FDIC

Federal Deposit Insurance Corporation
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Financial Institution Letter

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Regulatory Capital Rule: Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Global Systemically Important U.S. Bank Holding Companies, Certain Intermediate Holding Companies, and Global Systemically Important Foreign Banking Organizations

Summary: The federal banking regulatory agencies (the agencies) have jointly issued a Notice of Proposed Rulemaking, which would amend the capital rule to require advanced approaches banking organizations to deduct from regulatory capital certain investments in certain unsecured debt instruments issued by Global Systemically Important Banks (GSIBs) and certain of their subsidiaries for the purposes of meeting minimum Long Term Debt or Total Loss Absorbing Capacity requirements (covered debt instruments).

Statement of Applicability: This Financial Institution Letter (FIL) is applicable only to institutions that are advanced approaches banking organizations (i.e., with (1) $250 billion or more in consolidated total assets or (2) $10 billion or more in foreign exposures).

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Capital Adequacy of FDIC-Supervised Institutions, 12 CFR Part 324 (Regulatory Capital Rules)

Attachment:
Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Systemically Important U.S. Bank Holding Companies, Certain Intermediate Holding Companies, and Global Systemically Important Foreign Banking Organizations

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Highlights
The proposed rule would:

- Amend the capital rule such that an investment in a covered debt instrument by an advanced approaches banking organization generally would be treated as if it were an investment in a tier 2 capital instrument, and therefore, subject to the existing deduction approaches under the capital rule.

- Require advanced approaches banking organizations to fully deduct from tier 2 capital any significant investment in or reciprocal cross-holding of covered debt instruments, and direct, indirect, or synthetic investment in the banking organization's own covered debt instrument.

- Generally require advanced approaches banking organizations to include investments in covered debt instruments in the calculation of non-significant investments in the capital of unconsolidated financial institutions.

- Provide for separate, five percent common equity tier 1 thresholds for advanced approaches banking organizations that are GSIBs and advanced approaches banking organizations that are not GSIBs. The aggregate amount of certain investments in covered debt instruments that are below these thresholds would not be subject to deduction.

- Provide that any covered debt instrument held for 5 or fewer business days in connection with bona fide underwriting activities would not be subject to deduction.

- The NPR will be published in the *Federal Register* with a 60-day comment period.