committee requirement concurrently with its annual FR Y-7 filing. Initial certifications will be due with FR Y-7 annual filings for 2016.

Return to TOC

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any up to less than US$50 billion**

Enhanced Standard	Final Rule Requirement
FRB Actions for Noncompliance	The FRB may impose requirements, conditions or restrictions on the US operations and activities of an FBO that it finds not to satisfy the US risk committee requirement or not to implement the risk management policies established by its US risk committee. An FBO will be given a one-time opportunity to ask the FRB to reconsider implementing such requirements.
Internal Stress Testing	
Applicability	***Every FBO*** in this category must comply with the internal capital stress testing requirements, regardless of the asset size of its US branches, agencies or commercial lending company subsidiaries or whether the FBO has any US subsidiaries.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in total global assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in total global assets.
Stress Testing Requirement	An FBO must either: ■ Be subject to ***and meet*** the minimum standards of a home-country capital stress testing regime or ■ Comply with specified FRB alternative requirements.
Home Country Stress Test Requirement	To meet the home-country stress test requirement, an FBO must be subject to ***and meet*** the minimum standards of a home-country regime that includes either: ■ Annual capital stress testing by the FBO's home-country supervisor or ■ Annual internal capital stress testing by the FBO that is subject to: – evaluation and review by its home-country supervisor and – governance and controls of stress testing practices by the FBO's relevant management and board of directors.
FRB Alternative Requirements	An FBO that does not meet the home-country stress test requirement must comply with the FRB alternative requirements to: ■ Maintain daily eligible assets* at its US branches and agencies equal to at least 105% of the average daily total liabilities** of all of the FBO's US branches and agencies over the preceding quarter ■ Conduct annual internal stress tests of its US subsidiaries (or of the FBO, if approved by the FRB) to determine if capital is adequate to absorb losses in adverse economic conditions and ■ Report the results of such stress tests annually to the FRB, including: – the risks measured in the stress testing – the scenarios tested – the methodologies used – test results, including estimated aggregate losses, net revenues before loan loss provisions, total loan loss provisions, pretax income and pro forma regulatory capital ratios calculated per home-country requirements and any other capital ratios and – any explanation of the most significant causes of any change in capital ratios that resulted in the stress test _____ * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.

Return to TOC

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**Less than US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Any up to less than US$50 billion**

Enhanced Standard	Final Rule Requirement
FRB Stress Testing	
Applicability	***None.*** No FBO in this category is subject to FRB stress testing.
Debt-to-Equity Limits	
Applicability	An FBO determined by the FSOC to ***pose a grave threat*** to US financial stability.
Initial Compliance	Not later than 180 days after receiving FSOC notice, unless extended by the FRB for up to two additional 90-day periods.
Debt-to-Equity Requirement	A designated FBO must: ■ Limit the debt-to-equity ratio an any US subsidiary to no more than 15-to-1 and ■ Maintain daily eligible assets* in its US branches and agencies equal to at least to 108% of the average daily total liabilities** of all of the FBO's US branches and agencies over the preceding quarter * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.

Appendix E—Category 3 FBO Enhanced Prudential Standards

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Initial Applicability	July 1, 2016
FBOs Covered	
Global Asset Size	An FBO that has ***US$50 billion or more*** of total global consolidated assets.
US Asset Size	An FBO that has: ■ ***At least US$ 50 billion*** of "US combined [branch, agency and subsidiary] assets" consisting of: – the assets of each US branch, agency or commercial lending company and – the consolidated assets of each top-tier US subsidiary, if any, other than a section 2(h)(2) subsidiary ***and*** ■ ***Less than US$ 50 billion*** of "US nonbranch [subsidiary] assets" consisting of: – the consolidated assets of each top-tier US subsidiary, if any, other than a section 2(h)(2) subsidiary or a DPC branch subsidiary
Excluded US Subsidiaries	Combined US (branch, agency and subsidiary) assets are calculated excluding the assets of: ■ Any *section 2(h)(2) subsidiary*, meaning any US subsidiary of a non-US company principally engaged in business outside of the United States. US nonbranch (subsidiary) assets are calculated excluding the assets of: ■ Any *section 2(h)(2) subsidiary* and ■ Any *DPC branch subsidiary*, meaning any subsidiary of a US branch or agency of an FBO that serves only to secure and collect debt previously contracted ("DPC") in good faith by the branch or agency
Intermediate Holding Company	
Applicability of IHC Requirement	***None.*** Formation of an IHC is not required by an FBO in this category.
Risk-Based & Leverage Capital	
Applicability	***Every FBO*** in this category.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets
Required Minimum Capital	The FBO must meet minimum *Basel III capital adequacy standards* on a consolidated basis based on either: ■ Being subject to and meeting home-country requirements on a consolidated basis that are consistent with Basel III capital adequacy standards or ■ Demonstrating to the FRB's satisfaction that the FBO meets Basel III capital adequacy standards on a consolidated basis. *Basel III capital adequacy standards* means the framework adopted by the Basel Committee, as phased in, including: ■ Basel III minimum risk-based capital ratios ■ Basel III conservation buffer and countercyclical capital buffer, if applicable, including restrictions on capital distributions and incentive compensation payments if the buffers are not in place and ■ Any Basel III minimum leverage ratio

Return to TOC

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Required Reporting	An FBO must report its Basel III capital adequacy ratios to the FRB on a quarterly basis concurrently with its FR Y-7Q reports. Initial reporting will be due with the September 30, 2016 FR Y-7Q filings.
Capital Plan Requirement	The FRB capital plan rule does not apply to FBOs in this category.
FRB Actions for Noncompliance	The FRB may impose requirements, conditions or restrictions on the US operations or activities of an FBO that it finds not to meet minimum Basel III capital adequacy standards, including risk-based or leverage capital standards or other requirements as deemed appropriate by the FRB.
Liquidity Requirements	
Applicability	***Every FBO*** in this category.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets
Liquidity Risk Limits	The FBO must establish liquidity risk limits for its combined US operations that include limits on: ■ Concentrations in sources of funding by type and counterparty ■ Liabilities maturing within a specified time horizon and ■ Off-balance exposures that could create funding needs during a liquidity stress event.
Liquidity Exposure Limits	The FBO must establish procedures to monitor for its combined US operations: ■ Collateral pledged and available unencumbered assets and their location ■ Liquidity risk exposures based on legal entities, currencies and business lines within the combined US operations and ■ The daily inflow/outflows, collateral transfers and maturity issues relating to intraday exposures
Liquidity Buffer	The FBO must maintain a liquidity buffer ***for its US branches and agencies*** sufficient to meet the first 14 days of projected net cash flow over a 30-day stressed period. The liquidity buffer must: ■ Be composed solely of unencumbered, highly liquid assets ■ Include only cash, US government securities and any other publicly traded asset the FRB regards as of low credit and market risk and historically used for market liquidity, ■ Not contain significant concentrations of assets other than cash or US government securities and ■ Be held in an account in the United States through an entity not affiliated with the FBO, except that assets other than cash may be held by an affiliate that is controlled by the FBO's IHC Note: A liquidity buffer is not required for the US subsidiaries of an FBO that are not required to be placed into an IHC.
Liquidity Stress Testing	The FBO must conduct and make available to the FRB at least monthly liquidity stress tests covering its combined US operations, its US branches and agencies and its IHC and including testing over an overnight, 30-day, 90-day and one-year horizon for (i) adverse market conditions, (ii) an idiosyncratic stress event and (iii) combined market and idiosyncratic stresses.
Cash Flow Projections	The FBO must produce for its combined US operations short-term cash flow projections on a daily basis and longer-term cash flow projections on a monthly basis that include: ■ Cash flows from contractual maturities, intercompany transactions, new business, funding renewals, customer options and other cash flow events ■ Reasonable assumptions as to assets, liabilities and off-balance sheet exposures ■ Identified and quantified cumulative cash flow mismatches and ■ Business line, currency and other analyses and details needed to assess capital structure, risk profile, complexity and currency exposure

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Contingency Funding Plan	The FBO must have in place and update at least annually a contingency funding plan for its combined US operations that includes: ■ Quantitative assessment of liquidity stress events and available funding to meet resulting liquidity needs ■ A process for managing liquidity stress events, including an action plan and dedicated management team ■ Monitoring of emerging liquidity risks and ■ Periodic testing of the reliability and operational elements of the contingency funding plan
US Risk Committee Duties Regarding Liquidity	The US risk committee must: ■ At least annually approve the acceptable liquidity risk level for the FBO's combined US operations, as concurrently approved by the FBO's board of directors or its global risk committee ■ Receive and review information on the combined US operations from senior management to determine if the combined US operations are within the prescribed liquidity risk tolerance and ■ At least annually approve the contingency funding plan for the combined US operations
US Chief Risk Officer Duties Regarding Liquidity	The US chief risk officer must: ■ Evaluate and approve new product and business lines of the FBO's combined US operations that could have a significant effect on the liquidity risk profile of the combined US operations ■ Review at least quarterly the liquidity risk limits, liquidity cash flow projections and liquidity stress testing results for the combined US operations and ■ Approve liquidity stress test controls, practices, methodologies and assumptions ■ Approve the size and composition of the liquidity buffer
Internal Reviews by US Chief Risk Officer	The US chief risk officer is required to review the adequacy of senior management strategies and policies to: ■ Manage the inability or the market's perception of the inability of the FBO's combined US operations to meet cash and collateral obligations and ■ Determine whether the combined US operations operate within the established liquidity tolerance The US chief risk officer is required to document and report to the US risk committee at least semi-annually on the liquidity risk profile and liquidity risk tolerance of the FBO's combined US operations.
Independent Reviews	The FBO must establish an independent review function to evaluate the liquidity risk management of the combined US operations that includes: ■ At least annual review of the adequacy of the FBO's liquidity risk management processes, including liquidity stress testing, for the combined US operations ■ Assessment of whether the liquidity risk management function for the combined US operations complies with all applicable laws, regulations, supervisory guidance and sound business practices and ■ Reporting of material liquidity risk issues to the US or FBO enterprise-wide risk committee for corrective action
Single Counterparty Credit Limits	
Applicability	***None*** at present. Enhanced standard may be imposed based on FRB evaluation of the single large exposure regime to be implemented by the Basel Committee and/or the FRB's quantitative impact studies.
Risk Management	
Applicability	***Every FBO*** in this category.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Required US Risk Committee Structure	The FBO's US risk committee must be a committee of either: ■ The FBO's board of directors that is either a standalone US risk committee or part of the global risk management committee or ■ The board of directors of the FBO's IHC that is responsible for the FBO's combined US operations Note: To the extent that the FBO has only a US bank subsidiary and no US branch or agency and therefore conducts its US operations solely through an IHC, the US risk committee must be a committee of the board of directors of the IHC.
Required US Risk Committee Members	The members of the FBO US risk committee must include: ■ At least one member with experience in identifying, assessing and managing risk exposures of large, complex firms and ■ At least one member (i) who is not, and over the previous three years was not, an officer or employee of the FBO or its affiliates or (ii) is not an immediate family member of a person who is, or in the previous three years was, an executive officer of the FBO or its affiliates
US Risk Committee Duties	The US risk committee must: ■ Fulfill the duties set out above under liquidity requirements ■ Approve and periodically review the risk management policies of the FBO's combined US operations ■ Oversee the risk management framework of the FBO's combined US operations ■ Meet at least quarterly and ■ Fully document and maintain records of its proceeding and risk management decisions
Required US Chief Risk Officer	***Every FBO*** in this category must appoint a US chief risk officer responsible for overseeing risk management of its combined US operations, including its IHC. The US chief risk officer: ■ Must have experience in identifying, assessing and managing risk exposures of large, complex firms ■ Must receive compensation and incentives consistent with providing an objective assessment of the risks of the FBO's combined US operations ■ Must be employed by and located in a US branch, agency or subsidiary of the FBO or its IHC, ■ Must report directly to the FBO's US risk committee and the FBO's global chief risk officer ■ Must regularly report to FBO's US risk committee, the FBO's global chief risk officer and the FRB on changes to the material risks of or deficiencies in the risk management of the FBO's combined US operations and ■ Meet regularly with the FRB as needed for the FRB to assess the risk management compliance of the FBO's combined US operations
US Chief Risk Officer Duties	The US chief risk officer must fulfill the duties set forth above under liquidity requirements and oversee the risk management framework for the FBO's combined US operations including: ■ Measurement, aggregation and monitoring of the risks of the combined US operations ■ Implementation and compliance with the required policies and procedures for risk management governance, procedures and infrastructure ■ Development and implementation of the required processes and systems to address deficiencies, management and employee responsibilities and an independent risk management function ■ Management, monitoring and testing of the risk control parameters established for the FBO's combined US operations ■ Timely reporting and resolution of risks and risk management deficiencies in the FBO's combined US operations and ■ Review of compliance of enhanced liquidity risk standards as set forth in that standard

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Required Risk Management Framework	The FBO's risk management framework for the combined US operations must be commensurate with the IHC's structure, risk profile, complexity, size and activities and must include for the combined US operations: ■ Policies and procedures for risk management governance, procedures and infrastructure ■ Processes and systems to identify, report and address risks and risk management deficiencies, including emerging risks ■ Processes and systems to establish management and employee risk management responsibilities ■ Processes and systems to ensure the independence of the risk management function and ■ Processes and systems to integrate risk management with management goals and compensation structure
FBO Responsibilities	The FBO must take appropriate measures to ensure that: ■ Its combined US operations implement any risk management policies of the US risk committee and ■ The US risk committee receives sufficient information to allow the committee to carry out its responsibilities
Required Reporting	No specified FRB reporting requirement. Compliance to be subject to FRB ongoing supervision.
FRB Actions for Noncompliance	The FRB may impose requirements, conditions or restrictions on the US operations and activities of an FBO that it finds not to satisfy the US risk committee and US chief risk officer requirements or not to implement the risk management policies established by its US risk committee. *No* provision is made for an FBO to be given a one-time opportunity to ask the FRB reconsider imposing requirements.
Internal Stress Testing	
Applicability	***Every FBO*** in this category.
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets
Stress Testing Requirement	An FBO must either: ■ Be subject to ***and meet*** the minimum standards of a home-country capital stress testing regime or ■ Comply with specified FRB alternative requirements
Home Country Stress Test Requirement	To meet the home-country stress test requirement, an FBO must be subject to ***and meet*** the minimum standards of a home-country regime that includes either: ■ Annual capital stress testing by the FBO's home-country supervisor or ■ Annual internal capital stress testing by the FBO that is subject to: – evaluation and review by its home-country supervisor and – requires governance and controls of stress testing practices by the FBO's relevant management and board of directors

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**Less than US$50 billion**

Enhanced Standard	Final Rule Requirement
Reporting Requirement	An FBO must report to the FRB by January 5 of each year the results of its home-country stress test activities including: ■ The risks measured in the stress testing ■ The scenarios tested ■ The methodologies used ■ Test results, including estimated aggregate losses, net revenues before loan loss provisions, total loan loss provisions and pretax income ■ If the FBO's US branches and agencies are in a net due from position in respect of the FBO's non-US offices and affiliates, the estimates of realized losses or gains on available-for-sale and held-to-maturity securities, trading and counterparty losses, loan losses in the aggregate and by material sub-portfolio ■ Pro forma regulatory capital ratios calculated per home-country requirements and any other capital ratios and ■ Any explanation of the most significant causes of any change in capital ratios that resulted in the stress test
FRB Alternative Requirements	An FBO that does not meet the home-country stress test requirement must comply with the FRB alternative requirements to: ■ Maintain daily eligible assets* at its US branches and agencies equal to at least **108%** of the average daily total liabilities** of the FBO's US branches and agencies over the preceding quarter ■ Conduct annual internal stress tests of its US subsidiaries (or of the FBO, if approved by the FRB) to determine if capital is adequate to absorb losses in adverse economic conditions and ■ Ff the stress testing requirements are not met, maintain a liquidity buffer for or restrict intragroup funding to any US subsidiary not in a IHC __________ * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.
FRB Stress Testing	
Applicability	***None.*** No FBO in this category is subject to FRB stress testing.
Debt-to-Equity Limits	
Applicability	Upon a finding of the FSOC that the FBO poses a grave threat to US financial stability.
Initial Compliance	Not later than 180 days after receiving FSOC notice, unless extended by the FRB for up to two additional 90-day periods.
Requirement	A designated FBO must: ■ Limit the debt-to-equity ratio an any US subsidiary, including an IHC, to no more than 15-to-1 and ■ Maintain daily eligible assets* in its US branches and agencies equal to at least to 108% of the average daily total liabilities** of all of the FBO's US branches and agencies over the preceding quarter __________ * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.

Appendix F—Category 4 FBO and IHC Enhanced Prudential Standards

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Initial Applicability	July 1, 2016, except that an IHC implementation plan is required as of June 30, 2014	July 1, 2016
FBOs Covered		
Global Asset Size	An FBO that has ***US$50 billion*** or more of total global consolidated assets.	An IHC that has ***US$50 billion*** or more in total consolidated assets, excluding the assets of any section 2(h)(2) subsidiary or DPC branch subsidiary.
US Asset Size	An FBO that has: ■ ***At least US$50 billion*** of "US combined [branch, agency and subsidiary] assets" consisting of: – the assets of each US branch, agency or commercial lending company and – the consolidated assets of each top-tier US subsidiary, other than a section 2(h)(2) subsidiary ***and*** ■ ***At least US$50 billion*** of "US nonbranch [subsidiary] assets" consisting of: – the consolidated assets of each top-tier US subsidiary, other than a section 2(h)(2) subsidiary or a DPC branch subsidiary	An IHC that has ***US$50 billion*** or more in total consolidated assets, excluding the assets of any section 2(h)(2) subsidiary or DPC branch subsidiary.
Excluded US Subsidiaries	Combined US [branch, agency and subsidiary] assets are calculated excluding the assets of: ■ Any *section 2(h)(2) subsidiary*, meaning any US subsidiary of a non-US company principally engaged in business outside the United States	An IHC may exclude the assets of: ■ Any *section 2(h)(2) subsidiary*, meaning any US subsidiary of a non-US company principally engaged in business outside the United States and ■ Any *DPC branch subsidiary*, meaning any subsidiary of a US branch or agency of an FBO that serves only to secure and collect debt previously contracted ("DPC") in good faith by the branch or agency

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Treatment of Intercompany Balances	US nonbranch [subsidiary] assets are calculated: ■ *Excluding* any intercompany balances between US subsidiaries to be included in US nonbranch assets and ■ *Including* any intercompany balances between any US subsidiary to be included in US nonbranch assets and any affiliate of the FBO that is not a US subsidiary to be included in US nonbranch assets	
Intermediate Holding Company		
Applicability	***Every FBO*** in this category.	
Initial Compliance	***Every FBO*** in this category must: ■ By January 1, 2015, file an IHC implementation plan if US subsidiary assets ***exceed*** US$50 billion as of June 30, 2014 ■ By July 1, 2016, establish an IHC if US subsidiary assets equal at least US$50 billion as of June 30, 2015 ■ By July 1, 2016, transfer to the IHC: – any US insured depository (IDI) subsidiary – any US bank holding company and – any other US subsidiaries representing at least 90% of the FBO's remaining US subsidiary assets and ■ By July 1, 2107, hold all US subsidiaries in an IHC	
IHC Requirement	An FBO must hold all US subsidiaries, other than section 2(h)(2) subsidiaries or DPC branch subsidiaries, in a single IHC that is: ■ Organized under the laws of the United States or one of its states or DC and ■ Governed by a board of directors that is: – elected or appointed by the owners and – has equivalent rights, powers, privileges, duties and responsibilities to the board of directors of a company chartered under US law or the laws of a US state or DC	

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Multiple IHCs	An FBO may request FRB approval to establish multiple IHCs where warranted by home-country legal restrictions or the scope and complexity of the FBO's US operations. The FRB may require an FBO permitted to have multiple IHCs to: ■ Comply with additional enhanced prudential standards in respect of its combined US operations or ■ Enter into a supervisory agreement with the FRB governing its combined US operations	
IHC Implementation Plan	By January 1, 2015 an FBO must file an IHC implementation plan with the FRB that includes: ■ A list and organizational chart of all US subsidiaries ■ A description of each section 2(h)(2) subsidiary and DPC branch subsidiary not to be included in the IHC ■ Any request to exclude one or more US subsidiaries from the IHC and the reason for the exclusion request ■ A projected timeline for transferring US subsidiaries to the IHC ■ Quarterly projected pro forma IHC financial statements and capital ratios from December 31, 2015 to January 1, 2018 ■ A timeline of planned capital actions to allow the IHC to meet its enhanced capital requirements ■ A description of how FBO and IHC enhanced risk management requirements will be met and ■ A description of how FBO and IHC enhanced liquidity requirements will be met Note: The implementation plan of an FBO that plans to reduce US subsidiary assets below the US$50 billion IHC threshold before the July 1, 2016 should include a discussion of how it plans to do so.	
Risk-Based Capital & Leverage		
Applicability	***Every FBO*** in this category.	***Every IHC.***
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in US subsidiary assets as of June 30, 2015 or ■ On the day that the FBO is required to establish an IHC

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Required Minimum Capital	The FBO must meet minimum *Basel III capital adequacy* standards on a consolidated basis based on either: ■ Being subject to and meeting home-country requirements on a consolidated basis that are consistent with *Basel III capital adequacy standards* or ■ Demonstrating to the FRB's satisfaction that the FBO meets *Basel III capital adequacy standards* on a consolidated basis *Basel III capital adequacy standards* means the framework adopted by the Basel Committee, as phased-in, including: – Basel III minimum risk-based capital ratios, – Basel III conservation buffer and countercyclical capital buffer, if applicable, including restrictions on capital distributions and incentive compensation payments if the buffers are not in place and – any Basel III minimum leverage ratio	Every IHC* must maintain capital equal to at least US Basel III minimum requirements* (as phased-in) including: ■ A minimum common equity Tier 1 capital ratio of at least 4.5% ■ A minimum common equity conservation buffer of 2.5% ■ Any minimum common equity countercyclical buffer implemented by the FRB ■ A minimum Tier 1 capital ratio of at least 6.0% ■ A minimum total capital ratio of at least 8.0% ■ A minimum leverage ratio (Tier 1 capital to average total on-balance sheet assets) ratio of at least 4.0% and ■ A minimum supplemental leverage ratio (Tier 1 capital to average on- and off-balance sheet assets) owf at least 3.0%, if the IHC has at least either (i) US$250 billion in total consolidated assets or (ii) US$10 billion in on-balance sheet foreign exposures ______ * As of July 1, 2015 an FBO may no longer rely on the FRB's SR 01-01 letter to exempt its US BHC from US capital adequacy standards. ** Any IHC that is not a BHC may calculate capital ratios using the US standardized approaches even if the US advanced approaches are otherwise applicable, but the advanced approaches buffer limitations and supplementary leverage ratio apply. An IHC that is a BHC subject to the US advanced approaches must request an FRB exemption to use the US standardized approaches.
Required Reporting	An FBO must report its Basel III capital adequacy ratios to the FRB on a quarterly basis concurrently with its FR Y-7Q reports. Initial reporting will be due with the September 30, 2016 FR Y-7Q filings.	None specified.

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Capital Plan Requirement	The FRB capital plan rule does not apply to FBOs in this category.	As of July 1, 2016, every IHC*, whether or not a BHC, must comply with the FRB capital plan rule and annually must file and receive prior FRB approval for its capital plan for the ensuing year, including capital distributions and discretionary bonus payments. * As of July 1, 2015, an FBO may no longer rely on the FRB's SR 01-01 letter to exempt its US BHC from the capital plan rule.
FRB Actions for Noncompliance	The FRB may impose requirements, conditions or restrictions on the US operations or activities of an FBO that it finds not to meet minimum Basel III capital adequacy standards, including risk-based or leverage capital standards or other requirements as deemed appropriate by the FRB.	None specified.
Liquidity Requirements		
Applicability	***Every FBO*** in this category.	***Every IHC.***
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in US subsidiary assets as of June 30, 2015 or ■ On the day that the FBO is required to establish an IHC
Liquidity Risk Limits	The FBO must establish liquidity risk limits for its combined US operations that include limits on: ■ Concentrations in funding by type and counterparty ■ Liabilities maturing within a specified time horizon and ■ Off-balance exposures that could create funding needs during a liquidity stress event	The FBO must establish liquidity risk limits for its IHC that include limits on: ■ Concentrations in funding by type and counterparty ■ Liabilities maturing within a specified time horizon and ■ Off-balance exposures that could create funding needs during a liquidity stress event
Liquidity Exposure Limits	The FBO must establish procedures to monitor for its combined US operations: ■ Collateral pledged and available unencumbered assets and their location ■ Liquidity risk exposures based on legal entities, currencies and business lines within the combined US operations and ■ The daily inflow/outflows, collateral transfers and maturity issues relating to intra-day exposures	The FBO must establish procedures to monitor: ■ IHC collateral pledged and available unencumbered assets and their location ■ IHC liquidity risk exposures based on legal entities, currencies and business lines within the combined US operations and ■ The IHC's daily inflow/outflows, collateral transfers and maturity issues relating to intra-day exposures

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	**IHC Requirement**
Liquidity Buffer	The FBO must maintain a liquidity buffer ***for its US branches and agencies*** sufficient to meet the first 14 days of projected net cash flow over a 30-day stressed period. The liquidity buffer must: ■ Be composed solely of unencumbered, highly liquid assets ■ Include only cash, US government securities and any other publicly traded asset the FRB regards as low credit and market risk and historically used for market liquidity ■ Not contain significant concentrations of assets other than cash or US government securities and ■ Be held in an account in the United States through an entity not affiliated with the FBO, except that assets other than cash may be held by an affiliate that is controlled by the FBO's IHC Note: A liquidity buffer is not required for the US subsidiaries of an FBO that are not required to be placed into an IHC.	The FBO must maintain a liquidity buffer ***for its IHC*** sufficient to meet projected net stressed cash flow over a 30-day stressed period. The liquidity buffer must: ■ Cover both external and intragroup net stressed cash flow needs ■ Include only cash, US government securities and any other publicly traded asset the FRB regards as low credit and market risk and historically used for market liquidity ■ Not contain significant concentrations of assets other than cash or US government securities and ■ Be held in an account in the United States through an entity not affiliated with the FBO, except that assets other than cash may be held by a US branch or agency of the FBO
Liquidity Stress Testing	The FBO must conduct and make available to the FRB at least monthly liquidity stress tests covering its combined US operations, its US branches and agencies, and its IHC and including testing over an overnight, 30-day, 90-day and one-year horizon for (i) adverse market conditions, (ii) an idiosyncratic stress event and (iii) combined market and idiosyncratic stresses.	As part of its liquidity stress testing of its combined US operations, the FBO must conduct at least monthly liquidity stress tests of its IHC, including overnight, 30-day, 90-day and one-year tests.
Cash Flow Projections	The FBO must produce for its combined US operations short-term cash flow projections on a daily basis and longer-term cash flow projections on a monthly basis that include: ■ Cash flows from contractual maturities, intercompany transactions, new business, funding renewals, customer options and other cash flow events ■ Reasonable assumptions as to assets, liabilities and off-balance sheet exposures ■ Identified and quantified cumulative cash flow mismatches and ■ Business line, currency and other analyses and details needed to assess capital structure, risk profile, complexity and currency exposure	As part of its liquidity cash flow projections, the FBO must produce short-term cash flow projections for its IHC on a daily basis and longer-term cash flow projections on a monthly basis.

Return to TOC

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

<table>
<tr><th rowspan="2">Enhanced Standard</th><th colspan="2">Final Rule Requirement</th></tr>
<tr><th>FBO Requirement</th><th>IHC Requirement</th></tr>
<tr><td>Contingency Funding Plan</td><td>The FBO must have in place and update at least annually a contingency funding plan for its combined US operations that includes:
■ Quantitative assessment of liquidity stress events and available funding to meet resulting liquidity needs
■ A process for managing liquidity stress events, including an action plan and dedicated management team
■ Monitoring of emerging liquidity risks and
■ Periodic testing of the reliability and operational elements of the contingency funding plan</td><td>The FBO's required contingency funding plan must include a funding plan for its IHC.</td></tr>
<tr><td>US Risk Committee Duties Regarding Liquidity</td><td>The US risk committee must:
■ At least annually approve the acceptable liquidity risk level for the FBO's combined US operations, as concurrently approved by the FBO's board of directors or its global risk committee
■ Receive and review information on the combined US operations from senior management to determine if the combined US operations are within the prescribed liquidity risk tolerance and
■ At least annually approve the contingency funding plan for the combined US operations</td><td>The IHC or FBO US risk committee must:
■ At least annually approve the acceptable liquidity risk level for the IHC, as concurrently approved by the IHC's board of directors or the FBO's global risk committee
■ Receive and review information on the IHC from senior management to determine if the IHC operates within the prescribed liquidity risk tolerance and
■ At least annually approve the contingency funding plan for the IHC</td></tr>
<tr><td>US Chief Risk Officer Duties Regarding Liquidity</td><td>The US chief risk officer must:
■ Evaluate and approve new product and business lines of the FBO's combined US operations that could have a significant effect on the liquidity risk profile of the combined US operations
■ Review at least quarterly the liquidity risk limits, liquidity cash flow projections and liquidity stress testing results for the combined US operations,
■ Approve liquidity stress testing practices, methodologies and assumptions and
■ Approve the size and composition of the liquidity buffer</td><td>The US chief risk officer of the FBO or the IHC must:
■ Evaluate and approve IHC new product and business lines that could have a significant effect on the IHC's liquidity risk profile,
■ Review at least quarterly the IHC's liquidity risk limits, liquidity cash flow projections and liquidity stress testing results,
■ Approve liquidity stress testing practices, methodologies and assumptions and
■ Approve the size and composition of the IHC's liquidity buffer</td></tr>
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Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	**IHC Requirement**
Internal Reviews by US Chief Risk Officer	The US chief risk officer is to review the adequacy of senior management strategies and policies to: ■ Manage the inability or the market's perception of the inability of the FBO's combined US operations to meet cash and collateral obligations and ■ Determine whether the combined US operations operate within the established liquidity tolerance The US chief risk officer is required to document and report to the US risk committee at least semi-annually on the liquidity risk profile and tolerance of the FBO's combined US operations.	The US chief risk officer of the FBO or the IHC is required to review the adequacy of IHC strategies and policies to: ■ Meet the IHC's cash and collateral obligations and ■ Operate within the IHC's established liquidity tolerance
Independent Review	The FBO must establish an independent review function to evaluate the liquidity risk management of the combined US operations that includes: ■ At least an annual review of the adequacy of the FBO's liquidity risk management processes, including liquidity stress testing, for the combined US operations ■ Assessment of whether the liquidity risk management function for the combined US operations complies with all applicable laws, regulations, supervisory guidance and sound business practices and ■ Reporting of material liquidity risk issues to the US or FBO enterprise-wide risk committee for corrective action	The FBO independent review function must include the liquidity risk management practices and procedures of the IHC.
Single Counterparty Credit Limits		
Applicability	***None*** at present. Enhanced standard may be imposed based on FRB evaluation of the single large exposure regime to be implemented by the Basel Committee and/or the FRB's quantitative impact studies.	***None*** at present. Enhanced standard may be imposed based on FRB evaluation of the single large exposure regime to be implemented by the Basel Committee and/or the FRB's quantitative impact studies.
Risk Management		
Applicability	***Every FBO*** in this category.	***Every IHC.***
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in US subsidiary assets as of June 30, 2015 or ■ On the day that the FBO is required to establish an IHC

Return to TOC

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Required US Risk Committee Structure	The FBO's US risk committee must be a committee of either: ■ The FBO's board of directors that is either a standalone US risk committee or part of the global risk management committee or ■ The board of directors of the FBO's IHC that is responsible for the FBO's combined US operations Note: To the extent that the FBO has only a US bank subsidiary and no US branch or agency and therefore conducts its US operations solely through an IHC, the US risk committee must be a committee of the board of directors of the IHC.	The IHC risk committee must be a committee of the IHC's board of directors.
Required US Risk Committee Members	The members of the FBO US risk committee must include: ■ At least one member with experience in identifying, assessing and managing risk exposures of large, complex firms and ■ At least one member (i) who is not, and over the previous three years was not, an officer or employee of the FBO or its affiliates or (ii) is not an immediate family member of a person who is, or in the previous three years was, an executive officer of the FBO or its affiliates	The members of the IHC US risk committee must include: ■ At least one member with experience in identifying, assessing and managing risk exposures of large, complex firms and ■ At least one member (i) who is not, and over the previous three years was not, an officer or employee of the FBO or its affiliates or (ii) is not an immediate family member or a person who is, or in the previous three years was, an executive officer of the FBO or its affiliates
Risk US Risk Committee Duties	The US risk committee must: ■ Fulfill the duties set out above under liquidity requirements ■ Approve and periodically review the risk management policies of the FBO's combined US operations ■ Oversee the risk management framework of the FBO's combined US operations ■ Meet at least quarterly and ■ Fully document and maintain records of its proceeding and risk management decisions	The IHC risk committee must: ■ Approve and periodically review the IHC's risk management policies ■ Oversee the risk management policies of the IHC ■ Meet at least quarterly and ■ Fully document and maintain records of its proceedings and risk management decisions

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
Required US Chief Risk Officer	***Every FBO*** in this category must appoint a US chief risk officer responsible for overseeing risk management of its combined US operations, including its IHC. The US chief risk officer: ■ Must have experience in identifying, assessing and managing risk exposures of large, complex firms ■ Must receive compensation and incentives consistent with providing an objective assessment of the risks of the FBO's combined US operations ■ Must be employed by and located in a US branch, agency or subsidiary of the FBO or its IHC ■ Must report directly to the FBO's US risk committee and the FBO's global chief risk officer ■ Must regularly report to FBO's US risk committee, the FBO's global chief risk officer and the FRB on changes to the material risks of or deficiencies in the risk management of the FBO's combined US operations and ■ Must meet regularly with the FRB as needed for the FRB to assess the risk management compliance of the FBO's combined US operations	An FBO's required US chief risk officer may be an officer of the IHC, but must be responsible for overseeing the risk management of the FBO's entire combined US operations as provided in the FBO requirement.
US Chief Risk Officer Duties	The US chief risk officer must fulfill the duties set forth above under liquidity requirements and oversee the risk management framework for the FBO's combined US operations including: ■ Measurement, aggregation and monitoring of the risks of the combined US operations ■ Implementation and compliance with the required policies and procedures for risk management governance, procedures and infrastructure ■ Development and implementation of the required processes and systems to address deficiencies, management and employee responsibilities and an independent risk management function ■ Management, monitoring and testing of the risk control parameters established for the FBO's combined US operations ■ Timely reporting and resolution of risks and risk management deficiencies in the FBO's combined US operations and ■ Review of compliance of enhanced liquidity risk standards as set forth in that standard	An FBO's required US chief risk officer may be an officer of the IHC, but must be responsible for overseeing the risk management of the FBO's entire combined US operations as provided in the FBO requirement.

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	**IHC Requirement**
Required Risk Management Framework	The FBO's risk management framework for the combined US operations must be commensurate with the IHC's structure, risk profile, complexity, size and activities and must include for the combined US operations: ▪ Policies and procedures for risk management governance, procedures and infrastructure ▪ Processes and systems to identify, report and address risks and risk management deficiencies, including emerging risks ▪ Processes and systems to establish management and employee risk management responsibilities, ▪ Processes and systems to ensure the independence of the risk management function and ▪ Processes and systems to integrate risk management with management goals and compensation structure	The IHC risk management framework must be commensurate with the IHC's structure, risk profile, complexity, size and activities and must include: ▪ Policies and procedures for the IHC's risk management governance, procedures and infrastructure ▪ Processes and systems to identify, report and address risks and risk management deficiencies, including emerging risks ▪ Processes and systems to establish management and employee risk management responsibilities, ▪ Processes and systems to ensure the independence of the risk management function and ▪ Processes and systems to integrate risk management with management goals and compensation structure
FBO Responsibilities	The FBO must take appropriate measures to ensure that: ▪ Its combined US operations implement any risk management policies of the US risk committee and ▪ The US risk committee receives sufficient information to allow the committee to carry out its responsibilities	The IHC must take appropriate measures to ensure that: ▪ The IHC implements any risk management policies of the US risk committee and ▪ The IHC risk committee receives sufficient information to allow the committee to carry out its responsibilities
Required Reporting	No specified FRB reporting requirement. Compliance to be subject to FRB ongoing supervision.	No specified reporting requirement. Compliance to be subject to FRB ongoing supervision.
FRB Actions for Noncompliance	The FRB may impose requirements, conditions or restrictions on the US operations and activities of an FBO that it finds not to satisfy the US risk committee and US chief risk officer requirements or not to implement the risk management policies established by its US risk committee. *No* provision is made for an FBO to be given a one-time opportunity to ask the FRB to reconsider imposing requirements.	No specified FRB actions for noncompliance.
Internal Stress Testing		
Applicability	***Every FBO*** in this category.	***Every IHC.***

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US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	**Final Rule Requirement**	
	FBO Requirement	**IHC Requirement**
Initial Compliance	Initial compliance is required beginning on: ■ July 1, 2016, if the FBO has at least US$50 billion in combined US assets as of June 30, 2015 or ■ First day of quarter after two years of reaching at least US$50 billion in combined US assets	By January 5, for the year ending September 30 following July 1, 2016 and thereafter: ■ By July 5 for semi-annual testing as of March 31 and ■ By January 5 for annual testing as of September 30 ■ Note: The FRB SR 01-01 exemption will no longer apply as it expires July 1, 2015
Stress Testing Requirement	An FBO must either: ■ Be subject to ***and meet*** the minimum standards of a home-country capital stress testing regime or ■ Comply with specified FRB alternative requirements	An IHC must pass annual and semi-annual stress tests conducted as required under enhanced stress testing requirements for US BHCs.
Home Country Stress Test Requirement	To meet the home-country stress test requirement, an FBO must be subject to and meet the minimum standards of a home-country regime that includes either: ■ Annual capital stress testing by the FBO's home-country supervisor or ■ Annual internal capital stress testing by the FBO that is subject to: – evaluation and review by its home-country supervisor and – requires governance and controls of stress testing practices by the FBO's relevant management and board of directors	
Reporting of Stress Tests	Not applicable.	An IHC must report the results of its annual and semi-annual stress tests to the FRB by January 5 and July 5, respectively.
Public Disclosure of Test Results	Not applicable.	An IHC must publicly disclose summary results of its annual and semi-annual stress tests that include: ■ A description of the risks measured ■ The methodologies used ■ Test results, including estimated net revenues before loan loss provisions, loan losses and loan loss provisions, realized gains and losses on available-for-sale and held-to-maturity securities, trading and counterparty losses, pretax income and pro forma common equity Tier 1 and other regulatory capital ratios and ■ An explanation of the most significant causes of changes in common equity Tier 1 and other capital ratios

Total (Global) Consolidated Assets:	**At least US$50 billion**
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Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
FRB Alternative Requirements	An FBO that does not meet the home-country stress test requirement must comply with the FRB alternative requirements to: ■ Maintain daily eligible assets* at its US branches and agencies equal to at least 108% of the average daily total liabilities** of all the FBO's US branches and agencies over the preceding quarter ■ Conduct annual internal stress tests of its US subsidiaries (or of the FBO, if approved by the FRB) to determine if capital is adequate to absorb losses in adverse economic conditions and ■ Report the results of such stress tests annually to the FRB, including: – the risks measured in the stress testing – the scenarios tested – the methodologies used – test results, including estimated aggregate losses, net revenues before loan loss provisions, total loan loss provisions, pretax income and pro forma regulatory capital ratios calculated per home-country requirements and any other capital ratios and – any explanation of the most significant causes of any change in capital ratios that resulted in the stress test ______ * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.	
FRB Stress Testing		
Applicability	***None.*** No FBO in this category is subject to FRB stress testing.	***Every IHC.***
Initial Compliance		As of year ending September 30 following July 1, 2016. Note: The FRB SR 01-01 exemption will no longer apply as it expires July 1, 2015.

Total (Global) Consolidated Assets:	**At least US$50 billion**
US Combined (Branch & Subsidiary) Assets:	**At least US$50 billion**
US Nonbranch (Subsidiary) Assets:	**At least US$50 billion**

Enhanced Standard	Final Rule Requirement	
	FBO Requirement	IHC Requirement
FRB Analysis of Test Results	Not applicable.	FRB is to use stress test results (under baseline, adverse and severely adverse scenarios) to determine if the IHC has sufficient capital and access to funding to continue to: ■ Absorb losses ■ Meet its obligations when due and ■ Serve as a credit intermediary
Required Use of Test Results	Not applicable.	The IHC's board of directors and senior management must use the results of FRB stress tests in: ■ Developing IHC's capital plan ■ Assessing exposures, concentrations and risk positions and ■ Resolution and recovery plans
Public Disclosure of Results	Not applicable.	The FRB will publicly disclose summary stress test results by March 31 of each year.
Debt-to-Equity Limits		
Applicability	Upon a finding of the FSOC that the FBO poses a grave threat to US financial stability.	If the IHC is a BHC, upon a finding of the FSOC that the IHC poses a grave threat to US financial stability.
Initial Compliance	Not later than 180 days after receiving FSOC notice, unless extended by the FRB for up to two additional 90-day periods.	Not later than 180 days after receiving FSOC notice, unless extended by the FRB for up to two additional 90-day periods.
Requirement	A designated FBO must: ■ Limit the debt-to-equity ratio on any US subsidiary, including an IHC, to no more than 15-to-1 and ■ Maintain daily eligible assets* in its US branches and agencies equal to at least 108% of the average daily total liabilities** of all the FBO's US branches and agencies over the preceding quarter ________ * Eligible assets are branch or agency net assets excluding amounts due from head office, equity securities, accrued income, prepaid expenses and any amounts disallowed by the FRB in its branch examinations. ** Total liabilities include acceptances and contingent liabilities, but exclude amounts due to the head office and affiliates, loan loss and other reserves.	A designated IHC must limit its debt-to-equity ratio to no more than 15-to-1.

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