International Bank Issue Summary

Internationally-headquartered banks are crucial providers of loans, investments, and financial services in the United States. The U.S. operations of international banks help promote vibrant and competitive U.S. markets, and are an important source of stability to the U.S. economy. International banks serve American retail customers, facilitate investment in the United States by international companies, and enable American companies to access international markets. International banks help create competition in the United States financial services sector and have traditionally played a countercyclical role in the U.S. economy and capital markets.

The U.S. operations of international banks provide about one-third of all U.S. commercial and industrial loans, hold approximately 20% of all U.S. banking assets, and are some of the largest small business, agriculture and infrastructure lenders in the country. Thus, when it comes to regulating the local operations of international banks, it is important to make sure we get it right because it directly impacts U.S. economic growth and consumer choice.

BPI's Position

One of the key issue for regulating the local operations of international banks is making sure there is appropriate tailoring, consistent with sound principles of "national treatment" – that is, ensuring that non-U.S. banks are treated comparably to U.S. banks and that U.S. regulations do not discriminate against them.

Recommendation: The Federal Reserve's enhanced prudential standards (those related to capital, liquidity, stress testing, resolution planning, etc.) should be applied to the U.S. operations of international banks in a manner that is consistent with their U.S. footprint and risk profile, rather than based on the global footprint of their parent company.

Intermediate Holding Companies

In the U.S., the Federal Reserve requires large international banks to place all U.S. subsidiaries under an intermediate holding company (IHC). The Federal Reserve has stated that the requirement was designed to facilitate a level playing field between foreign and U.S. banking organizations operating in the United States, in furtherance of national treatment and competitive equality.

The IHC is a separate legal entity from the international parent and governs the bank's operations in the U.S. IHCs have their own board of directors and risk management committees separate from the parent. IHCs are subject to stand-alone capital, liquidity and resolution planning requirements, along with other enhanced prudential standards (EPS) and regulatory requirements. Effectively, an IHC ring-fences the U.S. subsidiaries of the international bank and ensures an IHC is structured akin to a purely domestic bank holding company.

Tailoring Regulatory Standards

As the Federal Reserve pursues regulatory tailoring for domestic institutions following the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act, it should also review the regulations impacting international banks. Tailoring should recognize that international banks' home-country parents, including the parents' U.S. branch networks, are subject to robust home-country regulations and supervision that are comparable to the regulations applied to similar domestic bank holding companies. These regulations are consistent with global standards adopted by the Basel Committee and the Financial Stability Board ("FSB").

The current EPS framework applies more stringent requirements to some U.S. IHCs than are applicable to similarly situated domestic bank holding companies, such as total loss-absorbing capacity ("TLAC") and ring-fenced resolution plan requirements, certain stress testing assumptions, and enhanced supervisory expectations. The Federal Reserve should carefully tailor the application of these standards to IHCs in the same manner that it tailors regulations for domestic institutions.