

Meeting Between Federal Reserve Staff and the Community Depository Institutions Advisory Council (CDIAC) of the Federal Reserve Bank of Chicago

October 11, 2012

FRB Participants: Cathy Lemieux, Mark Kawa, Brian Mantel, Kathy Schrepfer, Nicole Roth, and Wade Perry.

CDIAC Participants: Micah Bartlett, Barrie Christman, William Farrow, David Findlay, David Heeter, Sandra Jelinski, Timothy Marshall, Jeff Plagge, Michael Scudder, and Jean Trainor.

Summary: As a part of the regularly scheduled meeting of the CDIAC of the Federal Reserve Bank of Chicago, council members commented on the Board's recent NPR for regulatory capital rules (Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Minimum Regulatory Capital Ratios, Capital Adequacy, Transition Provisions, and Prompt Corrective Action, and Standardized Approach for Risk-weighted Assets; Market Discipline and Disclosure Requirements, FRS Docket No. R-1442) issued June 7, 2012.

Council members expressed concern with multiple aspects of the proposal. Specifically, members discussed the unintended consequences of using higher risk-weighted categories and having unrealized gains and losses on all available-for-sale securities directly impact capital calculations, particularly given the volatility this would introduce. Participants felt the current low interest rate environment overstates the percentage of financial institutions that would be in compliance under a rising rate environment. It was communicated that additional capital for severely delinquent loans is unnecessary since that risk should already be captured in loan-loss reserve calculations for most organizations. Contributors noted that a compelling case has not been made to support how these proposed rule changes would address the weaknesses identified over recent years. With the comment period quickly coming to an end, other members felt that there has not been enough time to properly study and test these new requirements for long-term effects. Finally, if adopted as proposed, participants expressed unease with the short implementation period for these major changes, as it will take a significant lead time for the industry to implement processes and information systems for reporting purposes.