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## Americas' FS Regulatory CoE

### Regulatory Alert:

## Federal Reserve Board Approves Final Rule Establishing Enhanced Prudential Standards for Bank Holding Companies and Foreign Banking Organizations with More Than \$50 Billion in Total Consolidated Assets

On February 18, 2014, the Board of Governors of the Federal Reserve System (Federal Reserve Board) approved a final rule that establishes enhanced prudential standards for U.S. bank holding companies (BHCs) and foreign banking organizations (FBOs) with total global consolidated assets of more than \$50 billion. Nonbank financial companies deemed systemically important by the Financial Stability Oversight Council (Council) and supervised by the Federal Reserve Board are not covered by the final rule though in the preamble the Federal Reserve Board states it will apply enhanced prudential standards to individual nonbank financial companies by rule or order.

The final rule implements portions of Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) related to: risk-based and leverage capital requirements; liquidity standards; overall risk management, including risk committees; stress testing requirements; and a debt-to-equity ratio for BHCs that the Council has determined pose a grave threat to financial stability. Provisions governing single counterparty credit limits (SCCL) and early remediation (required under Section 166 of the Dodd-Frank Act) were not included in the final rule but are expected to be released separately. The final rule also imposes risk committee and stress testing requirements on certain U.S. BHCs and FBOs with total consolidated assets of \$10 billion or more. As finalized, the rule is substantially similar to the proposal previously released in December 2011.

With regard to FBOs, the final rule generally follows the Section 165 requirements as proposed in December 2012, except the assets threshold applicable to the supplemental enhanced standard that requires FBOs to form an intermediate holding company (IHC) in the United States has been raised to \$50 billion or more in non-branch U.S. assets. In addition: IHCs will be subject only to the standardized

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approach and will not have to apply the advanced approaches risk-based rules; and the liquidity buffer required of U.S. branches is reduced from 30 days to 14 days.

Notably, the rule becomes effective June 1, 2014. BHCs will be required to comply with the final rule requirements beginning January 1, 2015. FBOs will be expected to comply beginning July 1, 2016, and FBOs that have \$50 billion or more in non-branch U.S. assets as of June 30, 2014 will be required to submit an implementation plan by January 1, 2015 outlining their proposed process to comply with the final rule. An FBO's U.S. IHC will generally have until January 1, 2018 to comply with the leverage capital requirements.

The Federal Reserve Board staff estimates that 24 U.S. BHCs and approximately 100 FBOs will be impacted by the final rule, and as many as 20 FBOs will meet the IHC requirement.

A link to the staff memo to the Board of Governors regarding the proposed Final Rules is provided [here](#).



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