Office of the
Comptroller of the Currency

# Overview of the New Regulatory Capital Rules

September 2019

Capital Policy

# New Regulatory Capital Rules

## Simplifications

- Simplification of the regulatory capital rules for non-advanced approaches banks.
- Effective date: 1/1/2020, option to delay to 4/1/2020
- The changes to the capital requirements for HVCRE exposures will be addressed in a separate rulemaking.

## Community Bank Leverage Ratio Framework (CBLR)

- Simple alternative methodology to measure capital adequacy for qualifying community banking organizations.
- Effective date: 1/1/2020

## CECL Implementation and Transition

- Allows for an optional transition to phase in the day-one effects that decrease regulatory capital due to new accounting standard for credit loss allowances (ASU 2016-13).
- Effective date: slide 11

# CBLR Framework

## Scope of CBLR Framework

- Applies to qualifying community banks
- Approximately 85% of all banks with assets under $10 billion qualify
- Approximately 83% of OCC supervised banks qualify

## Qualifying community banks - Size, Ratio, Filters

- Average total consolidated assets of less than $10 billion
- Leverage ratio greater than 9.0%
- Must meet the qualifying (i.e., filters) criteria: limited amounts of (1) certain off-balance sheet exposures and (2) trading assets plus trading liabilities (slide 5 and appendix)

## Proposed CBLR Framework Benefits

- Simple and non-complex calculation and reporting requirement
- Intended to not reduce the amount of capital currently held

## Optional

- Banks elect the CBLR framework

# CBLR Framework

## Maintaining a leverage ratio of greater than 9.0%

- Qualifying community banking organizations that opt into the framework are considered to have satisfied the generally applicable risk-based and leverage capital requirements.

**CBLR Calculation:**

$$\frac{\text{Tier 1 Capital}}{\text{Average Total Assets}}$$

## Two quarter grace period

- If a CBLR banking organization fails to satisfy one or more of the qualifying criteria but has a leverage ratio of >8.0%, the banking organization can continue in the CBLR framework and be considered "well capitalized" for a grace period of up to two quarters.
- As long as the banking organization is able to return to compliance with all the qualifying criteria within two quarters, it continues to be "well capitalized" under PCA.
- A banking organization with a leverage ratio ≤ 8.0% must comply with the generally applicable capital rule.

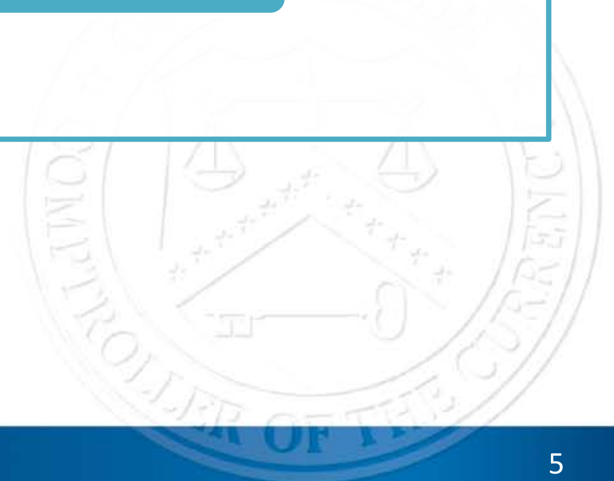
# CBLR Framework – Filters

## Total off-balance-sheet exposures

- Less than 25% of total consolidated assets
- Off-balance sheet exposures currently required to be captured and reported in the Call Report or Form FR Y-9C
- Measure excludes derivatives other than sold credit derivatives and unconditionally cancellable commitments

## Total trading assets plus trading liabilities

- Less than 5% of total consolidated assets



# Simplifications - MSA, DTA, Investments in UFIs

**Increases the individual threshold deduction**

- Increases the individual deduction thresholds from 10% to 25% of common equity tier 1.

**Eliminates the aggregate threshold deduction**

- Eliminates the aggregate 15% common equity tier 1 deduction threshold.

**Changes to investment in unconsolidated financial institutions**

- Replaces the current distinction between significant and non-significant investments with one treatment.

# Simplifications – Minority Interest limitation

## Current limitation on Minority Interest

- Based on the calculation of the capital ratios of the subsidiary

## New limitation on Minority Interest

- Removes allocation based on the subsidiary's capital ratios.
- Limited to 10% of the bank's relevant tier of capital.
- For example, Tier 1 minority interest included in Tier 1 capital would be limited to 10% of the bank's Tier 1 capital.

# CECL Transition Rule

## CECL Implementation and Transition final rule

- Provides an optional three-year phase in period to address industry concerns about capital planning challenges associated with uncertainty about the economic environment at the time of CECL adoption.
- Specifies regulatory capital treatment of credit loss allowances under ASU 2016-13 to provide clarity to banking organizations.

## New Terminology

- *Adjusted allowances for credit losses* (AACL) for the standardized approach for banking organizations to replace ALLL.
- AACL definition includes only those allowances that have been charged against earnings or retained earnings.
- AACL amount up to 1.25% of standardized RWA can be included in Tier 2 capital.

## Optional

- Bank elects to use the optional transition period in its first regulatory report reflecting CECL adoption.

# CECL Transition Rule

## Transition

- An "electing bank" calculates the day-one effects of adopting CECL on retained earnings, temporary difference deferred tax assets (DTAs), and AACL.
- In the first year after adopting CECL, for regulatory capital purposes, the electing bank:
  - Adds back to retained earnings and average total consolidated assets 75% of any decrease in retained earnings due to CECL adoption;
  - Excludes 75% of additional DTAs created by adopting CECL from risk-weighted assets; and
  - Excludes 75% of the increase in AACL when calculating its allowance includable in tier 2 capital.
- These percentages decrease to 50% in the second year after adopting CECL, 25% in the third year, and 0% in the fourth and later years.
- Notwithstanding the CECL transition provision, all other aspects of the capital rule will continue to apply. Thus, all regulatory capital adjustments and deductions will continue to apply.

# CECL Transition Rule

## Regulatory reporting

- The agencies have finalized changes to regulatory reporting forms, including the Call Report and FFIEC 101, to be consistent with the final rule and ASU 2016-13.

## Disclosure Requirements for Larger Institutions

- Disclosures for larger institutions (top-tier consolidated assets of greater than $50 billion) use the new terminology consistent with ASU 2016-13 following an institution's adoption of CECL.
- Advanced approaches banking organizations that use the transition and publicly report advanced approaches risk-weighted assets are required to disclose capital ratios both with and without transition effects.

# CECL Transition Rule

| Entity Type | U.S. GAAP Effective Date | Call Report Effective Date* |
|---|---|---|
| SEC Filers that are not Smaller Reporting Companies (SRC)** | Fiscal years beginning after December 15, 2019, including interim periods within those fiscal years | Q1 2020 (March 31, 2020) |
| SEC Filers that are SRCs and all other entities | Fiscal years beginning after December 15, 2022, including interim periods within those fiscal years | Q1 2023 (March 31, 2023) |
| Early Application | Early application permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years | Permissible no earlier than March 31, 2019 |

* For all entities, CECL is effective at the beginning of the reporting period (i.e., January 1st for a March 31st call report). Effective dates shown are for institutions with calendar year ends.
** SRC is an SEC-defined term. Refer to the SEC's website for SRC qualifications: https://www.sec.gov/smallbusiness/goingpublic/SRC

# Other Rulemakings

## Anticipated Rulemakings for Large Banks

- Tailoring
- Standardized Approach to Counterparty Credit Risk (derivatives)
- Fundamental Review of the Trading Book (market risk)
- Section 402 – Supplementary Leverage Ratio for Custody Banks
- Investments in Total Loss-absorbing Capacity Instruments
- Basel III Reform Package

# Additional Resources and Tools

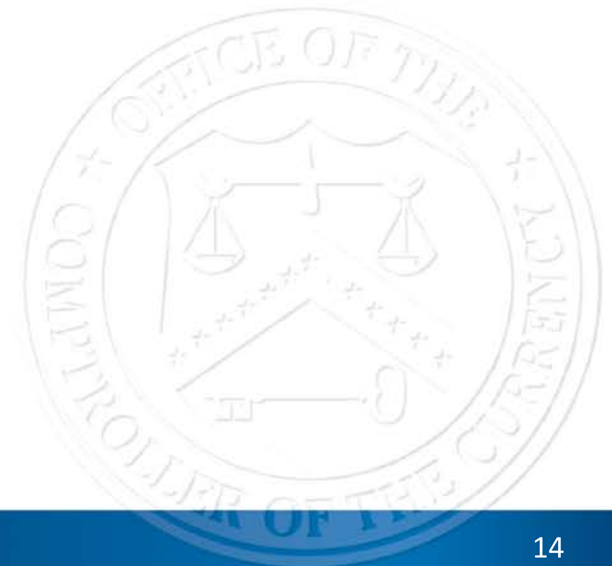
## Capital Policy topic page @ OCC.gov

- Rulemakings, FAQs, and other reference materials
- OCC.gov → Topics → Supervision & Examination → Capital
- https://www.occ.gov/topics/supervision-and-examination/capital/index-capital.html

## Interagency Webinars

- Stay tuned….

# Questions?



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# Appendix: CBLR Framework – OBS Filter

## Off-balance-sheet exposures included in the calculation

- The unused portions of commitments (except for unconditionally cancellable commitments);
- Self-liquidating, trade-related contingent items that arise from the movement of goods;
- Transaction-related contingent items (*i.e.*, performance bonds, bid bonds, and warranties);
- Sold credit protection in the form of guarantees and credit derivatives;
- Credit-enhancing representations and warranties;
- Off-balance-sheet securitization exposures (to the extent that they are not captured in other off balance-sheet exposures);
- Letters of credit;
- Forward agreements that are not derivative contracts; and
- Securities lending and borrowing transactions.