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TURNING THE CORNER

PERSPECTIVES ON THE FINAL US TAILORING AND RESOLUTION PLAN RULES

MARSH GUY CARPENTER MERCER OLIVER WYMAN

MARSH & McLENNAN COMPANIES

CONTENTS

EXECUTIVE SUMMARY

The Federal Reserve recently finalized rules to tailor Enhanced Prudential Standards for domestic and foreign banking organizations, as well as the applicability thresholds for US Basel III capital and liquidity requirements. Concurrent with this release, the Federal Reserve finalized a revised final rule for US resolution planning under Section 165(d) of the Dodd Frank Act. Collectively, these rules implement changes required by statute under the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA).

The revised framework generally maintains the existing regulatory requirements for the 8 largest and most complex US banking organizations (the US Global Systematically Important Banks or US GSIBs), and provides significant regulatory relief to smaller and less complex banking organizations not designated as US GSIBs (including foreign banks). The framework also provides significant headroom for smaller and less complex banking organizations to pursue organic and inorganic growth as well as immediate capital and liquidity relief for select institutions. We anticipate renewed interest in pursuing thoughtful M&A opportunities[1] to benefit from scale advantages, when and where valuations are appropriate.

Those with less stringent capital and liquidity requirements under the new rules will benefit from excess capital that can potentially be redeployed or distributed to investors and excess liquidity that can be potentially allocated to higher yielding assets with associated benefits to net interest margin. Affected institutions should be careful to evaluate such responses in light of investor and ratings agency expectations, particularly those actions that could be viewed as credit negative. Smaller and less complex banks will also generally benefit from a reduced burden arising from the easing of other regulatory requirements including stress testing, liquidity reporting and resolution planning.

In response to these final rules, banks should conduct (or refresh, since rules remain largely unchanged from proposals) an impact assessment of their final categorization and associated impact on their institution's regulatory requirements. Those banks benefiting from capital and liquidity relief should develop and evaluate strategies for the deployment of excess financial resources under the new rules. Banks should also compare existing capabilities (e.g., stress testing, reporting, resolution planning) with requirements set forth, so banks can tactically tailor and redeploy excess resources to other, more pressing needs. We do anticipate, however, that many banks receiving some operational relief from requirements will choose to continue to adhere to higher standards already in place in order to create headroom for growth into higher categories and demonstrate general prudence in risk management.

1 Please see our paper on this topic titled "The Coming Wave of Consolidation of US Regional Banking: Reasons for Skepticism"

Going forward, regulatory requirements for US banking organizations will be driven by asset size as well as other risk-based measures including cross jurisdictional activity, nonbank assets, off-balance sheet exposure and short-term wholesale funding. The tailored rules provide significant relief to the majority of smaller and less complex domestic and foreign banking organizations, as described below:

- **Capital requirements:** No US BHC (except US GSIBs and Northern Trust) or FBO will be required to utilize advanced approaches for risk-based capital; these institutions can also opt out of AOCI adjustments which will generally reduce the overall capital requirements for these firms. The Federal Reserve expects the final rule to lower capital requirements by about $8 BN and $3.5 BN for domestic and foreign banking organizations, respectively, or about 60 basis points of total risk-weighted assets for these banking organizations
- **Liquidity requirements:** LCR and proposed NSFR requirements have been revised down for all but the largest and most complex banks. Banks with less than $100 BN in assets will no longer be subject to standardized liquidity requirements. The Federal Reserve estimates that, under the final rule, total HQLA requirements would decrease by $48 BN and $5 BN for domestic and foreign banking organizations, respectively. The decrease would represent about a 2 percent reduction in the liquidity requirements for both domestic and foreign banking organizations with greater than $100 BN in assets
- **Stress testing:** While banks with $100 BN or more in assets are required to submit capital plans annually, company run stress tests are no longer required for banks with $100–250 BN in assets; supervisory stress tests will continue albeit at a reduced frequency
- **Resolution planning:** Fewer firms are required to submit plans, with those that still do benefiting from a significant reduction in scope and frequency for most banks. US GSIBs will benefit from a less onerous biennial submission cycle, but (along with select FBOs) will still be subject to enhanced guidance that was communicated to these institutions in previous cycles

With the post-crisis regulatory framework largely finalized, banks are now in a better position to focus on growth (organic and inorganic) and Financial Resource Management within these constraints, under a regulatory regime that is likely to be stable for some time.

1. WHAT'S CHANGED?

The Federal Reserve recently finalized rules to tailor enhanced prudential standards for domestic and foreign banking organizations, as well as the applicability thresholds for US Basel III capital and liquidity requirements. Concurrent with this release, the Federal Reserve finalized a revised final rule for US resolution planning under Section 165(d) of the Dodd Frank Act. Collectively, these rules implement changes required by statute under the Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA) passed by Congress in May 2018. The EGRRCPA raised the statutory threshold for enhanced prudential standards from $50 BN to $250 BN in total assets and granted the Federal Reserve authority to tailor requirements and discretion to impose requirements for banking organizations above $100 BN in total assets.

The final rules represent a consolidation of rules that were proposed earlier in 2018 and 2019 and represent an alignment across both the domestic and foreign proposals, leveraging a common risk-based categorization for the purposes of tailoring enhanced prudential standards, capital and liquidity requirements, and resolution planning requirements.

Exhibit 1: The Proposed and Final US Tailoring and Resolution Planning Rules

REGULATORY OBJECTIVE	AGENCIES	PROPOSED RULES	FINAL RULES
Tailor thresholds for the application of minimum capital and liquidity requirements under the US implementation of Basel III	OCC, FDIC, and FRB	October 31, 2018 Proposed Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements April 8, 2019 Proposed changes to applicability thresholds for regulatory capital requirements for certain US subsidiaries of FBOs and application of liquidity requirements to foreign banking organizations	October 10, 2019 Changes to applicability thresholds for regulatory capital and liquidity requirements ✓
Tailor enhanced prudential standards, inclusive of stress testing and additional risk management requirements	FRB only	October 31, 2018 Prudential Standards for Large Foreign Banking Organizations April 8, 2019 Prudential Standards for Large Foreign Banking Organizations; Revisions to Proposed Prudential Standards for Large Domestic Bank Holding Companies and Savings and Loan Holding Companies	October 10, 2019 Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations ✓
Introduce multi-year resolution planning cycle and tailor requirements based on the risk that failure presents to US financial stability	FRB and FDIC	April 8, 2019 Resolution Plans Required (Proposed)	October 10, 2019 Resolution Plans Required (Final) ✓

Final approved rule ✓

Source Oliver Wyman, Federal Reserve

2. STRATEGIC IMPLICATIONS AND RECOMMENDATIONS

While the revised framework largely maintains the majority of regulatory requirements for the largest, most complex and interconnected banks, the tailored rules provide significant relief to non-US GSIBs (including foreign banks).

Below are some strategic implications and recommendations for affected banking organizations:

- Those banks with less stringent capital and liquidity requirements under the new rules will benefit from excess capital that can potentially be redeployed or distributed to investors and excess liquidity that can be potentially allocated to higher yielding assets with associated benefits to net interest margin. Affected institutions should be careful to evaluate such responses considering investor and ratings agency expectations, particularly those actions that could be viewed as credit negative. Banks should also factor in expectations around the economic cycle, as it may be advantageous to retain some of the excess capital and liquidity in anticipation of deteriorating economic conditions
- Banks with inorganic or organic growth aspirations should assess their headroom for growth and the impact that any potential M&A activity or balance sheet growth might have in terms of their categorization and associated requirements. We believe that there is significant growth and M&A potential for most smaller and less complex banks, as there is significant headroom for most institutions before they hit higher thresholds with material incremental requirements. Moreover, there are scale benefits to growing within a category and political conditions are currently supportive of growth. We do think banks should be thoughtful as they pursue inorganic opportunities as we have argued previously[2] , given the poor track record acquisitions have had for creating lasting shareholder value and given relatively high current valuations
- Firms receiving relief in terms of risk management and reporting requirements should be careful as they evaluate whether to stop doing certain activities. In particular, banks that already have developed capabilities that are no longer required, may consider keeping them in place in anticipation of growth and to demonstrate prudence to regulators and the investor community
- Resolution planning needs will shift to business-as-usual; smaller firms will need to evaluate implications of lower resource needs; larger firms will need to industrialize their existing resolution planning capabilities and plan submission infrastructure
- Banks that do not want to grow and that are near the $100 or $50 BN thresholds have a choice to make around whether to operate within their existing category or attempt to reduce the scale of activities to move to a lower level. Given an environment that favors scale, we anticipate that few institutions will choose the latter path
- Few select banks may be subject to a higher standard for reporting based on their risk–based categories; these firms should start developing these operational capabilities to be compliant going forward

2 Please see our paper on this topic titled "The Coming Wave of Consolidation of US Regional Banking: Reasons for Skepticism"

3. HOW SHOULD BANKS RESPOND?

In immediate response to these final rules, banks should conduct (or refresh, since rules remain largely unchanged from proposals) an impact assessment of their final categorization and associated impact on their institution's regulatory requirements.

Three possible outcomes are possible:

- Banks with excess financial resources in the new regime should re-evaluate their financial resource optimization strategy and identify ways to redeploy excess liquidity and capital
- Banks with reduced operational burden (stress testing, reporting, resolution planning) should consider optimizing excess resource capacity
- Banks with incremental operational burden (stress testing, reporting, resolution planning) should start developing those capabilities to be compliant by the final rules effective date

Banks should also think about their growth aspirations (both organic and inorganic) given the considerable headroom for growth many institutions have under the new framework.

With the post-crisis regulatory framework largely finalized, all banks should formulate or re-evaluate their overall Financial Resource Management strategy within the new regulatory framework, given the regime is likely to be stable for some time. This is likely to require more substantial upgrades to bank decision making infrastructure, including planning and forecasting capabilities, which we will discuss separately in another paper.

4. SUMMARY OF THE FINAL US TAILORING AND RESOLUTION PLAN RULES

4.1. RISK BASED CATEGORIZATION OF BANKING ORGANIZATIONS

The final rules establish four risk-based categories for determining the applicability and stringency of prudential standards. The four categories were adopted generally as proposed and have been aligned to be consistent across both foreign and domestic banking organizations.

Risk-based indicators used to determine bank categories include asset size, cross-jurisdictional activity, nonbank assets, weighted short-term wholesale funding (wSTWF), and off-balance sheet exposure. While asset size and cross-jurisdictional activity were general measures used to determine applicability of regulatory requirements in the past, the final rule includes additional risk-based indicators that drive the overall complexity and interconnectedness of banking organizations. A relatively high threshold of $75 BN has been set for all risk-based indicators other than asset size.

Exhibit 2: Banking organizations, risk-based categories, and associated criteria

BANKING ORGANIZATION MEANS…

INSTITUTION	TOTAL ASSET MEASURE
US Bank Holding Company (BHC)	Total consolidated assets of the BHC or IHC
US Intermediate Holding Company (IHC)	
Foreign Banking Organization (FBO)	Total combined US assets (i.e. CUSO perimeter)

RISK-BASED CATEGORIES FOR BANKING ORGANIZATIONS…

CATEGORY	CRITERIA
Category I	US GSIBs and their depository institution subsidiaries
Category II	Is not a US GSIB **and** has ≥ $100 BN in total assets **and** has: • ≥ $700 BN in **total assets**, **or** • ≥ $75 BN in **cross-jurisdictional activity**
Category III	Is not a Category I or II banking organization **and** has ≥ $100 BN in total assets **and** has: • ≥ $250 BN in **total assets**, **or** • ≥ $75 BN in **nonbank assets**, **or** • ≥ $75 BN in **weighted short-term wholesale funding**, **or** • ≥ $75 BN in **off balance sheet exposure**
Category IV	Is not Category I, II, or III **and** has ≥ $100 BN in **total assets**

Legend: Risk-based indicators

Source Oliver Wyman, Federal Reserve rulemaking

Risk-based categories for domestic banking organizations will be determined using publicly filed information for the Bank Holding Company (BHC). Foreign Banking Organizations will be categorized both based on risk indicators measured at the aggregate Intermediate Holding Company (IHC) level and for Consolidated US Operations (for select liquidity and resolution planning requirements). Amendments to existing reports filed to the Federal Reserve, particularly the FR Y-15, will be required by both domestic and foreign banking organizations to measure the indicators that will be used in this new framework.

Risk-based indicators will be measured as averages over the trailing four quarters (or using last quarter if other data is not available). Threshold levels will not be indexed and will remain fixed unless changed by the Agencies through rulemaking or statute.

Exhibit 3: Risk-based indicators and their measurement

RISK-BASED INDICATOR	MEASUREMENT FOR BHCs AND IHCs	MEASUREMENT FOR FBOs
Asset Size	• Total consolidated assets as reported on FR Y-9C	• Total combined US assets of each top-tier US FBO subsidiary and total assets of each US branch and US agency, as reported by the FBO on FR Y-15 or FR Y-7Q
Cross Jurisdictional Activity	• Cross jurisdictional activity as reported on the amended FR Y-15 (includes both assets and liabilities but will exclude inter-affiliate liabilities and certain collateralized inter-affiliate claims)	• Same (requires FBOs to amend form FR Y-15 to provide data based on the CUSO perimeter)
Nonbank Activity	• Total nonbank assets as reported on the FR Y-9LP	• Total nonbank assets in the CUSO perimeter which include: – Sum of total nonbank assets of any IHCs reported on FR Y-9LP – Assets of FBOs nonbank US subsidiaries excluding any IHCs – FBOs equity investments in unconsolidated US subsidiaries excluding equity investments in any section 2(h)(2) company – Less assets of any section 2(h)(2) company
Weightedshort-term Wholesale Funding	• Weighted short-term wholesale funding, as calculated and reported on the amended FR Y-15	• Same (requires FBOs to amend form FR Y-15 to provide data based on the CUSO perimeter)
Off-balance Sheet Exposure	• Total exposure as reported on the FR Y-15 less total consolidated assets as reported on FR Y-9C	• Total exposure of combined U.S. operations as reported on the amended FR Y-15 less total combined U.S. assets, as reported by the FBO on the amended FR Y-15 or FR Y-7Q

Source Oliver Wyman, Federal Reserve rulemaking

In addition to creating four risk-based categories for banking organizations, the Federal Reserve and FDIC also introduced three new resolution plan filing categories that are generally aligned to the same categories described above. This new resolution planning framework reflects raises in thresholds for resolution planning required by EGRRCPA. Banking organizations with $250 BN or more in total assets no longer need to file resolution plans, unless the parent is an FBO with $250 BN or more in total global consolidated assets.

Exhibit 4: Resolution Plan filing categories

RESOLUTION PLAN FILING CATEGORIES AND REQUIREMENTS		BANKING ORGANIZATIONS IN SCOPE
Biennial Filers	**Two year submission cycle**, alternating between full and targeted plans	• **Category I banking organizations (i.e. US GSIBs)**
Triennial Full Filers	**Three year submission cycle**, alternating between full and targeted plans	• **Category II and III banking organizations**
Triennial Reduced Filers	**Three year submission cycle**, with obligation to file a reduced plan	• **Select FBOs with ≥ $250 BN in global consolidated assets, given statutory requirement**
Firms no Longer Covered	US resolution plans **no longer required**	• **Category IV banking organizations** • **Domestic banking organizations with $50–100 BN in assets previously covered prior to EGRRCPA** • **Foreign banking organizations with $50–100 BN in assets except those with ≥ $250 BN in global consolidated assets**

Source Oliver Wyman, Federal Reserve rulemaking

4.2. PROJECTED CATEGORIZATION AND ASSOCIATED OBSERVATIONS

The Federal Reserve determined the projected banking organization categories using data from 2019 Q1, utilizing conservative assumptions where data was incomplete in public reporting. Based on the categorization, all domestic banking organizations, excluding US GSIBs and Northern Trust would be categorized as Category III or lower. While the same observation also applies to FBO IHCs, Combined US Operations of four FBOs meet the criteria for Category II.

Exhibit 5: Projected risk-based categorization by institution

	BANKING ORGANIZATION	CATEGORY I US GSIBs	CATEGORY II ≥ \$700 BN Total Assets or ≥ \$75 BN in cross-Jurisdictional Activity	CATEGORY III ≥ \$250BN Total Assets or ≥ \$75 BN in NBA, wSTWF, or Off-B/S exposure	CATEGORY IV Other firms with \$100 BN to \$250 BN Total Assets	OTHER FIRMS Other firms with \$50 BN to \$100 BN in Total Assets
DOMESTIC	US BANK HOLDING COMPANY (BHC)	Bank of America BNYM Citigroup Goldman Sachs JP Morgan Chase Morgan Stanley State Street Wells Fargo	Northern Trust	Capital One Charles Schwab PNC Financial U.S. Bancorp	Ally Financial American Express BB&T Corp. Citizens Financial Discover Fifth Third Huntington KeyCorp M&T Bank Regions Financial SunTrust Inc. Synchrony Financial	Comerica Inc. CIT Group Inc. E*TRADE Financial NYCBC Silicon Valley Bank
FOREIGN	US INTERMEDIATE HOLDING COMPANY (IHC)			Barclays Credit Suisse Deutsche Bank HSBC Toronto-Dominion UBS	Bank of Montreal BNP Paribas MUFG RBC Santander	BBVA
FOREIGN	COMBINED US OPERATIONS (CUSO)		Barclays Credit Suisse Deutsche Bank MUFG	HSBC Mizuho RBC Toronto-Dominion UBS	Santander Bank of Nova Scotia Bank of Montreal BBVA BNP Paribas BPCE Société Générale Sumitomo Mitsu	CIBC Credit Agricole ICBC Norinchukin Rabobank

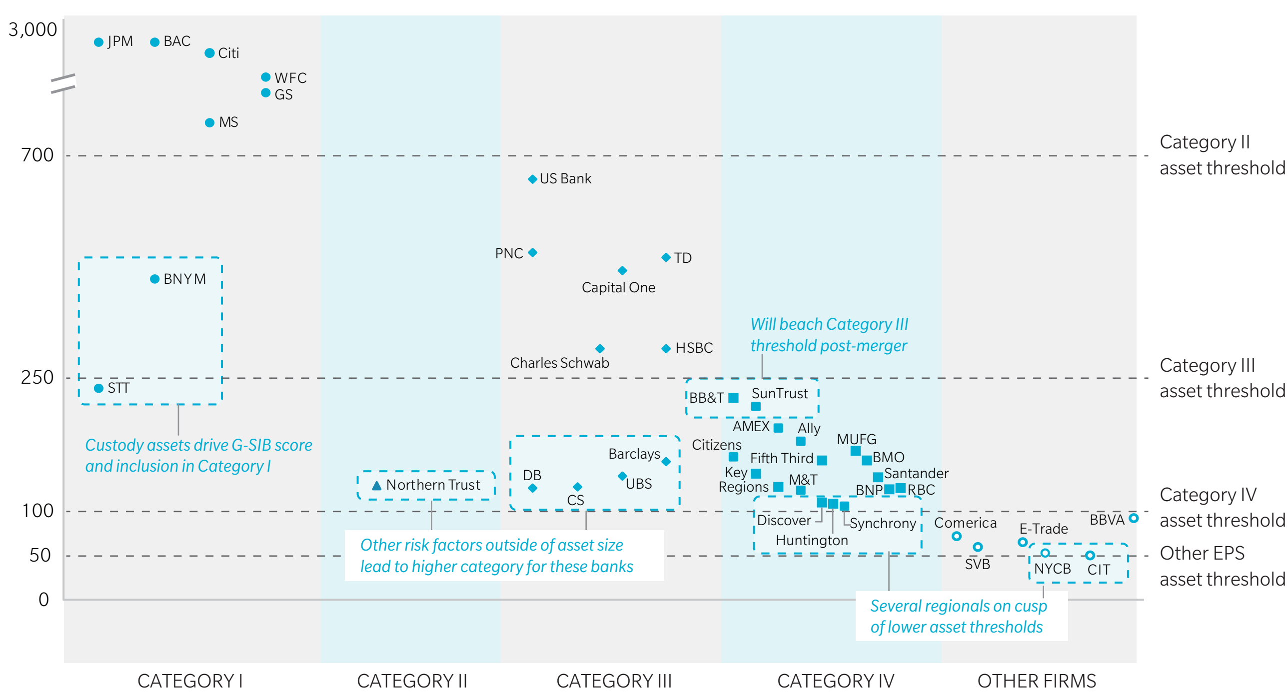
Source: Federal Reserve memo for draft final rules to tailor prudential standards for large banking organizations. Foreign Banking Organizations are separately categorized by IHC and CUSO. Analysis based on projected categories as reported by the Federal Reserve and based on data for Q1 2019 only. Actual categories would be based on 4-quarter averages. For certain measures for foreign banks, conservative assumptions were used by the Federal Reserve to estimate incomplete data

Based on analysis conducted by Oliver Wyman using 4-quarter average data, the majority of the banking organizations would fall under their respective categories solely based on the asset thresholds set by the Federal Reserve for each risk-based category. The exceptions include:

- State Street and Bank of New York Mellon, which are classified as Category I driven by the impact of the size of their custody assets on their GSIB score, despite their smaller on-balance sheet asset base
- Northern Trust, which is classified as Category II based on its cross jurisdictional activity, even though it remains below $700 BN in total consolidated on-balance sheet assets
- Barclays, Deutsche Bank, UBS and Credit Suisse, whose IHCs are classified as Category III primarily driven by the size of their nonbank assets; this is likely driven by large securities lending businesses that these firms have in the US

It must also be noted that several smaller regional banks in Category IV or lower are on the cusp of lower asset thresholds and will want to evaluate the relative merits of growing into their category or attempting to fall a level below. For the most part, we believe there is substantial headroom for most US Regional banks to grow and limited incentive to reduce scale given many banks have already implemented most requirements within their current level.

Exhibit 6: BHC and IHC asset size and associated risk-based categorization



Source: Oliver Wyman analysis

Note: Banking organizations and bank categories used as indicated in the Federal Reserve memo. Asset size based on last 4-quarter average as reported in FR Y-9C for Q2 2018–Q2 2019. Differentiation along the x-axis within category is used only for visualization purposes and carries no information component.

The Federal Reserve also published a list of projected institutions aligned to their resolution filing categories based on data for Q1 2019. The new framework has reduced the number of US filers from 23 to 12 and FBO filers from 86 to 62. Of the FBOs that must still submit, 53 represent smaller FBOs with reduced triennial filing requirements that most only submit given the global size of their consolidated parent company.

Exhibit 7: Federal Reserve projected resolution planning filing category by institution

BIENNIAL FILERS

8 US GSIBs
Bank of America
Bank of New York Mellon
Citigroup
Goldman Sachs
JP Morgan Chase
Morgan Stanley
State Street
Wells Fargo

TRIENNIAL FULL FILERS

5 Category II	*8 Category III*
Barclays	Capital One
Credit Suisse	HSBC
Deutsche Bank	Mizuho
MUFG	PNC Financial
Northern Trust	Royal Bank of Canada
	Toronto-Dominion
	UBS
	US Bancorp

TRIENNIAL REDUCED FILERS

53 FBOs with total global assets > $250 BN that are not already Category II or III

Agricultural Bank of China	Banco do Brasil	Bank of Montreal
Banco De Sabadell	Bank of Communications	BBVA Compass
Bank of China	Bayerische Landesbank	Caisse Federale
Bank of Nova Scotia	BPCE Group	China Merchants Bank
BNP Paribas	CCBC	Commonwealth Bank
CIBC	Commerzbank	DNB Bank
CITIC Group Corporation	Credit Agricole CIB	Hana Financial Group
Cooperative Rabobank	Erste Group Bank AG	Intesa Sanpaolo
DZ Bank	Industrial Bank of Korea	KBC Bank
ICBC	KB Financial Group	NACF
Itau Unibanco	Lloyds Banking Group	Norinchukin Bank
LBW	Nordea Group	SEB
National Australia Bank	Shinhan Bank	State Bank of India
OCBC	Standard Chartered Bank	Svenska Handelsbanken
Societe Generale	Sumitomo Mitsui Trust	United Overseas Bank
SMFG	UniCredit Bank	
Swedbank	Woori Bank	
Westpac	Banco Bradesco	
ANZ	Banco Santander	

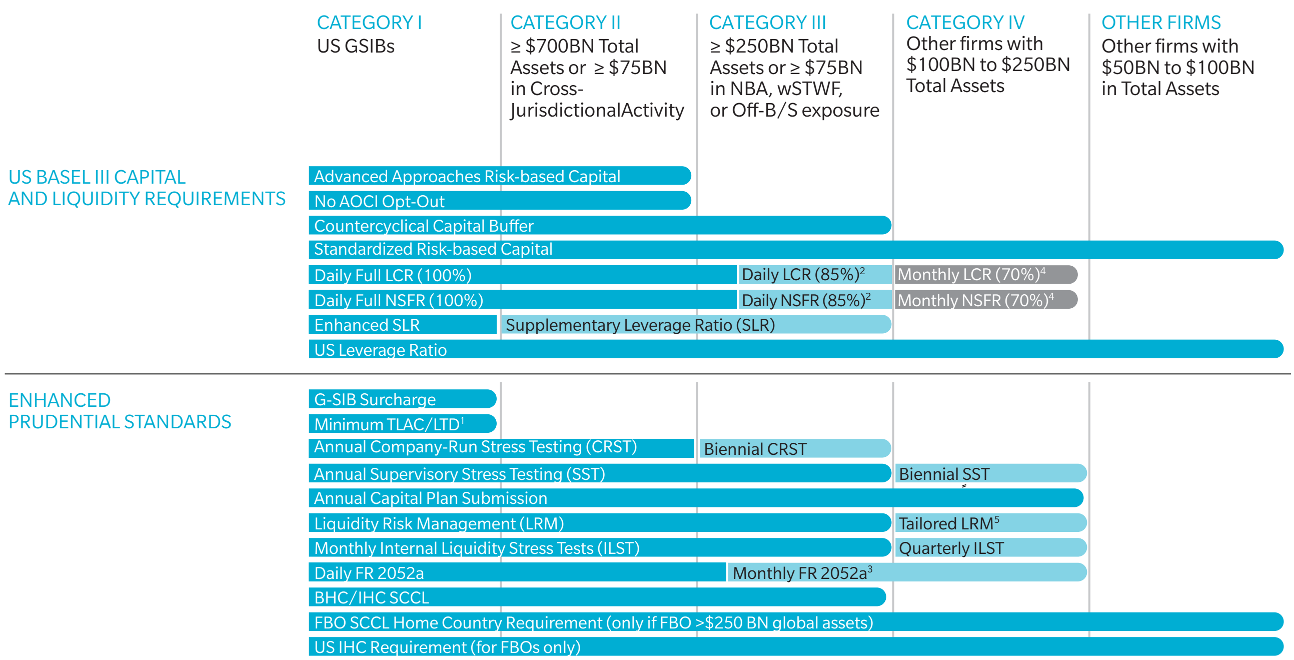
Source: Oliver Wyman analysis, Federal Reserve

4.3. APPLICABLE REQUIREMENTS UNDER THE RULES AND IMPACT

While the final requirements vary significantly by category, requirements for the top two categories remain largely unchanged. Banking organizations categorized as Category III or below benefit from significant reductions in liquidity and capital requirements:

- **Capital requirements:** Category III and below banks do not need to use advanced approaches for risk-based capital and can opt out of AOCI adjustments. The Federal Reserve estimated that several banks in Category III and IV which were previously required to be compliant with advanced approaches and could not opt out of AOCI adjustments, would benefit by $11.5 BN ($8 BN for US domestics and $3.5 BN for FBOs) or 60 basis points of risk-weighted assets in reduced capital requirements for these firms. Banks with reduced requirements under the final rules should evaluate the extent of the changes on their institution and evaluate options for deploying or redistributing any capital surplus. Banks should also carefully evaluate the impact of any capital actions on their ratings, as the rating agencies could view certain actions as credit negative
- **Liquidity requirements:** Category III banks with wSTWF below $75 BN will be held to a lower minimum LCR and NSFR (once finalized) threshold of 85%. Category IV banks will not need to comply with minimum LCR and NSFR requirements as long as they have less than $50 BN in wSTWF. And any Category IV banks that exceed this wSTWF threshold will benefit from a reduced LCR and NSFR threshold of 70%. The Federal Reserve estimated $53 BN ($48 BN for US domestics and $5 BN for FBOs) in reduced liquidity requirements for both domestic and foreign banking organizations with greater than $100 BN in assets, representing a 2% reduction in liquid assets from current levels. These firms, however, are still required to conduct their own liquidity stress tests which would likely drive their liquidity requirements as the binding constraint going forward
- **Stress testing:** While banks with $100 BN or more in assets are required to submit capital plans annually, company run stress tests are no longer required for banks with $100–250 BN in assets; supervisory stress tests will continue albeit at a reduced frequency

Exhibit 8: Applicable requirements under the Final US Tailoring Rules



Source: Oliver Wyman analysis, Federal Reserve rulemaking

1* TLAC and LTD rule applies to US GSIBs and to certain covered IHCs as defined in the final US TLAC rule. This rule may be further amended by regulators to adjust requirements for FBOs

2* Daily LCR and proposed NSFR requirements at reduced 85% level only applies to Category III banking organizations if weighted short term wholesale funding is < $75 BN, otherwise full daily LCR/NSFR applies

3* FR 2052a reporting requirement at reduced monthly frequency only applies to Category III banking organizations if weighted short term wholesale funding is < $75 BN, otherwise full daily reporting applies

4* Daily LCR and proposed NSFR requirements at reduced 70% level only applies to Category IV banking organizations if weighted short term wholesale funding is > $50 BN, otherwise no LCR/NSFR required

5* Reductions in scope related to tailored LRM requirements include monthly (vs. weekly) collateral position calculations and fewer required elements of monitoring intraday liquidity exposures

Note: Certain requirements for FBOs are determined by size of IHC, whereas other requirements are determined by the size of the FBO's Combined US Operations (CUSO). Capital and standardized liquidity standards are determined by the size of the IHC. NSFR is still a proposed rule and has not been finalized yet.

The following figure highlights the impact of the changes implemented by the final rules relative to the existing regulatory status quo. While the majority of changes result in less burden on banking organizations, there are a few select areas where changes result in increased requirements. Most notably, the final rule will increase the costs of compliance for US bank holding companies and FBO intermediate holding companies with less than $250 BN in total consolidated assets and less than $10 BN in foreign exposure, and that are subject to Category II or Category III standards, by extending the applicability of certain provisions like supplementary leverage ratio and the single-counterparty credit limits framework to these firms. FBOs will also have to produce amended regulatory reports that include information on risk indicators for both the IHC and CUSO perimeter.

Exhibit 9: Impact of final tailoring rules relative to pre-existing regulatory regime

	CATEGORY I: US GSIBS	CATEGORY II: ≥ $700 BN TOTAL ASSETS OR ≥ $75 BN IN CROSS-JURISDICTIONAL ACTIVITY	CATEGORY III: ≥ $250 BN TOTAL ASSETS OR ≥ $75 BN IN NBA, WSTWF, OR OFF-B/S EXPOSURE	CATEGORY IV: OTHER FIRMS WITH $100 BN TO $250 BN TOTAL ASSETS	OTHER FIRMS: OTHER FIRMS WITH $50 BN TO $100 BN IN TOTAL ASSETS
RISK-BASED CAPITAL	No change	Category II FBO IHCs that could previously opt-out of advanced approaches will now need to comply (Note: No banks meet the criteria above as of today)	Category III institutions with $250-700 BN in assets and >$10 BN in foreign exposure have changes in requirements • No advanced approaches • AOCI opt-out allowed • Countercyclical buffer requirements	No change	No change
LEVERAGE CAPITAL	No change	No change	Category III institutions with $100-250 BN in assets and <$10 BN in foreign exposure will be now required to maintain SLR (Note: No banks meet the criteria above as of today)	Category IV institutions with $100-250 BN in assets and >$10 BN in foreign exposure no longer need to maintain SLR	No change
STRESS TESTING	No mid-cycle company stress tests Qualitative objection retained temporarily	**No mid-cycle company stress tests** Qualitative objection retained temporarily	No mid-cycle company stress tests Reduced frequency for company run stress testing Qualitative objection retained temporarily	No mid-cycle company stress tests No company run stress testing Reduced frequency for supervisory stress testing Qualitative objection retained temporarily	No stress testing requirements for firms with <$100 BN in assets
LIQUIDITY COVERAGE RATIO (LCR)	No change	No change	Reduced LCR for institutions with less reliance on wSTWF vs. 100%	Reduced LCR for institutions with less reliance on wSTWF vs. 70% Maturity mismatch add-on	No LCR requirement vs. 70% previously for $50–100 BN firms
NET STABLE FUNDING RATIO (NSFR)	No change	No change	Reduced NSFR for institutions with less reliance on wSTWF vs. 100%	No NSFR for institutions with less reliance on wSTWF vs. 70%	No NSFR requirement vs. 70% previously for $50-100 BN firms
ILST AND LIQUIDITY RISK MANAGEMENT	No change to EPS rules for ILST and liquidity risk management Minor definitional changes for highly liquid assets for liquidity buffer • Highly liquid assets to include assets that would qualify as HQLA under LCR rule; provision to permit other asset classes remains • Highly liquid assets must be under control of liquidity management function and firms must demonstrate monetizability • Note: no changes to rules around haircuts for these asset classes			Reduced frequency for ILST (quarterly vs. monthly) Reduced liquidity risk management • Collateral calculations (monthly vs. weekly) • Reduced risk limits • Reduced intraday monitoring	No requirements – significant reduction for companies with $50–100BN in assets
2052A REPORTING	No change	No change	Increased frequency (daily vs. monthly) for firms with >$75 BN in wSTWF	No change	**No requirement for firms with $50–100 BN in assets**
SINGLE COUNTERPARTY CREDIT LIMITS (SCCL)	No change	No change	US BHCs and IHCs with $100–250 BN in assets and <$10 BN in foreign exposure now required to be compliant daily (Note: No banks meet the criteria above as of today)	FBO IHCs with $100–250 BN in consolidated assets, no longer required to comply with IHC level limit	FBO IHCs with >$50 BN in assets and <$250 BN in global FBO assets are now exempt
RISK MANAGEMENT COMMITTEE	No change	No change	No change	No change	No change (however, firms with $10–50 BN in assets are now exempt)
REPORTING REQUIREMENTS	• US BHCs and IHCs required to submit amended forms with minimal proposed changes • FBOs required to submit separate risk indicator information for CUSO reporting purposes				

Increased burden   Decreased burden

Source: Oliver Wyman analysis

Note: Analysis compares final tailoring rules against existing standards in place prior to EGRRCPA enactment. wSTWF – Weighted Short Term Wholesale Funding

The Final U.S. Resolution Plan Rule significantly limits the requirements for resolution planning with reduced frequency and scope. While Category I (U.S. GSIBs) banking organizations are required to alternate between full and targeted submissions every 2 years, Category II and III organizations are required to alternate between full and targeted submissions every 3 years. In addition, Category IV FBOs with more than $250 BN in global assets need to submit reduced plans every 3 years indicating only changes to the plan from the past filing.

Exhibit 10: Applicable requirements under the Final US Resolution Plan Rule

RESOLUTION PLANNING CATEGORIES UNDER REVISED FINAL RULE		IMPACT OF NEW REGIME
Biennial Filers	**Two year submission cycle**, alternating between full and targeted plans	• Less frequent submission cycle with full submissions due only every **four** years • Must create process to identify Critical Operations in advance of next submission
Triennial Full Filers	**Three year submission cycle**, alternating between full and targeted plans	• Less frequent submission cycle with full submissions due only every **six** years • Must create process to identify Critical Operations in advance of next submission (or apply for waiver)
Triennial Reduced Filers	**Three year submission cycle**, with obligation to file a reduced plan	• Only need to report **changes** to resolution plan and do so every **three** years • Must create process to identify Critical Operations **after** July 1, 2021 submission
Firms no Longer Covered	US resolution plans **no longer required**	• Entirely eliminates compliance burden of resolution planning; can free resources for other tasks

Source: Oliver Wyman analysis, Federal Reserve rulemaking

It must however be noted that one of the five Board members at the Federal Reserve, Governor Brainard was not fully supportive of the tailored regulation. Governor Brainard's view was that these changes "weaken the safeguards at the core of the system before they have been tested through a full cycle."

She was primarily concerned about the following aspects of the tailored rules:

- Reduced LCR thresholds for US domestics with under $700 BN in assets which "would pose substantial risk to the deposit insurance fund". She cited disruption associated with liquidity stress at two domestic banking institutions in the $100–250 BN size range during the last crisis that necessitated distressed acquisitions
- No LCR requirements for Combined US Operations of foreign banks which could "pose important risks to US financial stability in part because of the reliance on dollar denominated short-term wholesale funding from the US to fund the banks' global activities"

- Permitting AOCI opt-out for banking organizations with under $700 BN in assets which will not "ensure regulatory capital accurately reflects the amount that is fully available to absorb both realized and unrealized losses"
- Significantly reduced frequency for submission of full resolution plans for banks with $250–700 BN in assets "that may weaken the resolution planning process for very large banking firms and leave the system less safe"

We believe banking organizations should take these comments and management views on the economic and political outlook over the near to medium term into consideration, as they evaluate how to respond to reduced requirements and whether to retain or cease to perform certain risk management activities that may already be in place.

4.4. RESOLUTION PLANNING: TAILORED CONTENT WITH MORE TIME

Going forward, banking organizations will be required to submit resolution plans with reduced scope and content requirements. The Final US Resolution Plan Rule identifies three resolution plan types: full plans, targeted plans and reduced plans, which banks will be required to submit based on their risk-based category that would drive the plan type and frequency of submission.

Exhibit 11: Three resolution plan types and confidential plan information content

FULL PLANS

1	Executive Summary
2	Strategic analysis
3	Corporate governance relating to resolution planning
4	Organizational structure and related information
5	Management information systems
6	Interconnections and interdependencies
7	Identification of agencies with supervisory, regulatory, or resolution authority over company

TARGETED PLANS

1	Core elements of a full resolution plan: capital, liquidity, and plan for executing any recapitalization
2	Changes resulting from changes in laws or regulations, agency guidance or feedback, and material changes as defined in the rule
3	Information responsive to a targeted information request

REDUCED PLANS

1	Description of material changes since last plan
2	Description of changes to strategic analysis

Source: Oliver Wyman analysis, Federal Reserve rulemaking

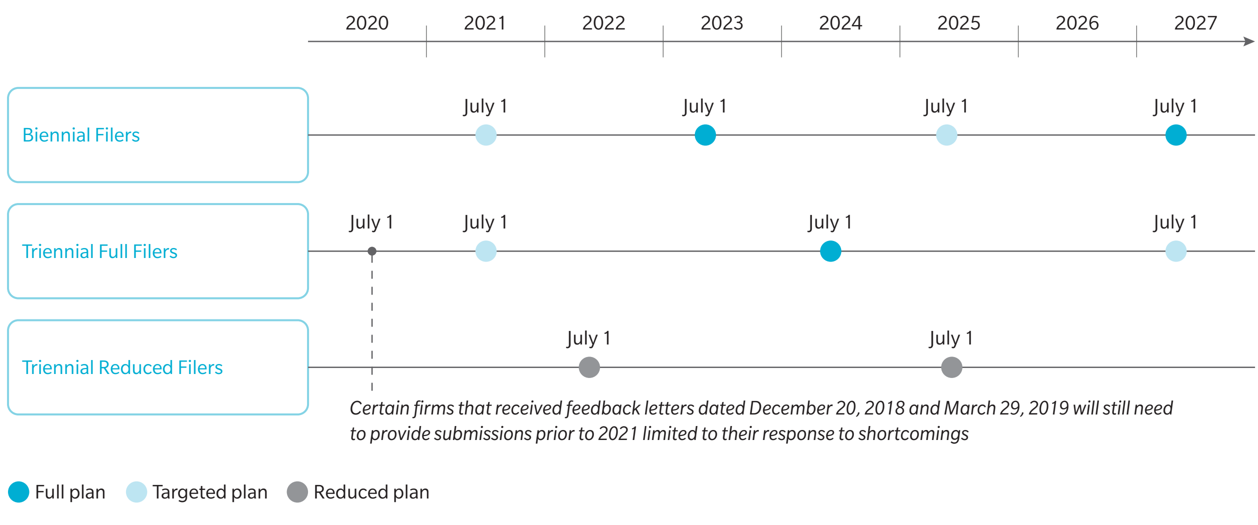
All filers will still be required to submit a public section, whose contents have been defined in the revised note. The agencies also noted that firms such as the eight US GSIBs and select FBOs will still be required to adhere to previously communicated guidance and written feedback even though such requirements may not be prescribed in the ammended final rule.

New multi-year cycles have been established, with a submission frequency ranging from two to three years:

- Biennial Filers (Category I or US GSIBs) must alternate between a full plan and targeted plan every two years
- Triennial Full Filers (Category II and III) must alternate between a full plan and targeted plan every three years
- Triennial Reduced Filers (Category IV FBOs with more than $250 BN in global assets) must submit a reduced plan every three years

The new cycles begin on July 1st, 2021 for biennial and triennial reduced filers, and on July 1st, 2022 for triennial reduced filers. Firms that received letters requiring submissions in July 2020 will still be required to do so and to show progress in addressing identified shortcomings.

Exhibit 12: The final rule establishes new multi-year cycles for resolution planning



Source: Oliver Wyman analysis, Federal Reserve rulemaking

4.5. RESOLUTION PLANNING: CRITICAL OPERATIONS IDENTIFICATION

In addition to filing resolution plans, covered banking organizations must establish and implement a process to identify Critical Operations. Certain firms may request a waiver if they have no identified Critical Operations as of their last filing. The firm-led process to identify Critical Operations will supplement periodic reviews conducted by the supervisory agencies and must be completed in advance of planning cycles so as to inform the upcoming submission. The following figure provides an overview of the timeline for creating the new processes, considerations when developing an approach, and details around the waiver approach.

Exhibit 13: Firms must establish and implement a process to identify Critical Operations

FIRM IDENTIFICATION OF CRITICAL OPERATIONS AND TIMELINE

Biennial Filers Triennial Full Filers	Must establish and implement a process to identify Critical Operations in advance of next submission
Triennial Reduced Filers	Do not have to implement process until after July 1, 2022

WAIVER REQUESTS TO OPT OUT OF IDENTIFICATION PROCESS

Eligibility	Prior filers may submit a waiver request if filer has no previously identified Critical Operation
Process	Must submit 18 months in advance (or 17 months if filing on or before July 1, 2021)

CONSIDERATIONS WHEN DEVELOPING APPROACH

Appropriateness	• Scale must be appropriate to nature, size, complexity, and scope of company's operations
Periodic Review	• Must review periodically and update as necessary and sufficiently in advance of filing
Methodology supporting the process	• Must include a methodology for evaluating the company's participation in activities and markets that may be critical to the financial stability of the US
Methodology should assess...	• Markets and activities in which the covered company participates or has operations • Significance of those markets and activities with respect to the financial stability of the US • Significance of the covered company as a provider or other participant in those markets and activities

Source: Oliver Wyman analysis, Federal Reserve rulemaking

Oliver Wyman believes there is an opportunity to align the development of the Critical Operations identification processes with efforts many banks are undertaking related to Operational Resilience. Operational Resilience has been an increasing area of focus for both US and international regulators.

5. CONCLUSION

We believe the many banks receiving regulatory relief will largely welcome these changes by the US regulators which, in addition to providing regulatory relief, provide clarity on the regulatory regime going forward. With the post-crisis regulatory framework largely finalized, banks can now begin to focus on growth (organic and inorganic) and Financial Resource Management within these constraints, under a regulatory regime that is likely to be stable for some time.

GLOSSARY

Term	Description
EGRRCPA	Economic Growth, Regulatory Relief and Consumer Protection Act
FRB	Federal Reserve Board or the Federal Reserve
OCC	Office of the Comptroller of the Currency
FDIC	Federal Deposit Insurance Corporation
BHC	Bank Holding Company
FBO	Foreign Banking Organization
IHC	Intermediate Holding Company of a Foreign Banking Organization
CUSO	Combined US Operations of a Foreign Banking Organization
GSIB	Global Systemically Important Bank
M&A	Mergers and Acquisitions
HQLA	High Quality Liquid Assets
LCR	Liquidity Coverage Ratio
NSFR	Net Stable Funding Ratio
SLR	Supplementary Leverage Ratio
TLAC	Total Loss Absorbing Capacity
LTD	Long Term Debt
AOCI	Accumulated Other Comprehensive Income
SCCL	Single Counterparty Credit Limit
wSTWF	Weighted Short Term Wholesale Funding
ILST	Internal Liquidity Stress Testing

ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

For more information please contact the marketing department by email at marketing.mea@oliverwyman.com or by phone at one of the following locations:

AMERICAS	EMEA	ASIA PACIFIC	DUBAI
+1 212 541 8100	+44 20 7333 8333	+65 6510 9700	+971 4 425 7000

www.oliverwyman.com

AUTHORS

Eric Czervionke
Partner

Eric.Czervionke@oliverwyman.com

Udayant Khemani
Principal

Udayant.Khemani@oliverwyman.com

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