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Basel Endgame & Long-Term Debt Proposals

Impact of Basel Endgame and Long-Term Debt Proposals on the US Banking System

9:00am – 10:00am EDT

Keynote Address followed by a Q&A session with Jonathan McKernan, Director of the FDIC Board of Directors

10:00am – 10:45am EDT

How Banks May Respond to the Basel Endgame and Long-Term Debt Proposals

11:00am – 12:00pm EDT

October 4, 2023

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Impact of Basel Endgame and Long-Term Debt Proposals on the US Banking System

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Regulatory Capital Requirements

- Since the 1980s, US banking organizations have been required to satisfy minimum regulatory capital requirements
  - US regulations are based on international Basel Committee standards (but subject to US APA rulemaking)
  - Current requirements were adopted in 2013 and are known as "Basel III"
- US regulatory capital requirements generally apply to all insured depository institutions, bank holding companies (BHCs) and most savings and loan holding companies (SLHCs) and US intermediate holding companies (IHCs) of foreign banking organizations (FBOs)
- US banking organizations must satisfy certain minimum (i) capital to risk-weighted asset ratios and (ii) capital to total assets ratios (the "leverage ratios")
  - May be required to maintain one or more additional buffers of capital, known as the capital conservation buffer, countercyclical capital buffer, and global systemically important bank ("G-SIB") surcharge
  - Are required to comply with other capital-related requirements, including capital adequacy assessments, capital stress testing and capital planning
- Basel Committee intended for national governments to implement most of the Basel Endgame revisions by January 1, 2022, although this deadline was extended until January 1, 2023, due to the COVID-19 pandemic
  - US banking regulators did not propose rules to implement Basel Endgame until July 2023

Scope of Proposal

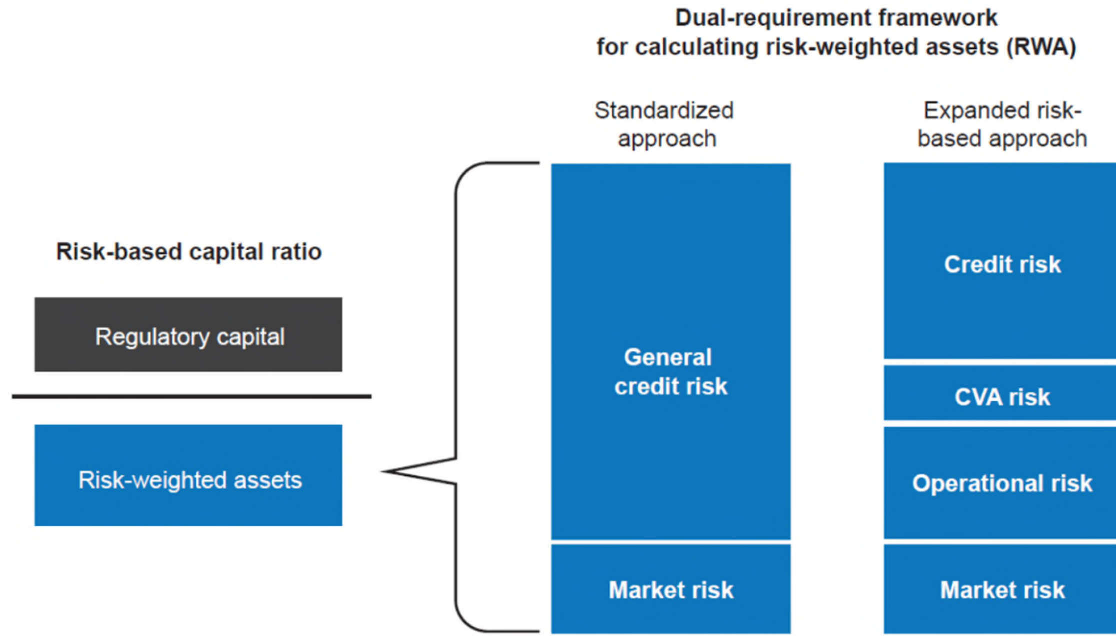
Scope of Proposal

- US banking organizations with total consolidated assets of $100 billion or more
  - Category I, II, III, and IV banking organizations
  - 8 US G-SIBs, approximately 17 larger and midsized US BHCs (ranging from traditional regional banking organizations to credit card and other niche organizations), 8 US IHCs of FBOs and 3-4 other US banking organizations
- US banking organizations with significant trading activity (only for market risk rule)
  - Banking organizations with aggregate trading assets and liabilities exceeding **(i) 10% of total assets or (ii) $5 billion**
  - Increase in absolute threshold from $1 billion to $5 billion
  - Approx. 5 US BHCs, 2-4 US IHCs, and 4-5 other US banking organizations
- Does not apply to FBOs or US branches or agencies of FBOs
- Does not apply to banking organizations subject to community bank leverage ratio

Regulatory Capital Calculation

Dual-Stack Capital Requirement

Source: US Regulators



Regulatory Capital Calculation

- Currently, banking organizations calculate the amount of regulatory capital that they hold by aggregating the adjusted accounting values of eligible capital instruments
  - Capital includes common stock, retained earnings, and certain preferred shares
  - Banking organizations that are not subject to the Advanced Approaches may opt-out of including most accumulated other comprehensive income (AOCI) items in the calculation of capital
  - Including AOCI in the calculation would likely require a banking organization to raise new capital to maintain the same ratios
- Proposal would require all banking organizations with $100 billion or more in total assets to include most AOCI when calculating capital
  - Banking organizations also would need to apply the capital and total loss absorbing capacity holdings deductions and minority interest treatments that previously applied only to Advanced Approaches organizations
  - Still may exclude accumulated net gain (loss) on cash flow hedges included in AOCI that relate to the hedging of items that are not recognized at fair value
  - On average, AOCI constitutes approx. 18% of CET1 capital for those banking organizations
- Proposal also would require Category III and IV banking organizations to make certain additional disclosures to holders of new Tier 1 and Tier 2 capital instruments

Credit Risk Capital Requirements

Standardized Approach

New Risk Weighting Regime

- Currently, all banking organizations calculate the amount of assets against which they must hold capital for credit risk under the Standardized Approach
  - Standardized Approach applies specified risk weights to the amount of each on-balance sheet asset and adjusted amount of each off-balance sheet exposure
- Proposal would create an Expanded Standardized Approach that is based on the existing Standardized Approach
  - More granular risk weights for real estate based on loan-to-value ratio and cash flow dependence
  - New risk weight sets for retail, subordinated debt, specialized lending, real estate, and acquisition, development, or construction exposures
  - Elimination of non-significant equity exposure category; more restrictive equity risk weights
  - More punitive treatment of exposures to commercial borrowers with any default (universal cross default treatment)
  - Increase in adjustment factor for certain off-balance sheet exposures
  - Incorporates existing Advanced Approaches for securitization exposures, with certain modifications
  - Existing Standardized Approach would continue to apply (stricter of the two approaches)

Commercial Real Estate

Current US Requirements

Mortgage Type	Risk Weight
Statutory multifamily mortgages	50%
All other	100%
HVCRE	150%
Past due	100%/150%

US Basel Endgame Proposal

Mortgage Type	Risk Weight
Statutory multifamily mortgages	50%
Non-HVCRE ADC	100%
Not CF Dependent, LTV ≤ 60%	60%/Borrower RW
Not CF Dependent, LTV > 60%	Borrower RW
CF Dependent, LTV ≤ 60%	70%
CF Dependent, 60% < LTV ≤ 80%	90%
CF Dependent, LTV > 80%	110%
Other commercial	150%
HVCRE	150%
Past due	100%/150%

When calculating the LTV, the loan amount will be reduced as the loan amortizes. The value of the property generally will be maintained at the value measured at origination.

Residential Real Estate

Current US Requirements

Mortgage Type	Risk Weight
FHA/VA guaranteed	20%
Qualifying first lien residential	50%
Statutory multifamily mortgages	50%
Pre-sold construction	50%/100%
All other	100%
Past due	100%/150%

When calculating the LTV, the loan amount will be reduced as the loan amortizes. The value of the property generally will be maintained at the value measured at origination.

US Basel Endgame Proposal

Mortgage Type	Risk Weight
FHA/VA guaranteed mortgages	20%
Statutory multifamily mortgages	50%
Pre-sold construction	50%/100%
Non-HVCRE ADC	100%
Not CF Dependent, LTV ≤ 50%	40%
Not CF Dependent, 50% < LTV ≤ 60%	45%
Not CF Dependent, 60% < LTV ≤ 80%	50%
Not CF Dependent, 80% < LTV ≤ 90%	60%
Not CF Dependent, 90% < LTV ≤ 100%	70%
Not CF Dependent, LTV > 100%	90%
CF Dependent, LTV ≤ 50%	50%
CF Dependent, 50% < LTV ≤ 60%	55%
CF Dependent, 60% < LTV ≤ 80%	65%
CF Dependent, 80% < LTV ≤ 90%	80%
CF Dependent, 90% < LTV ≤ 100%	95%
CF Dependent, LTV > 100%	125%
Other residential	100%/150%
Past due	100%/150%

Non-Real Estate Corporate and Consumer

Current US Requirements

Loan Type	Risk Weight
Other loans, including consumer and corporate	100%
Past due	150%

US Basel Endgame Proposal

Loan Type	Risk Weight
"Transactor" retail revolving	55%
Public corporate investment grade	65%
Non-"transactor" retail revolving and term	85%
Corporate small business	55%/85%
Other corporate	100%
Other retail	110%
Project finance, pre-operational	130%
Subordinated debt	150%
Past due	150%
*Plus new risk weights for commercial real estate	

Off-Balance Sheet Commitments

Current US Requirements

Loan Type	CCF
Unconditionally cancelable	0%
Not unconditionally cancelable, ≤ 1 year maturity	20%
Not unconditionally cancelable, > 1 year maturity	50%

US Basel Endgame Proposal

Loan Type	CCF
Unconditionally cancelable	10%
Not unconditionally cancelable	40%

Also, would impose capital requirements on undrawn commitments that have no express contractual maximum amount or pre-set limit based on prior activity.

Equity

Current US Requirements

Exposure Type	Risk Weight
Sovereigns/MDBs	0%
Public sector entities/FHLBs	20%
Community development investments/SBICs	100%
Non-significant exposures	**100%**
Hedge pairs	100%/300%
Unconsolidated FIs	250%
Public equities	300%
Non-public equities	400%
Investment firms with material leverage	600%
Investment funds	Look-through

US Basel Endgame Proposal

Exposure Type	Risk Weight
Sovereigns/MDBs	0%
Public sector entities/FHLBs	20%
Community development investments/SBICs	100%
Unconsolidated FIs/related hedges	250%
Public equities with trading restrictions*	250%
Non-public equities	400%
Investment firms with material leverage	1250%
Investment funds*	Look-through/1250%

*Most public equities would be assigned risk weights under the market risk capital requirements; some investment funds also would be covered under market risk

Defaulted/Past Due Exposures

- Current Requirement: "if an exposure is 90 days or more past due or on nonaccrual … assign a 150 percent risk weight to the portion of the exposure that is not guaranteed or that is unsecured"
- BCBS Standard (limited cross-default): "A defaulted borrower is a borrower [who has] any material credit obligation that is past due for more than 90 days"
- US Proposal (universal cross-default): "The obligor has any credit obligation that is 90 days or more past due or in nonaccrual status with **any creditor**"
    - Only for non-retail exposures (e.g., CRE)

Securitizations

- Proposal would address securitizations by adopting a form of the securitization framework that is used in the Advanced Approaches, with modifications
  - Additional operational requirements for synthetic securitizations
  - A new securitization standardized approach (SEC-SA), as a replacement to the supervisory formula approach and standardized supervisory formula approach
  - New maximum capital requirements and eligibility criteria for certain senior securitization exposures (i.e., the long-sought "look-through approach")
  - A new framework for non-performing loan securitizations
- SEC-SA would be a modified version of the current standardized supervisory formula approach
  - Modified definitions of attachment and detachment points, W parameter, and KG
  - Higher p-factor
  - Lower risk-weight floor for securitization exposures that are not resecuritization exposures
  - Higher risk-weight floor for resecuritization exposures

Credit Risk Capital Requirements

Advanced Approaches

Elimination of Advanced Approaches

- Currently, certain larger banking organizations calculate the amount of assets against which they must hold capital for credit risk under the Advanced Approaches
  - Fewer than a dozen banking organizations are subject to the Advanced Approaches
  - Requires banking organizations to use an internal ratings-based approach and other methods to calculate risk-based capital requirements for credit risk
  - Advanced Approaches already are of limited utility due to Collins Amendment and Section 939A limitation
- The Proposal would eliminate the Advanced Approaches for credit risk
  - Eliminate the advanced measurement approach for operational risk, but impose new standardized measure for operational risk
  - Separately permit some modeling for market risk
  - Will be permitted in other jurisdictions

Credit Risk Capital Requirements

Leverage Ratio Framework

Expanded Leverage Ratio Requirement

- Currently, banking organizations calculate the amount of assets against which they must hold capital for credit risk under one or more leverage ratio requirements
  - Non-risk-based calculation that compares a banking organization's Tier 1 capital to total assets
  - Supplementary leverage ratio goes further and includes off-balance sheet exposures in ratio
  - Enhanced supplementary leverage ratio applies to US G-SIBs and includes a surcharge on capital requirement
- Proposal would extend the supplementary leverage ratio requirement to apply to all banking organizations with $100 billion or more in total assets
  - Require usage of the standardized approach to counterparty credit risk to calculate derivatives exposures
  - Retain other aspects of the current leverage ratio, supplementary leverage ratio, and enhanced supplementary leverage ratio requirements
  - Does not respond to concerns that the leverage ratio requirements impose punitive disincentives to holding central bank reserves and government securities

Credit Risk Capital Requirements

Market Risk Capital Requirements

Increased Market Risk Capital Requirement

- Currently, certain banking organizations calculate an amount of assets against which they must hold capital for the market risk of their trading activities
  - A banking organization is subject to the market risk capital requirement if its aggregate trading assets and trading liabilities equal to (i) 10% or more of total assets or (ii) $1 billion or more
  - Market risk consists of general and specific market risk, and currently is calculated as the sum of the value-at-risk ("VaR")–based capital requirement, stressed VaR–based capital requirement, specific risk add-ons, incremental risk capital requirement, comprehensive risk capital requirement, and capital requirement for de minimis exposures
- Proposal would increase the market risk capital requirement
  - Raise $1 billion threshold to $5 billion, but apply requirement to all banking organizations with total assets of $100 billion or more
  - New, more prescriptive framework for segregating banking book from trading book
  - Restrict use of internal models for risks that are "too hard" to model and impose a standardized approach to be used when internal modeling is not feasible
  - Requiring modeling of risk at the level of individual trading desks for particular asset classes, instead of at the organization level
  - Does not address the duplicative interaction between the market risk capital requirements and the global market shock component of the Federal Reserve's stress capital buffer requirement

Banking Book/Trading Book Boundary

- New mandatory assignment rules for market risk include:
  - A trading asset or trading liability that is a position that is held for the purpose of regular dealing or making a market in securities or in other instruments and that is free of any restrictive covenants on its tradability or where the banking organization is able to hedge the material risk elements of the position in a two-way market
  - A publicly traded equity position or an equity position in an investment fund that is not expressly excluded from being a market risk covered position
  - A net short risk position of $20 million or more
  - An embedded derivative on instruments that the banking organization issued that relates to credit or equity risk that it bifurcates for accounting purposes
  - The trading desk segment of an eligible internal risk transfer of credit risk, interest rate risk, or CVA risk
  - A position arising from a transaction between a trading desk and an external party conducted as part of an internal risk transfer
  - The CVA segment of an internal risk transfer or CVA hedge with an external party that is not an eligible CVA hedge
- Switching between books would be strictly limited, potentially penalized, and irrevocable
  - A capital benefit, as a result of switching, will not be allowed in any case or circumstance

Operational Risk Capital Requirements

Expanded Operational Risk Capital Requirement

- Currently, only banking organizations that use the Advanced Approaches for credit risk are required to calculate an amount of assets against which they must hold capital for the operational risk of their activities
  - Operational risk means the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events
  - Capital charge is calculated using internal estimates of a banking organization's operational risks
- Proposal would replace the internal estimate of operational risk with a standardized measure
  - *"Are all revenues equally bad, really? … what person in what ivory tower thinks that that is a rational thing to do…"* - Jamie Dimon
  - The measure's internal loss modifier would be based on a banking organization's historical losses (i.e., through capturing of operational risk loss data over a 10-year horizon)
  - Retains antiquated international definition of "operational risk"
  - Operational risk capital charge may be included in determining stress capital buffer requirement (potential duplication of risk)

Expanded Operational Risk Capital Requirement
(cont'd)

- Component for services-related income/expenses would not be capped, exacerbating effect on fee-dependent banking organizations
  - Includes items such as income from loan servicing assets, custody/safekeeping services, issuing letters of credit, investment banking and securities brokerage, insurance activities, and annual and interchange-related fees for credit cards
  - May see significant operational risk capital charges, exceeding 20% of current risk-weighted assets for some organizations
- By generally setting the internal loss multiplier based on a banking organization's unique operational loss experience (and with a floor of 1), the Proposal would introduce the potential for greater variability in operational risk capital charges
  - Stricter than required by Basel Committee

Credit Valuation Adjustment Risk Capital Requirements

Revised Credit Valuation Adjustment Provisions

- Currently, credit risk approaches include provisions for quantifying capital charge for credit valuation adjustment (CVA) risk
  - CVA risk means the possibility of losses arising from changing instrument values in response to changes in counterparty credit spreads and market risk factors that drive prices of derivative transactions and securities financing transactions
- Proposal would extract the CVA-related provisions into a standalone risk-based capital calculation
  - Only would apply capital requirements to derivatives transactions
  - Use standardized approaches for calculating risk-based capital requirements
  - Require banking organizations to implement identification, documentation, and other operational controls

Long-Term Debt Requirement

Long-Term Debt Proposal

- Currently, only the 8 US G-SIBs and IHCs that are controlled by a global systemically important FBO are required to maintain an amount of outstanding eligible long-term (LTD) debt
  - LTD requirement is based on a percentage of risk-weighted assets or total leverage exposure
  - For US G-SIBs, LTD requirement is the greater of: 6% of RWAs plus G-SIB surcharge and 4.5% of total leverage
  - Intended for use in bail-in situations to mitigate effect of failure (too big to fail)
  - Applies only to holding company
- Related requirements
  - Clean holding company restrictions
  - Total loss absorbing capacity requirements and buffer
  - Limits on distributions and discretionary bonus payments
- Capital and G-SIB proposals did not contain an eligible LTD requirement

Long-Term Debt Proposal *(cont'd)*

- LTD proposal was released August 30, 2023
  - Affects most banking organizations with $100 billion or more in total assets
  - Includes a new minimum denomination criteria ($400,000), but grandfathers existing instruments
  - Will apply separately to holding company and insured depository institution, including those of non-US G-SIBs
  - Includes slightly modified clean holding company restrictions
- Regional banks expected to need an additional **$70 billion** in LTD to satisfy new requirement
  - Mayer Brown has worked with regional banks to pre-qualify LTD to satisfy requirement (except for minimum denomination criteria)
- Next steps:
  - Consider pre-qualifying any new debt as eligible LTD under the proposal
  - Analyze strategies for satisfying LTD requirement for insured depository institution (and if necessary, holding company)
  - Assess impact of clean holding company restrictions
  - Identify holdings of third-party LTD that will be subject to capital deduction

Other Proposed Changes

Other Changes

- Proposal would make technical changes to G-SIB surcharge framework
  - Measure some indicators on an average basis over the full year instead of year-end
  - Reduce "cliff effects" in the G-SIB surcharge by measuring G-SIB surcharges in 10-basis point increments instead of the current 50-basis point increments
  - Requests comment on shortening "lag" for compliance with changes in G-SIB surcharge
- Revising the systemic indicators for cross-jurisdictional claims and cross-jurisdictional liabilities would greatly increase indicator scores for some banking organizations
  - Seven FBOs and two US IHCs would move to Category II from Categories III or IV
- Would not adjust the way in which the G-SIB surcharge applies to holdings of central bank reserves and government securities
- Would not incorporate Basel Committee framework for cryptoasset exposures or Basel Committee guidance on climate-related financial risks

Other Changes *(cont'd)*

- Limit the extent to which a banking organization could use internal models for market risk to reduce its capital requirements by imposing an output floor of 72.5%
- Introduce enhanced disclosure requirements and align regulatory reporting requirements with the changes to capital requirements
- Revise the calculation of single-counterparty credit limits by removing the option of using a banking organization's internal models to calculate derivatives exposure amounts and requiring the use of SA-CCR for this purpose
- Proposal requests comment on whether the capital rules should explicitly require banking organizations to perform due diligence to determine whether the minimum regulatory capital requirements for certain exposures sufficiently account for their potential credit risk
- Countercyclical capital buffer is an add-on to the risk-based capital requirements that apply to banking organizations that are subject to the Advanced Approaches or are Category III banking organizations
  - Currently, it is set to 0% in the United States and would be increased when the economy is performing well and growing rapidly
- Proposal would apply the countercyclical capital buffer to Category IV banking organizations, thereby making it applicable to all banking organizations with $100 billion or more in total assets

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Keynote Address and Q&A with Jonathan McKernan, Director of the FDIC Board of Directors

Jonathan McKernan
Director
FDIC Board of Directors

Jonathan McKernan was sworn in as a member of the Board of Directors of the Federal Deposit Insurance Corporation on January 5, 2023. Mr. McKernan previously was a Counsel to Ranking Member Pat Toomey (R-PA) on the staff of the Senate Committee on Banking, Housing, and Urban Affairs from 2021 to 2022. He also has served as a Senior Counsel at the Federal Housing Finance Agency from 2019 to 2021, a Senior Policy Advisor at the Department of the Treasury from 2018 to 2019, and a Senior Financial Policy Advisor to Senator Bob Corker (R-TN) from 2017 to 2018.

Prior to his government service, from 2007 to 2017, Mr. McKernan was an attorney in private practice focused on matters under the banking and consumer financial laws.

Mr. McKernan holds a Bachelor of Arts and Master of Arts in economics from the University of Tennessee and a Juris Doctor with High Honors from the Duke University School of Law.

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Transition/Phase In

- Capital proposal generally would take effect on July 1, 2025
- Category III and IV banking organizations would be given a three-year phase-in period to comply with the elimination of the AOCI opt-out, ending on June 30, 2028
- All banking organizations would be given three years to phase-in compliance with the changes to the credit, market, operational, and CVA capital requirements
  - Accelerated with 80% recognition in first year
- Changes to the G-SIB surcharge and calculation methodology would take effect two calendar quarters after a final rule is adopted
  - Would allow mixing of data or pro rata approach for elements of methodology that changed
- **Banking organizations are likely to begin conforming behavior to the proposal before a final rule is issued**

Basel Endgame

- Banking organizations are likely to adjust their activities to favor those with lower capital charges and either exit those with higher capital charges or pass increased pricing through to consumers and counterparties
  - May create opportunities for smaller banking organizations to lend to new customers or at higher rates
- Some banking organizations will need to engage in capital markets activity (e.g., fundraising, M&A)
  - Smaller banking organizations may become more attractive merger partners for banking organizations that need to "bulk up" to achieve economies of scale
- Larger banking organizations often provide certain products and services to smaller banking organizations (e.g., derivatives, credit card processing), and may pass on increased costs of capital and compliance
- Smaller banking organizations (sub-$100 billion) will need to understand and apply the revisions to the market risk capital requirements

Basel Endgame and Regional Banks

- Category III and IV banking organizations will see:
  - Material decreases in capital from AOCI inclusion
  - Redocumentation of intra-group agreements or push-down of holding company operations to subsidiaries due to clean holding company requirement
  - Increased need to restructure capital allocation and agreements between holding company and its subsidiary bank
  - Increased operational complexity from calculating market risk and CVA capital requirements (even if the economic impact is minimal)
  - Increased capital charge for operational risk requirements
  - Increased tracking and quantification capabilities for operational risk requirements

Basel Endgame and Consumers

- Credit card operations will see:
  - Increased operational complexity for assigning risk weights to credit cards (e.g., tracking transactors)
  - Increased operational complexity for assigning amounts to charge cards and other non-limit products
  - Increased capital charge for unused portion of credit card limits
  - Need to track corporate customer defaults in other parts of the bank (and potentially), with other creditors
  - Redocumentation of intra-group agreements or push-down of holding company operations to subsidiaries due to clean holding company requirement
- Auto and residential real estate lenders will see:
  - Continued non-recognition of risk-mitigating effect of liens on autos
  - Increased operational complexity for assigning risk weights to real estate (e.g., tracking LTV)
  - Increased capital charge for unused portion of commitments, including certain warehouse facilities and similar lines (e.g., floorplan lending); related operational complexity
  - Need to track corporate customer defaults in other parts of the bank (and potentially), with other creditors

Basel Endgame and Mortgages

- Proposal "gold plates" risk weights for residential real estate, further discouraging participation by banking organizations
  - Continued non-recognition of private mortgage insurance
- Proposal will require banking organizations to hold capital against unused portion of certain warehouse facilities
- Proposal assigns overly punitive fallback risk weights to "other" real estate exposures
- Proposal inappropriately risk weights income/gains from mortgage-related activities (e.g., servicing)
- Universal cross default provision is punitive to diversified owners of CRE
  - Proposal asks if universal cross default should be applied to parent companies, which would negatively affect CRE SPVs
- Proposal would alter the requirements for banking organization exposures to public equities and the equity of investment funds, including presumably, REITs, as well as traded MBS
- Proposal further restricts investments by banking organizations in mortgage servicing assets
- No grandfathering for existing loans

Basel Endgame and CRE

- Proposal would assign a risk weight of 150% to all non-residential real estate that does not qualify for another risk weight
  - Basel Committee indicated that the appropriate risk weight for non-rental "other" real estate is 85% for small and medium sized businesses and the "look-through" risk weight for rental exposures
- Proposal does not include "loan splitting" option
  - Basel Committee authorizes jurisdictions to adopt a loan splitting option where CRE would receive a risk weight of 60% or the risk weight of the counterparty, whichever is lower, for the part of the exposure up to 55% of the property value, and the risk weight of the counterparty is applied to the residual exposure
- Universal cross default provision is punitive to diversified owners of CRE
  - Proposal asks if universal cross default should be applied to parent companies, which would negatively affect CRE SPVs
- Proposal would alter the requirements for banking organization exposures to public equities and the equity of investment funds, including presumably, REITs
- No grandfathering for existing loans

Basel Endgame and Asset Management

- Asset management operations will see:
  - Higher cost of capital from operational risk capital charge on most fee-based activities
  - Higher cost/worse pricing when purchasing or selling securities with bank-affiliated broker-dealers
  - Higher cost of capital when trading for bank’s own account
  - Greater emphasis on tracking trading intent and mapping trading desk activities
  - Greater complexity in making accommodation loans to wealth management clients
  - Increased issuance of bank equity and subordinated debt (potentially crowding other issuers)

Basel Endgame and IHCs

- IHCs will see:
  - Material decreases in capital from AOCI inclusion
  - Increased need to restructure capital allocation and agreements between holding company and its subsidiary bank
  - Increased capital charge from non-modelled market risk requirements
  - Increased capital charge for operational and CVA risk requirements
  - Increased tracking and quantification capabilities for operational risk requirements and loss events

Basel Endgame and FBOs

- Affected US IHCs of FBOs will be expected to hold significantly more capital for market risk
- Affected US IHCs of FBOs will be expected to calculate and hold capital for operational risk
- Highly punitive impact on minority equity holdings of US IHCs
- US operations of smaller FBOs will need to track expanded universe of exposures subject to market risk capital requirements
  - Greater likelihood of US operations of a smaller FBO becoming subject to market risk capital requirements under 10% test
- Potentially greater incentive to move assets into branches and redomicile unnecessary US subsidiaries
- Potentially less competitive US banking organizations in foreign markets

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