Dodd-Frank and Basel: An Overview

March 2015
Agenda

• Dodd-Frank Act
  • Recap of 2014
  • What’s to come
• Basel III Framework
  • Recap of 2014
  • What’s to come
• Regulatory “Fixes”
• Implementation
Dodd-Frank Act
Status at 2014 Year End

**Required and Discretionary Actions**

<table>
<thead>
<tr>
<th>Action Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final</td>
<td>321*</td>
</tr>
<tr>
<td>Proposed</td>
<td>73</td>
</tr>
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</table>

400 Agency Rulemakings and Other Actions

As of January 1, 2015

*Includes 57 final agency actions not in the form of rulemaking.

**Required Actions**

148 Required Actions*

As of January 1, 2015

<table>
<thead>
<tr>
<th>Action Type</th>
<th>Count</th>
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<tbody>
<tr>
<td>Required</td>
<td>94</td>
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<tr>
<td>Missed</td>
<td>0</td>
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<tr>
<td>No Deadline</td>
<td>53</td>
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<td>Future Deadline</td>
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*148 actions identified in a November 3, 2010 CRS report entitled, "Rulemaking Requirements and Authorities in the Dodd-Frank Wall Street Reform and Consumer Protection Act."
Major milestones in 2014

• The agencies moved forward with Dodd-Frank Act rulemaking in 2014; principal actions taken include the following:
  • Final rule implementing Section 165 (enhanced prudential and supervisory requirements) for certain US banks and FBOs (although action was deferred on several requirements)
  • Final liquidity coverage ratio (LCR) (more onerous than Basel LCR)
  • Final supplementary leverage ratio (above and beyond the Basel leverage ratio)
  • Final risk retention requirements for securitization transactions (not harmonized with the European risk retention requirements)
  • Extension of Volcker Rule compliance date in respect of certain covered fund activities (no “real” European comparable requirement)
  • Money market mutual funds final rule
  • Relatedly, the SEC also issued final amendments to Regulation AB (Reg AB II)
What to expect in 2015

- A final G-SIB “buffer”
- The U.S. proposal for the Net Stable Funding Ratio (“NSFR”)  
- The U.S. proposal for a long-term debt requirement (a “U.S. TLAC”)  
- Rules implementing Title II of the Dodd-Frank Act in order to provide for a “bail-in” mechanism for bank holding company liabilities  
- The LCR requirement for FBOs  
- Final rules addressing the remainder of the Section 165 requirements  
- Final “conflicts” rule (Section 621)  
- Progress on remaining executive governance measures, such as the incentive bonus arrangements for covered financial companies
Basel Framework
Major milestones in 2014

- Revisions to leverage ratio addressing securities lending and derivatives exposures
- Final NSFR
- Final securitization rule relating to calculation of securitization exposures for bank capital purposes
- Final Financial Stability Board (FSB) rule regarding haircuts for non-centrally cleared securities financing
- FSB TLAC proposal
European implementation in 2014

- Final EU Bank Recovery and Resolution Directive (BRRD), which prescribes, among other things, for the bail-in of liabilities other than excluded liabilities
What to expect in 2015

• Continued Basel “monitoring” exercises
• Measures to “address the excessive variability in internal-model based approaches to Basel III”
• Public consultations and quantitative impact assessments to enhance the standardized approaches for risk weighting
• Agreement regarding the appropriate standard for the leverage ratio
• Final TLAC
Regulatory “Fixes”
Regulatory “Fixes”

- A number of measures have been proposed either in Congress or by the banking agencies that address implementation or other issues raised by the Dodd-Frank Act, such as:
  - Reversing (at least in part) the swaps push out
  - Addressing regulations that may be outdated
  - “Right-sizing” regulations to address concerns of smaller and community banks
  - Revisiting the $50 billion total assets threshold for SIFI status
  - The non-bank SIFI designation process
    - Designation for asset managers
    - Addressing capital and other prudential requirements for non-banks
  - The operations of the Financial Stability Oversight Council (lack of transparency)
  - The Office of Financial Research
  - In the derivatives area, recordkeeping and reporting rules, the regulatory requirements imposed upon end-users, cross-border harmonization
  - Numerous aspects of the Volcker Rule related principally to covered funds
Beyond Rulemaking… to Implementation
Beyond rulemaking

• In June 2015, we will mark the close of the fifth year since enactment of the Dodd-Frank Act
• Relatively few required rules await proposal; most required rules have been promulgated
• In addition to those rules that were required by the Act, the banking agencies continue to require CCAR and stress testing and the OCC has issued its “heightened standards” guidelines for large banks
• The capital markets are still reacting to the effects of final rules, such as Volcker
• The challenge of the next several years lies in implementation
A “summary” timeline

Attributed to JPMorgan.
## Basel III phase-in

### Basel III phase-in arrangements

Shading indicates transition periods – all dates are as of 1 January.

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<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>As of 2019</th>
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<tbody>
<tr>
<td>Leverage ratio</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Minimum CET1 ratio</td>
<td>4.0%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
<td>4.5%</td>
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<tr>
<td>Capital conservation buffer</td>
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<td></td>
<td></td>
<td>1.25%</td>
<td>1.875%</td>
<td>2.50%</td>
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<td>G-SIB surcharge</td>
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<td>Phase-in</td>
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<tr>
<td>Minimum common equity plus capital conservation buffer</td>
<td>4.0%</td>
<td>4.5%</td>
<td>5.125%</td>
<td>5.75%</td>
<td>6.375%</td>
<td>7.0%</td>
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<tr>
<td>Phase-in of deductions from CET1</td>
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<td>40%</td>
<td>60%</td>
<td>80%</td>
<td>100%</td>
<td>100%</td>
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<td>(including amounts exceeding the limit for DTAs, MSRs and financials)</td>
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<tr>
<td>Minimum Tier 1 capital</td>
<td>5.5%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
<td>6.0%</td>
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<tr>
<td>Minimum total capital</td>
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<td>8.0%</td>
<td>8.0%</td>
<td>8.0%</td>
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<tr>
<td>Minimum total capital plus capital conservation buffer</td>
<td>8.0%</td>
<td>8.0%</td>
<td>8.625%</td>
<td>9.25%</td>
<td>9.875%</td>
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<td>Capital instruments that no longer qualify as Tier 1 capital or Tier 2 capital</td>
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<td>Liquidity coverage ratio</td>
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<td>Net stable funding ratio</td>
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Attributed to BCBS.