Title VI: REGULATORY RELIEF FOR STRONGLY CAPITALIZED, WELL-MANAGED BANKING ORGANIZATIONS

Regulatory Off-Ramp

CHOICE Act 2.0 would permit banking organizations that elect to be treated as QBOs to comply with a revised prudential supervisory regime, exempting such organizations from many of the laws and regulations with which they must currently comply. A banking organization would be eligible to make a QBO election if, at the time of election, its average leverage ratio for the last four calendar quarters is at least 10%. The leverage ratio calculation would be made using a ratio of tangible equity to leverage exposure, with the definition of leverage exposure for most banking organizations being the definition used for purposes of the U.S. implementation of the Basel III supplementary leverage ratio.

Banking organizations that elect to be treated as QBOs would be exempt from various federal requirements that the Comprehensive Summary of CHOICE Act 2.0 deems "overly burdensome and highly intrusive," as follows:

- All federal capital and liquidity requirements or standards, including the liquidity coverage ratio;
- All laws and regulations that permit federal banking agencies to prevent a banking organization from making capital distributions to its shareholders, such as CCAR;
- Any requirement that a federal banking agency take into consideration the systemic risk posed by the banking organization (e.g., in connection with mergers and acquisitions (subject to the maintenance of a pro-forma leverage ratio of 10%), examinations and engaging in non-banking activities);
- Restrictions on mergers and acquisitions, including:
  - approval requirement for mergers and acquisitions resulting in total deposit liabilities in excess of 10% of all deposit liabilities of U.S. insured depository institutions;
  - approval requirement for acquisitions where a BHC with total consolidated assets of $50 billion or more acquires a company (other than an insured depository institution) with total consolidated assets of $10 billion or more; and
  - approval requirement for financial holding company acquisitions of companies with total consolidated assets in excess of $10 billion; and
- Certain "enhanced prudential standards" implemented under Section 165 of the Dodd-Frank Act:
  - resolution plans;
  - single counterparty credit limits;
  - risk committee requirements;

- short-term debt limits;
- stress testing; and
- debt-to-equity leverage ratio limits.

A QBO would also be deemed to be "well capitalized" for purposes of certain provisions of the Federal Deposit Insurance Act and the Federal Credit Union Act.

The legislation specifies that a banking organization's QBO designation would be terminated: (i) immediately, where its quarterly leverage ratio falls below 6%, and (ii) after a one-year remediation period, where the organization's quarterly leverage ratio falls below 10% and does not increase to at least 10% during the following year.

A banking organization that loses its QBO status may not make another QBO election until its leverage ratio exceeds 10% for 8 consecutive quarters.

The Federal Reserve, FDIC and OCC would each be required to conduct a study, including public hearings, and submit a report to Congress with respect to methods for designing a requirement that banking organizations issue contingent capital using a market-based conversion trigger.

Further, the GAO would be required to conduct a study and report its findings to Congress regarding whether current prompt corrective action rules should be modified such that the trigger for supervisory corrective action would be based on a non-performing asset coverage ratio rather than Basel-based capital ratios.