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RFC Process Summary:

Risk-Adjusted Capital Framework Methodology

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Risk-Adjusted Capital Framework Methodology

On July 6, 2016, S&P Global Ratings published a request for comment on a proposed update to its risk-adjusted capital framework (RACF) criteria ("Request For Comment: Bank Capital Methodology And Assumptions"). Following feedback from the market, we finalized and published our criteria, titled "Risk-Adjusted Capital Framework Methodology," on July 20, 2017.

We'd like to thank investors, issuers, and other intermediaries who provided feedback. We made some changes based on market feedback and further refinement of the methodology as we continued to test its application to our capital analysis of certain financial institutions. This article provides an overview of the changes between the request for comment (RFC) and the final criteria and the rationale behind those changes. We made other changes that are purely stylistic and intended to clarify our methodology; we include the most significant of these changes in this article.

Summary Of Changes

Title of the criteria article

Change: We changed the title of the criteria article to "Risk-Adjusted Capital Framework Methodology" from "Bank Capital Methodology And Assumptions."

Rationale: The change seeks to improve clarity for readers that these criteria refer to our RACF.

Articles superseded by the RACF criteria

Change: In the "Superseded Criteria "section, we changed the references to articles superseded and removed from the list of superseded items paragraph 90 and table 11 of "Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology," Nov. 26, 2012 (the MLI criteria).

Rationale: As announced on Dec. 20, 2016, to ensure transparency and ratings comparability, because the MLI criteria review process was not concluded by the time we published our revised RACF criteria, MLIs will be out of scope of the revised RACF criteria until the MLI criteria are revised and published. Therefore, "Bank Capital Methodology And Assumptions," published Dec. 6, 2010, will continue to apply to MLIs. This means that paragraph 90 and table 11 of the MLI criteria are not superseded by the RACF criteria.

Impact on outstanding ratings

Change: We updated the references to the impact of the revised criteria on outstanding ratings (paragraphs 206-207 of the criteria).

Rationale: This reflects updated information since the time of the RFC publication, specifically changes reflected in the final criteria versus those in the proposals, updated issuer information as of July 19, 2017, and issue credit ratings information.

Entities in scope of the RACF criteria

Change: The types of entities in scope of the RACF criteria have changed to exclude MLIs. We also eliminated the reference to regional securities brokers (paragraph 4).

Rationale: As announced on Dec. 20, 2016, to ensure transparency and ratings comparability, because the MLI criteria review process was not concluded by the time we published our revised RACF criteria, MLIs are out of scope of the revised RACF criteria until the MLI criteria are revised and published. The reference to regional securities brokers corrects an outdated specification as these types of entities are included in the general classifications of financial institutions referenced in the scope of the criteria article.

Cycle scenario included for normalized losses analysis

Change: We changed the reference to the type of cycle scenario for which we expect losses to be covered by earnings (paragraphs 5 and 7).

Rationale: We clarified this wording to provide greater precision and consistency with the definition of normalized losses we give in the criteria (paragraph 155).

Main exposure categories included in S&P Global Ratings risk-weighted assets (RWAs)

Change: We changed the main exposure categories included in S&P Global Ratings RWAs to add counterparty risk exposure (chart 1, table 1, and paragraph 9).

Rationale: This addition is consistent with the new RACF credit valuation adjustment (CVA) charge.

Explanation of the treatment of minority interests

Change: We changed the wording regarding the treatment of minority interests that we consider are portions of equity unavailable to absorb losses of the parent entity (paragraph 27).

Rationale: We clarified wording to explain what minority interests we reclassify as "non-equity" as they are unavailable to absorb losses of the parent entity. We also clarified that we do not consider these to include only banking subsidiaries minority interests but also to include certain other types of minority interests.

Treatment of investments in insurance subsidiaries in certain cases when insurance risks are material for the group

Change: In response to market feedback received on the proposed criteria, we changed our approach to regulatory capital instruments owned by the parent that we do not include in our measure of total adjusted capital for the insurance subsidiary (paragraph 43). Instead of deducting the amount invested by the parent in such instruments to arrive at the parent's adjusted common equity (ACE), as we had proposed initially, we now apply the risk weights for unlisted securities in table 11 to these amounts (taking into account the country in which the insurance subsidiary is domiciled). We then add them to S&P Global Ratings RWAs. We provide updated details and examples related to this change in the section "Treatment of Insurance Subsidiaries In The Risk-Adjusted Capital Framework."

Rationale: The approach incorporated in the revised criteria is consistent with our view that regulatory capital instruments that we do not give credit to in our measure of the insurance subsidiary's total adjusted capital do not have loss-absorbing capacity similar to those we do give credit to. Therefore, we now incorporate in our assessment a lower capital allocation to the amount of the parent investment in these regulatory capital instruments that we do not give credit to in our measure of the insurance subsidiary's total adjusted capital. This compares with the allocation of capital for the full amount of the instruments we do include in the insurance subsidiary's total adjusted capital.

Change: Also in response to feedback from market participants, we shifted the approach to calculate the shortfall or excess capital of the insurance subsidiary to withstand an 'A' stress scenario to typically rely on our own assessment of the insurance subsidiary's level of capitalization in accordance with our criteria (paragraph 46). In the RFC, we proposed to calculate an estimate of the insurance subsidiary's total adjusted capital and assume that the subsidiary is, at best, capitalized to support 'BBB' stress. We provide updated details and examples related to this change in the section "Treatment of Insurance Subsidiaries In The Risk-Adjusted Capital Framework."

Rationale: The change seeks to eliminate counterintuitive effects of estimates in the initially proposed approach and is a more refined approach to incorporate issuer-specific characteristics.

Change: We introduced a new paragraph to detail how the framework incorporates the insurance risks for the banks for which Basel III does not apply, where we typically use primarily accounting data for calculating RAC ratios (paragraph 47).

Rationale: In RACF, we take into account the insurance subsidiaries' credit and operational risks through the treatment of the investment amount and the assessment of overcapitalization. For banks for which Basel III does not apply, we generally use accounting data for calculating RAC ratios that typically include consolidated insurance information, in using the disclosures for RACF. Therefore, for banks for which Basel III does not apply, we exclude the relevant assets (such as stocks and bonds) and assets under management held by insurance subsidiaries from the assets and assets under management reported in consolidated financial accounts that we use as disclosure for the calculation of the RAC ratio.

Treatment of deferred tax assets

Change: In response to market feedback received on the proposed criteria, we simplified the approach to determine the amount to be deducted for deferred tax assets (DTAs) arising from timing differences that are not "readily convertible" (paragraphs 49-54). We include only one materiality threshold calculation for the determination of such deduction, and we now follow the same steps in this calculation for both Basel III and non-Basel III jurisdictions.

Rationale: We introduced this change to address the complexity of the approach and enhance consistency across jurisdictions.

Change: Also in response to market comments received, we eliminated the reliance on regulatory deductions (which vary across jurisdictions) for DTAs arising from timing differences.

Rationale: This change is intended to further standardize the calculation of capital allocation for DTAs in RACF globally and eliminate inconsistencies in some jurisdictions (for example, due to regulatory super-equivalence issues).

Change: Following responses from market participants, we changed the risk weight we apply to "readily convertible" DTAs arising from timing differences to 250% (from 375% proposed initially) (paragraph 53). This is a lower risk weight than the one we apply to DTAs arising from timing differences that are not "readily convertible."

Rationale: This change seeks to reflect the credit quality differentiation between "readily convertible" and not "readily convertible" DTAs arising from timing differences in Basel III jurisdictions by having different risk weights for each, and acknowledges the better recoverability prospects of "readily convertible" DTAs. In analyzing the recoverability prospects for these DTAs, and thus calibrating the RACF corresponding risk weight, we also take into account the comparison with other types of assets for which we see similar uncertainties in terms of recovery timing and amount and for which we have historical information supporting our views of the potential losses on these exposures.

Treatment of sovereign exposures

Change: We included the risk weight applicable to sovereign exposures when the sovereign is rated 'SD' (table 4).

Rationale: We introduced this change to add clarity and transparency on our treatment of 'SD' rated issuers equally to 'D' rated issuers.

Change: Incorporating feedback received from the market, we detailed that we include reverse repos with central banks in the "cash in hand" category, to which we apply a 0% risk weight (paragraph 61).

Rationale: This change acknowledges that reverse repos with the central banks are typically not riskier than cash deposits at central banks.

Change: We added new language in the criteria detailing our RACF treatment for sovereign exposures in the event that the sovereign rating reflects the expectation or materialization of a short-lived technical default (paragraph 62). In these cases, we apply the risk weighting for sovereign exposures using the expected post-default sovereign rating or the upper end of the range of the expected post-default sovereign rating, as indicated in conjunction with the related sovereign rating action.

Rationale: This change seeks to enhance clarity and transparency about our treatment of sovereign exposures in this scenario.

Treatment of financial institutions exposures

Change: We made changes regarding exposures to central counterparties (paragraphs 63, 65, and 66).

We updated the references to clearinghouses and replaced them with the term central counterparties (or CCPs).

Rationale: We made this change to add clarity by aligning with the Basel terminology for this type of entity, which is commonly used in the market.

Change: Taking into account market feedback, we changed the calibration we use to arrive at trade exposures (TEs) and initial margins (IMs) risk weights. For TEs and IMs, we continue to use the risk weight we apply to sovereign exposures for these exposures but at a level typically one notch below the foreign currency rating on the sovereign in which the CCP is domiciled (instead of two notches below, as proposed in the RFC).

Rationale: Based on market feedback, we reviewed historical information on CCPs' creditworthiness and its evolution relative to that of their respective sovereigns. We introduced this change to acknowledge that it is better reflective of historical information for the calibration of the risk weights for these exposures to use the risk weight we apply to sovereign exposures but at a level typically one notch below the foreign currency rating on the sovereign in which the CCP is domiciled than the previously proposed calibration of two notches below.

Change: Following comments from market participants, we changed the risk weights of exposures to guarantee fund contributions (GFCs) to 250% (from 375%, as proposed in the RFC).

Rationale: We analyzed market feedback regarding the high risk weights for GFCs proposed in the RFC. We confirmed how the application of the revised risk weights for TEs and IMs, in combination with the initially proposed 375% risk weight for GFCs, resulted in the capital allocated to exposures to CCPs exceeding what would be allocated if the exposures reflected bilateral trades with financial institutions. We therefore reduced the risk weight we apply to GFCs in the published criteria to reflect our view that clearing trades with CCPs are less risky than transacting with banks on a bilateral basis. In this context, our risk weight for GFCs also takes into account historical information on extremely limited losses on GFCs exposures and the comparison with other types of assets for which we see similar uncertainties in terms of recovery timing and amount and for which we have historical information supporting our views of the potential losses on these exposures.

Change: We added that the cap of the total RAC charge on exposures to CCPs is set at the level of the financial institutions risk weight applied to the addition of trade exposures and initial margins (and not just trade exposures).

Rationale: We included this change to make it clearer that CCP trade exposures and CCP initial margins are part of the same asset class in the RACF (i.e., in our framework, there's no difference between CCP trade exposure and CCP initial margins, similar to the regulatory approach).

Change: We also made changes to the approach to the floor for the risk weight used for financial institutions exposures (paragraph 70).

We eliminated the conditionality to arrive at the sovereign risk weight we would consider in applying the floor to risk weights used for financial institution exposures when the sovereign is in default on its foreign currency obligations. We therefore will typically consider, in these cases, the risk weight for a sovereign rated 'CC' and no longer consider the higher of:

- The relevant risk for financial institutions,
- The risk weight corresponding to the transfer and convertibility (T&C) assessment on the sovereign in which the entities are domiciled, or
- The risk weight for a sovereign rated 'CC'.

Rationale: We simplified our approach to reflect that the previously proposed approach would, in all cases, have resulted in the use of the risk weight for a sovereign rated 'CC'.

Change: We clarified our approach to determining the sovereign risk weight we would consider in applying the floor to risk weights used for financial institutions exposures in a short-lived and technical sovereign default on foreign currency obligations.

Rationale: This change enhances clarity about our treatment of sovereign exposures in this scenario and transparency about the interaction of this part of the RACF methodology with "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions," Nov. 19, 2013.

Treatment of corporate exposures

Change: We updated the risk weights for construction and real estate corporate sector exposures in table 6 for economic risk group '5' to 307 from 306.

Rationale: We made this change to reflect a rounding correction.

Treatment of retail and personal exposures

Change: We updated the approach to risk weights applied to nonprime residential mortgages exposures in the U.S. (paragraph 78). The revised criteria include a risk weight that is 6.5x the risk weight applicable to prime residential mortgages in the U.S. rather than the specific point-in-time 188% risk weight proposed in the RFC.

Rationale: We made this change to incorporate what the risk weight would be for nonprime residential mortgages in the U.S. across all the economic risk groups. The 189% is the risk weight corresponding to the 6.5x the risk weight applicable to prime residential mortgages in the U.S., given the U.S.'s current economic risk group of '3'. Had we kept the 188% weight we used before the criteria update, we would not have been able to adjust the capital allocation in the RACF to nonprime residential mortgages necessary if we were to change the economic risk group for the U.S.

Change: Consistent with the updated approach to risk weights applied to nonprime residential mortgages exposures in the U.S., we detailed in the criteria the normalized losses we apply to this type of mortgage (paragraph 193).

Rationale: We introduced this more detailed information for nonprime residential mortgages exposures in the U.S. to provide greater transparency on the cohesiveness of the framework.

Treatment of counterparty risk

Change: We eliminated the values of multipliers (with respect to paragraphs 86, 88, 89, and 92) from the revised criteria, leaving only the guiding principles on use and calculation of the multipliers. As noted in the criteria article, the value of multipliers referred to in these paragraphs can be found in "The Application Of Key Aspects Of The

Risk-Adjusted Capital Framework Criteria," published July 20, 2017.

Rationale: Given that the value of these multipliers may be updated over time, in line with the guiding principles for their calculation, it is more appropriate to include them in the article where we have the parameters resulting from the application of the criteria. We will surveil and update these parameters over time.

Change: We introduced flexibility in determining derivative exposures for entities that do not report according to Basel standards to assume that the over-the-counter (OTC) derivatives are likely be zero if the majority of the derivatives are cleared by CCPs, and, conversely, to assume CCPs exposures to be zero if a majority of derivatives are non-cleared OTC (paragraph 82).

Rationale: We introduced this change to simplify and add clarity to our approach to counterparty risk for non-Basel III entities

Change: Following questions by market participants, we added wording to indicate that derivatives used as banking book hedges are included in the scope of the RACF CVA charge (paragraph 90).

Rationale: This change was introduced to add clarity to our definition of derivatives receivables.

Change: Following market feedback, we changed our approach to calculating the thresholds to apply to the RACF CVA charge to use the average (rather than point-in-time) calculation (paragraph 91).

Rationale: This change was introduced to avoid undue volatility in the impact on the RACF CVA charge.

Change: Taking into account market feedback, we modified the starting point of the computation of the RACF CVA charge for entities that do not publish the Basel III regulatory CVA charge (for example, because they are not domiciled in Basel III jurisdictions) but exceed the thresholds (paragraph 92). For these entities, we will compute the RACF CVA charge as a percentage of derivatives receivables (asset side of the balance sheet), and we would no longer calculate it as a percentage of the Basel exposure at default (EAD) on OTC derivatives when such EAD is available. We continue to use multipliers calibrated on a set of representative banks.

Rationale: We introduced this modification to simplify our approach given that the majority of banks in non-Basel III jurisdictions do not typically engage in OTC derivatives.

Change: Having considered feedback from market participants, we introduced the possibility to consider that the RACF CVA charge is zero for entities not subject to a regulatory CVA charge but meet the thresholds for us to calculate the RACF CVA charge if (paragraphs 93 and 94):

- We believe that either exposures to non-cleared OTC derivatives represent only a small fraction of derivative exposures for the firm, or
- If most of the non-cleared OTC derivatives transactions are conducted with entities rated 'A' or higher and with CSA agreements exhibiting some strong risk-mitigating factors.

Rationale: We introduced this change to enhance granularity of counterparty risks for entities that are not subject to the regulatory CVA charge. Thus, the revised criteria approach enables us not to use the standard default RACF CVA charge (in the absence of the regulatory CVA charge) when we can assess the riskiness of the entity's derivative exposures with respect to counterparty risk.

Treatment of securitization exposures

Change: We increased our risk weights for securitization exposures rated 'AA' to 30% from the proposed 20% in the RFC and reduced the risk weights for securitization exposures rated in the 'B' category to 1,050% from 1,250% proposed in the RFC (table 8).

Rationale: After taking into account historical information of defaults and losses for securitization exposures throughout the rating scale, we updated the risk weights of securitization exposures rated in the 'AA' and 'B' categories to better reflect such historical information.

Change: We revised table 8, "Risk Weights For Securitizations," so that the footnote applies to the line "Not rated or deducted from regulatory capital," and not the line "CCC-C."

Rationale: This is a typographical nonmaterial error correction.

Change: We included a new provision in the criteria by which we may reclassify the most senior tranche of a securitized portfolio and treat it as part of the underlying asset class in instances where we do not have a global scale rating on securitization tranches (or are unable to infer it for any reason) but we do have the breakdown between senior and non-senior tranches (paragraph 97). Related to this, we added that we may treat the most senior tranche as part of "other assets" if we are unaware of the underlying assets.

Rationale: We introduced this refinement to reflect that we believe that the most senior tranche behaves in line with or better than the performance of the underlying asset.

Change: We also added to the criteria, in connection with the previous paragraph, that we typically apply a risk weight of 375% to the subordinated tranches (i.e., to all the tranches excluding the most senior one) (paragraph 98). In addition, we introduced the possibility of raising the risk weight above the aforementioned 375%, if we view such exposures as carrying elevated risks.

Rationale: We introduced this refinement to our criteria to reflect that 375% is about the average of RACF securitization risk weights for non-senior tranche for a large sample of banks that report a detailed breakdown of their portfolios. In addition, this criteria provision allows us to adjust this default risk weight for non-senior securitization exposures so that subordinated tranches do not carry a lower risk weight than the most senior tranche according to the approach described in the previous paragraph.

Change: We changed to 250%, from the proposed 150% in the RFC, the risk weight we typically apply when we do not have the breakdown of securitization exposures by global scale ratings (either actual or inferred by us) or by seniority (paragraph 99).

Rationale: We made this change to reflect that the proposed 150% risk weight in the RFC was based on a rounded average of RACF securitization risk weights for a sample of banks that was skewed toward rated securitizations in developed markets (which are typically among the highest quality). We, therefore, changed this back to the risk weight level we had in our previous criteria, which, in our view, is the risk weight that is better representative of rated and unrated securitization exposures globally.

Change: We replaced references to "S&P regional scale" with "S&P national scale" in text box 3.

Rationale: This is a typographical nonmaterial error correction.

Change: We added a provision in the criteria to explain our treatment of unrated single-tranche pass-through securities issued by certain government-sponsored agencies based on expected government support (paragraph 101). To determine the risk weight for these securities, we use three-year cumulative default rates for securitizations rated at the same level as the issuer and assume recoveries are akin to those for investors in senior tranches. In the RFC, we had proposed 20% (which is only reflective of the risk weight applicable to certain U.S. government agencies given the current ratings). We also detail how we consider pass-through securities issued by Ginnie Mae to be equivalent in risk to U.S. government debt, and we apply the same risk weight to them as we do to U.S. Treasury bonds, as opposed to the proposed 20% in the RFC.

Rationale: We introduced these changes so that the criteria encompass the global treatment of single-tranche pass-through securities issued by certain government-sponsored agencies. (Our proposed criteria in the RFC addressed the specific cases of certain U.S. entities given their current rating levels only.)

These changes reflect that because these securities are single tranche, the recovery rates supporting risk weight calculations are those for senior tranches. Although the tranches are typically not rated, we take into account the issuer (government-sponsored agency) rating, thus factoring into our risk weights the expectation of government support. For example, investors never suffered a loss on pass-through securities issued by Fannie Mae and Freddie Mac (private corporations chartered by U.S. Congress and tasked with supporting the housing market) because these two agencies guarantee payment of principal and interest on the securities. Fannie Mae and Freddie Mac have received significant support from the U.S. government, and we consider it almost certain that they'd receive extraordinary government support, if necessary. The main reason we introduced a change to specify a difference for Ginnie Mae is that this agency is not a private corporation, but rather is a government-owned corporation guaranteeing bonds backed by home mortgages that themselves have been backed by government agencies, primarily the Federal Housing Administration and the Veterans Administration.

Change: We added a new table (table 23) to reflect separately from other asset classes the normalized losses for securitization with the corresponding ratings categories and updated values.

Rationale: The introduction of a separate table provides additional clarity given that we use these normalized losses by rating category, consistent with the corresponding approach to securitization risk weights, rather than by rating level, as reflected in table 21 for other asset classes. The updated values of normalized losses reflect the analysis of the same historical information of defaults and losses for securitization exposures throughout the rating scale that we have taken into account in updating risk weights for securitization exposures rated 'AA' and 'B'.

Treatment of collateral and other credit risk mitigation

Change: We clarified our approach to hedges on corporate exposures. We lower RACF RWAs on corporate exposures by 50% of the notional of the credit default swaps (CDS) hedging these exposures, and we take into account a direct exposure to the credit-protection provider (usually a financial institution) for the totality of the notional (paragraph 110).

Rationale: These wording changes aim to provide greater clarity on our approach.

Change: Following feedback from the market, we included in the criteria the possibility of taking into account hedges for equity in the banking book, when such exposure is material and depending on the quality of information to determine hedges' effectiveness (paragraph 110). The new criteria provision allows for lowering equity in the banking book exposure hedged by derivatives:

- By 75% when we believe the hedge is both well-matched to the exposure by risk and applies for a sufficient residual maturity, and
- By 50% when the hedge is less well-matched or we are unable to determine the hedge effectiveness.

The change introduced also includes that when we do reduce the equity exposure for hedges, we take into account a direct equivalent exposure to the hedging counterparty.

Rationale: These changes seek to recognize the possibility of lower risk when equity in the banking book is hedged, as we had already incorporated for corporate exposures in the RFC proposals.

Market risk and associated risk weights

Change: We introduced a change detailing that we define a "Basel 2.5 jurisdiction" as one that has implemented "Revisions to the Basel II market risk framework" (first published in July 2009), regardless of whether it subsequently implemented Basel III (paragraph 111).

Rationale: This change is purely to clarify the references to a "Basel 2.5 jurisdiction."

Change: We added a line to table 10 to reflect the multiplier that we apply to arrive at the RACF charge using the regulatory charge for banks using the internal models approach when no breakdown by component is available.

Rationale: This change ensures the summary information provided in the table is complete. The table already summarized the information in paragraphs 117, 118, and 120. The additional line reflects the information in paragraph 119, for which we have not introduced any change.

Revenue-based risk weights

Change: Following feedback from market participants, we changed the proposed risk weights for the asset management business line to 150% (from the proposed 188% in the RFC). We also added "other low-risk business lines" to the business lines for which we would use a 150% risk weight (table 12).

Rationale: The lowering of the risk weight for asset management business to 150% (lower than in the RFC proposals but the same as we had in the previous criteria) follows our review of new information relative to historical peak observed operational losses that suggested that a 188% risk weight would be too harsh even in stress scenarios. We also added the possibility to include some "other" business with a 150% risk weight because, following feedback from market participants, we better appreciate that not all "other" businesses are alike and that there are business lines that are low risk.

Data sources and standard adjustments

Change: We refined our criteria approach to how we take into account credit conversion factors (CCFs). Instead of fixed values for all asset classes reflecting current Basel II standardized approach CCFs (as proposed in the RFC), our criteria now reflect that whenever banks do not report exposures at default (EADs), we apply the Basel III standardized approach CCFs to off-balance-sheet commitments (except in the case of undrawn credit card commitments, for which we continue to use a 10% CCF) (paragraph 147).

Rationale: This change ensures consistency in our treatment of banks globally, regardless of whether they report EADs, by making sure we are able to incorporate regulatory EADs applicable at each point in time. The criteria note that we will publish regularly the reference to the applicable CCFs in our publication of "The Application Of Key Aspects Of The Risk-Adjusted Capital Framework Criteria."

Risk concentration and diversification

Change: In the "Calculating The Adjustment For Concentration And Diversification" section in the appendix, we added the details of how the parameters of the logarithmic business line concentration factor are calibrated (paragraph 174).

Rationale: We included additional details about how the parameters have been calibrated with the intent to provide additional clarity.

Change: In the "Calculating The Adjustment For Concentration And Diversification" section of the appendix, we changed the formula by Gordy and Lütkebohmert, including one missing parenthesis and updating the values of the two parameters in the formula (paragraph 186). We also added a footnote:

$\bar{s}$ = Smallest s_i within the top 20 largest exposures

Rationale: We corrected a typographical nonmaterial error by adding a missing parenthesis, and we updated the values of the two coefficients, resulting from the polynomial (second order) regression, of the formula after recalculating them with updated additional representative portfolios of corporate exposures. The footnote was added for clarification purposes.

Change: We added tables 16-19 (concentration factors for industry sectors, geographical concentration factors, sector correlation factors, and geographical correlation factors) to the criteria. We therefore did not include these tables in the commentary "The Application Of Key Aspects Of The Risk-Adjusted Capital Framework Criteria," published July 20, 2017, though we had included an earlier version of these tables in the article "The Application of Key Aspects Of The Proposed Bank Capital Criteria Update," published July 6, 2016.

Rationale: We included these tables as illustrations of the parameters generated by the methodology, which we expect to be relatively stable over time, thereby enhancing transparency.

Change: We added wording in paragraph 176 to detail the length of the historical series used for the MSCI indices used in arriving at the correlation matrices.

Rationale: We added this information to enhance clarity.

Change: We added information in paragraph 181 providing the context for tables 18 and 19 that we added to the criteria.

Rationale: We added this information to clarify why we chose the factors published in the tables and to explain that the tables are illustrative examples.

Glossary

Change: We added definitions for CSA terminology and senior tranche.

Rationale: These additions are intended to clarify terminology used in changes introduced after the RFC.