Transcript of the Open Board Meeting

December 14, 2012

CHAIRMAN BEN S. BERNANKE: Good afternoon. I welcome our guests to the Federal Reserve.

The proposed rulemaking we are considering today is another important step toward strengthening our regulatory framework to address the risks that large, interconnected financial institutions pose to U.S. financial stability. This proposal would implement the Dodd-Frank Act's enhanced prudential standards and early remediation requirements for large foreign banking organizations. The proposed rules are generally consistent with the set of stricter standards that the Board proposed earlier for large U.S. financial companies, reinforcing the Board's longstanding policy of national treatment and equality of competitive opportunity between the U.S. operations of foreign banking organizations and U.S. banking firms.

Foreign banks play an important role in the U.S. financial sector. The presence of foreign banking organizations in the United States has served U.S. borrowers and brought competitive benefits to U.S. markets. Yet, the financial crisis exposed flaws in the pre-crisis structure for supervising and regulating both large U.S. banking organizations and the U.S. operations of large foreign banking organizations. Just as the domestic proposal addresses financial stability risks posed by large U.S. financial institutions, this proposal includes targeted changes to our regulatory approach aimed at addressing the risks posed by the U.S. operations of large foreign banks.

I look forward to today's discussion of this important initiative. And now I'd take--like to turn the floor over to Governor Tarullo for further remarks.

GOVERNOR DANIEL K. TARULLO: The draft regulation being presented to us this afternoon would make a significant change in the Board's approach to regulating the activities of foreign banks in the United States. Applicable regulations have changed relatively little in the last decade, despite a significant and rapid transformation in the activities of foreign banks, many of which moved beyond their traditional lending activities to engage in substantial, and often complex, capital market activities. The crisis revealed the resulting risks to U.S. financial stability.

Now, we have received a very good staff memo, and Molly will explain the main features of the proposal in a few minutes. So I will offer a few more general comments.

First, the proposal is directly responsive to the vulnerabilities in foreign bank activities observed during and after the financial crisis. In particular, as Governor Stein will discuss in a bit more detail, many large foreign banking organizations came to rely heavily on short-term, wholesale U.S. dollar funding and thereby became subject to destabilizing runs.

Second, the proposal is both consistent with, and complementary to, our past and proposed measures to address the risks associated with large, interconnected U.S.-based banks. Consider, for example, that five of the top 10 U.S. broker-dealers are owned by foreign banks. Like their U.S.-owned counterparts, large foreign-owned U.S. broker-dealers became highly leveraged and highly dependent on short-term funding in the years leading up to the crisis. We would be negligent if we did not adapt our oversight of foreign banking operations that include these very large broker-dealers, as we have our domestic bank holding companies.

Third, again consistently with our plan for domestic firms, the proposal creates a graduated approach to the regulation of foreign banks, with standards that increase in stringency depending on the size and scope of the U.S. operations of those banks. The regulations will thus be calibrated to the degree of risk posed.

Fourth, the proposal takes a middle road among the various possible alternative approaches. Let me mention two examples of roads not taken in the proposal. One would have us refrain from making any generally applicable changes in our regulatory system for foreign banks and simply intensify ad hoc supervision. This approach seems to me neither prudent nor practical. Given the size, scope, and importance of the largest foreign banking operations in the United States, it would be imprudent not to have a mix of strong, uniform regulatory standards and more tailored supervisory oversight, as we do for domestic banks of similar importance for financial stability.

Such a heightened ad hoc approach would not, in any case, be practical, at least not if it were to be rigorous. In fact, such an approach might result in the worst of both worlds--an ongoing intrusiveness into the home country regulator's consolidated supervision of foreign banks without the ultimate ability to evaluate those banks comprehensively, or to direct changes in a parent bank's practices necessary to mitigate risks in the United States.

At the other end of the spectrum is the approach of a fully territorial form of foreign bank regulation. This approach would prohibit foreign bank branching and require any commercial banking to be done through U.S.-chartered bank subsidiaries. This approach has appeal from a strictly supervisory perspective. However, there is a significant chance that prohibiting branching by foreign banks would lead to reduced availability of credit in the United States. Historically, branches of foreign banks have been important providers of credit, both to foreign non-financial businesses operating here and to U.S. businesses. Indeed, these branches have at times provided countercyclical benefits, because branches of foreign banks that can draw on the capital of their entire bank often expand lending in the United States when U.S. banking firms labor under common domestic economic strains. Problems arose over the last decade as some branches began raising large amounts of short-term wholesale dollar funding for use in long-term lending abroad.

The proposed regulation would create liquidity standards for branches of foreign banks with large U.S. operations that should protect against branches reverting to this practice. But even if we adopt the approach proposed today, we should monitor carefully the practices of large branches and, if necessary, revisit this issue and take additional supervisory or regulatory action.

Fifth, and finally, while I endorse the approach taken in the proposed regulation, I will be interested in the answers given by the public to the questions posed by the staff in the Federal Register notice. As is always the case, I am sure we will all learn from the public comments and may well want to adjust some elements of the proposal before adopting a final rule.

And with that I turn to Governor Stein for further introductory comment.

GOVERNOR JEREMY C. STEIN: Thanks very much. Let me start by thanking the many people who put so much thought, effort, and care into crafting this proposal. These are important issues for financial stability, and I view this proposal as a strong step in the right direction.

As Governor Tarullo has noted, the proposal addresses a number of vulnerabilities that were revealed during the 2007-2009 crisis, and that have resurfaced again with the ongoing financial strains in Europe. I will focus my comments on one such vulnerability: the heavy reliance by the U.S. offices and affiliates of many large foreign banks on short-term, wholesale dollar funding, such as large time deposits and commercial paper that are often placed with U.S.

prime money market funds. This funding model became increasingly prevalent in the years leading up to the crisis.

Although this funding model provided a cheap source of dollar financing to foreign banking organizations, research conducted here at the Fed and elsewhere has documented that it led to two related sorts of problems when markets became stressed and the credit quality of foreign banks came into question. First, as their access to dollar funding markets dried up, foreign banks attempted to obtain dollar funding in a number of markets, including by swapping euros into dollars with the FX swap markets, but the cost of dollar funding rose in all these markets. And second, with their dollar funding scarcer, some foreign banks were forced to sell U.S. dollar-denominated assets, and dollar-denominated lending by these banks, both to borrowers in the U.S. and abroad, was cut back.

These problems were mitigated to some extent by Federal Reserve policy actions. In the early stages of the crisis, U.S. branches of foreign banking firms were major borrowers from the Fed's liquidity facilities, which allowed them to replace some of their lost dollar funding. And the Fed's dollar swap lines with the ECB and other central banks also helped at various points to ease the dysfunctions in dollar funding markets. Nevertheless, it should go without saying that an important goal of our regulatory program, with respect to both domestic and foreign banking firms, is to reduce the likelihood that such emergency liquidity-provision measures will have to be undertaken again in the future.

This proposal is one significant piece of that broader effort. It aims to enhance financial stability by strengthening the liquidity and capital positions of the U.S. operations of foreign banking organizations. Importantly, in so doing, the proposal would not disadvantage foreign banking organizations relative to domestic U.S. banking firms; rather it seeks to maintain a level playing field.

While the proposal may lead foreign banks to change the way they organize some of their U.S. operations, ultimately these changes should make the banking system more resilient. In particular, the proposal is intended to address funding fragility by encouraging banks to lengthen the maturities of their dollar liabilities. Although the proposal may reduce somewhat the gross cross-border positions of foreign banking organizations, from the evidence that I've seen, the effect on credit availability and on economic activity more broadly seems unlikely to be significant relative to the benefits. Additionally, we expect to provide a meaningful transition period, which will help minimize the effects on economic growth.

Finally, I would be especially interested in any commentary on two aspects of the liquidity buffer: First, for that portion of the buffer that branches are, according to the proposal, allowed to hold outside the United States, what are the costs and benefits of permitting that remaining buffer to be kept in a currency other than dollars? And second, should the Board provide more clarity around when the buffer should be used to meet liquidity needs during times of stress? In other words, what standards would be appropriate for governing the "usability" of the liquidity buffer?

I look forward to hearing the comments on these and other issues in the proposal. Thank you. And with that I'll now turn it over to Molly Mahar.

MOLLY MAHAR: The proposal of the Board is considering today would implement enhanced prudential standards for large foreign banking organizations and address certain weaknesses in the U.S. regulatory framework for large foreign banks that were revealed during the financial crisis in its aftermath. I will provide an overview of the motivation behind the proposal and describe the basic elements of the package. The proposal was produced by a multi-disciplinary team across the divisions of the Board. My colleagues Mark Van Der Weide, Mary Aiken, Jack Jennings, Mike Hsu, Tara Rice, Ann Misback, and Christine Graham will help answer your questions about the details of the proposal.

Several elements of this proposal represent an adjustment to the Board's current approach to regulating foreign banks. To provide context I will start by describing the main elements of our current framework and discussing some of the drawbacks of that approach in addressing systemic risk. By law, the Federal Reserve oversees the overall U.S. operations of foreign banks. In implementing this responsibility, the Federal Reserve currently relies in part on US primary federal and state regulators to supervise individual U.S. legal entities and on the home supervisor to supervise the global consolidated bank. The Federal Reserve also relies on the foreign bank's consolidated parent to support its U.S. operations under normal and stressed conditions.

The Federal Reserve has provided foreign banks substantial flexibility in designing how to structure their U.S. operations. Permissible U.S. structures for foreign banks have included direct cross-border branching, and direct and indirect US bank, broker-dealer, and other subsidiaries. In addition, U.S. banking law and regulation allows well-managed and well-capitalized foreign banks to conduct the same wide range of bank and non-bank activities in the United States as U.S.-based banking firms. As a result, the structure and activities of the US operations of foreign banks are highly diverse. For foreign banks that engage in non-complex activities in the United States, this approach has generally been effective in providing adequate prudential oversight for their U.S. operations. This approach has also facilitated cross-border banking and the global flows of capital and liquidity into and out of the United States.

Yet in the years leading up to the crisis, the U.S. operations of foreign banks became increasingly concentrated complex and vulnerable to shocks. Funding vulnerabilities that the US operations of large banks have been particularly acute in recent years. During the lead up to and after the crisis, many foreign banks borrowed heavily in the United States on a short-term basis and lent those funds to their parent. In many cases, these short-term liabilities funded longer-term assets in other jurisdictions, exposing the foreign banks to U.S. funding risks that were difficult to monitor under the current regime. Many foreign banks also significantly expanded their trading in other capital market activities in the United States and the years preceding the crisis, increasing the complexity and interconnectedness of their U.S. footprint.

When the crisis took hold, weakness became apparent in our current approach in addressing the financial stability risks associated with these large complex U.S. operations of foreign banks. The operations of these firms faced stressed similar to those encountered by large US financial institutions. Other issues that raised concerns about the continued suitability of certain aspects of the current approach include legal and practical limitations on the ability of certain parent foreign banking organizations to act as a source of support to their U.S. operations. Continued concerns about the pro-cyclical and destabilizing imposition of home and host country restrictions on the flow of capital and liquidity in times of stress and continued challenges to the cross-border resolution of international banks.

Beyond these risks, Congress directed the Board in sections 165 and 166 of the Dodd-Frank Act to impose enhanced prudential standards and early remediation requirements on large U.S. banking organizations, the U.S. operations of large foreign banks, and non-bank financial companies designated by the Financial Stability Oversight Council for supervision by the Board. These sections of the act apply to all foreign banking organizations with $50 billion or more in global consolidated assets, and a U.S. banking presence of any size. The act also directs the Board to increase the stringency of these standards in line with the systemic footprint of the company. For foreign banks specifically, the statute directs the Board to take into account comparability of home country standards, national treatment, and equality of competitive opportunity.

This proposal would implement the enhanced prudential standards in a way that adjusts the Board's approach to regulating foreign banks to better address the safety and soundness and financial stability risks posed by the U.S. operations of these companies. In general, the proposal would impose the most stringent set of standards on foreign banks with $50 billion or more in combined US assets. Foreign banks that are subject to sections 165 and 166 but have less than $50 billion, and combined US assets would be subject to a significantly reduced set of requirements.

Turning to the details of the proposal, I will focus primarily on the structural capital and liquidity requirements that would generally apply to foreign banks with the largest U.S. presence. As an initial standard, any covered foreign bank that maintains $10 billion or more in US bank or non-bank subsidiaries would generally be required to organize its U.S. subsidiaries under a single, U.S. intermediate holding company. The U.S. intermediate holding company would be subject to all the enhanced prudential standards on a consolidated basis. The U.S. branches and agencies of a foreign bank would be permitted to continue to operate outside the U.S. intermediate holding company. The U.S. intermediate holding company requirement would be an integral component of the proposal's risk-based capital requirements, leverage limits, and liquidity requirements, enabling the board to impose those standards on a consistent, comprehensive, and consolidated basis. In addition, a U.S. intermediate holding company would provide the Federal Reserve as umbrella supervisor of the U.S. operations of foreign banks a platform to implement a more consistent supervisory program across all foreign banks with large U.S. bank and non-bank subsidiaries. The intermediate holding company requirement would also reduce the ability of foreign banks to minimize or avoid enhanced prudential requirements by restructuring their U.S. operations in ways that do not reduce their U.S. risk profile. Enhanced risk-based capital and leverage requirements for U.S. intermediate holding companies of foreign banking organizations would be aligned with the enhanced capital requirements for U.S. bank holding companies, regardless of whether U.S. intermediate holding company has a bank subsidiary. All large U.S. intermediate holding companies would be required to meet U.S. bank holding company risk-based capital and leverage requirements and would be subject to the Board's capital plan rule. Covered foreign banks would also be required to certify that they meet capital adequacy standards established by their home country supervisor on a consolidated basis and that such standards are consistent with the Basel capital framework.

The proposal would impose liquidity requirements that largely mirror the liquidity risk management standards proposed by the board for large U.S. bank holding companies last year. Consistent with the domestic proposal of foreign bank with a large U.S. presence would be required to conduct a monthly internal liquidity stress test and maintain a 30-day buffer of highly liquid assets to cover stressed outflows from those U.S. operations. The U.S. intermediate holding company would be required to maintain the full 30-day liquidity buffer in the United States. The foreign banks, the U.S. branch, and agency network would be required to maintain the first two weeks of its 30-day liquidity buffer in the United States. The proposed local liquidity requirements for U.S. operations of foreign banks are aimed at increasing the overall liquidity resiliency of these operations during times of idiosyncratic and market-wide stress and reducing the threat of asset fire sales during periods when U.S. dollar short-term funding channels are strained. In addition, the liquidity requirements should decrease reliance on parent support and government during periods of stress.

The remaining standards in this proposal--risk management requirements, single-counterparty credit limits, stress test requirements, and early remediation requirements--would be applied to foreign banks in a manner broadly consistent with the domestic proposal, with some modifications to address the different structures under which foreign banks operate.

In closing, this proposal includes a set of targeted changes we believe are important to address safety and soundness and financial stability risks posed by large foreign banks operating in the United States. Although the proposal increases the amount of self-sufficiency we would require of large U.S. operations of foreign banks, the proposal does not represent a shift to a fully territorial model of foreign bank regulations and continues to recognize the important role that foreign banking organizations play in the U.S. financial sector. Under the proposal, foreign banks may continue to operate in the United States through direct branches on the basis of their consolidated capital base. Further, foreign banks would not be subject to new restrictions on transactions between U.S. branches or the U.S. intermediate holding company on the one hand and the parent bank on the other, allowing these companies to continue to fund global activities through their U.S. operations. Finally, the proposal would provide a long transition period to allow foreign banking organizations time to adjust to the new requirements.

This concludes my prepared remarks, and my colleagues and I would be happy to address your questions.

CHAIRMAN BERNANKE: Thank you. Thank you very much for the presentation, and thank you for your thoughtful work on this issue.

One of the key decisions that you made was to exclude branches and agencies from the holding company, why did you do that, and is there any concern that foreign banks might, in some way, arbitrage this distinction by moving activity from the holding company's subsidiaries to branches or agencies?

ANN MISBACK: I think, Chairman Bernanke, I'll take the first part of that question, and then I think Mark will take the second.

Under current law, foreign banks are permitted to establish branches and agencies in the U.S. and to operate them provided they meet our prudential standards. And as you know, most foreign banks do operate through branches and agencies. The--in 1991, the Congress considered whether to no longer permit foreign banks to operate in the branch or agency form and they declined to do so. So we have a current legislative framework that does permit branching to continue. And then I think Mark can speak to the concerns about moving activities.

MARK VAN DER WEIDE: Sure. I think it is important to note that although we are raising the prudential requirements to a higher degree on the intermediate holding company than we are for the branches, so we are raising the playing field on both sides. So I think there are a meaningful set of new restrictions that are also going to apply to the branches.

But that said, we don't think there's a significant scope for movement of activities or assets from the subsidiaries in the U.S., of the foreign banks to the US branches for a number of reasons. The first reason is that about half of the non-branch activities the foreign banks do in United States, the large ones collectively, are, in SEC-registered broker dealers. These are securities, trading and securities dealing activities. Under U.S. federal law, those activities must be done as a general matter in the SEC-registered broker-dealer and cannot be done in the U.S. branch. So I don't think there's much scope for movement from the U.S. broker-dealers to the branch for those legal reasons.

Secondly, most of the rest of the non-branch activities they do in the U.S. are in U.S. FDIC-insured depository institutions. Most of those activities are funded by FDIC-insured deposits or other types core deposits, and translating those activities over to the uninsured branch of the foreign bank, I think, would be a business challenge, and branches of foreign banks in the United States with the exceptions cannot raise FDIC-insured deposits. So we think it would be difficult to gravitate those activities over.

Even given those impediments, we do think this is an issue that's definitely worth watching. So if the Board does go ahead and finalize this proposal, this would be a migration risk that we would pay a lot of attention to as supervisors. If we saw a lot of flow of assets or activities to the branch and we felt that that was inconsistent with safety and soundness or was posing a greater threat to financial stability in the United States, we would use all supervisory tools at our disposal to stop that. And if we felt that it was necessary to change the way we were regulating foreign banks to address that, we would develop recommendations on that and bring them back to the board.

CHAIRMAN BERNANKE: Thank you. How does this--how does this plan compare to the regulatory structures that already exist in other countries or that are being planned for other countries? Are there any inconsistencies or problems that we need to pay attention to in terms of the way that these plans interlock?

MARY AIKEN: O.K. Let me take that. Let me take the first part of that question.

So we did look at other regimes and compared them to how they stack up against this proposal. First, to just compare to the liquidity requirements that we're putting forward, one of the key requirements that this proposal contains is the concept of having covered foreign firms maintain local liquidity in the U.S. The most comparable and relevant liquidity regime is probably the U.K. And looking at some of the requirements that they have put forward, they have also moved forward with requiring local liquidity requirements for foreign firms. Both of our proposals--or both our proposal and the U.K. regime, those require liquidity stress test and that you would hold a buffer of liquid assets against the results of those stress test so that's consistent. One difference between our regime and the U.K. regime is that we do require branches to hold local liquidity while the U.K. generally does not require branches to hold local liquidity. We thought it was important to push forward with requiring branches to hold local liquidity in the U.S. based on our unique markets and based on some of the historical liquidity risks that we've seen build up in the branches of foreign banks, as many people I think discussed in their opening remarks.

And on the capital side, the capital treatment within this proposal aligns with the treatment that has been put forward in other jurisdictions, such as the U.K. and continental Europe where they have already put forward risk-based capital requirements on foreign bank and broker-dealer subsidiaries that operate in their markets.

CHAIRMAN BERNANKE: Thank you. Vice Chair?

VICE CHAIR JANET L. YELLEN: Thank you. Well, in a way, following up on that question, I wonder if you've thought through what the odds are or the risks are that many other countries might follow our lead and impose similar requirements on U.S. firms operating in their jurisdiction or other international firms operating abroad, and in particular, what impact that would likely have on U.S. banking organizations.

MAHAR: So I think while it's difficult to predict or anticipate exactly what might happen in other their jurisdictions. In general, we think that the risk of large-scale impact of such reciprocal actions is limited by two factors. The first is that, as we've indicated today that the adjustments to our current approach included in the proposal are really aimed at issues that are in some cases unique to the U.S. or only a few other markets that are similar to the U.S. For example, a number of the elements are targeted at the growth and complex non-bank capital market activities in the United States. Some of the proposals are also targeted at the practice of raising short-term U.S. dollars in the United States and on lending them to the foreign parent, which is also closely associated with the role of the U.S. dollar as a reserve currency. In addition, as Mary indicated, in some other markets that are similar to ours, we've already seen movements on the treatment of our institutions as well as other international banks operating in those markets, particularly the United Kingdom where capital requirements for broker-dealer activities, for example, are very consistent with what we are proposing here, as well as they've moved in the same direction on liquidity. So in general, we think those would mitigate a big impact.

VICE CHAIR YELLEN: Thanks. Just one other question. In you presentation, you mentioned difficulties with cross-border resolution, and I think it was just at the beginning of this week that the FDIC and the Bank of England issued a joint working paper describing an approach that they thought might be workable for firms that needed to be resolved jointly by us. If that work were to proceed and be successful, would you want to reconsider the approach that you're taking in this proposal?

VAN DER WEIDE: I think we would have to watch carefully the progress that's made on cross-border resolution in the coming years. As our written documentation indicates, one of the motivators behind this proposal is the challenges in effecting an orderly resolution of a cross-border bank. There has been a lot of progress in the last few years on movements toward maximizing the prospects for an orderly resolution of a cross-border bank. A lot of that work has been multilateral, through the Financial Stability Board and the Basel Committee on Banking Supervision. They have adopted crisis management groups for the large banks to get the supervisors around the world that are relevant to the various banks talking through how they would handle the resolution.

The FSP has also adapted some key attributes of an effective statutory resolution regime to give countries guidance as to how they should design their own statutory resolution regime to again maximize the prospects for an orderly resolution. And we certainly think that the countries around the world that have not yet adopted a statutory resolution regime that would allow for an orderly resolution should be doing that, and we think the FSP's work and guidance in that area is quite helpful.

We've also been working quite actively bilaterally--us and the FDIC together--with major jurisdictions around the world in which U.S. banks operate. The U.K. would be the leading example again. So there's been a lot of bilateral work between the FDIC, us, on the U.S. side and U.K. to try to make sure we understand how each jurisdiction would approach a resolution and to remove as quickly and fully as possible any impediments to those cross-border resolution success.

But it's still clear that challenges to orderly cross-border resolution remain and are likely to remain for some period of time, and dynamic ex post in-the-event ring-fencing by home and host jurisdictions during the crisis created quite a bit of uncertainty and quite a bit of dislocation back in the crisis. It may again in the next crisis. So from our prospective, at this time, requiring stronger local capital and liquidity positions for foreign banks operating in the United States, we think, is essential just to improve the resiliency of the U.S. operations, but also we think to improve the chances of an orderly resolution of a large set of U.S. operations of a foreign bank as well. As progress is made on cross-border resolution, you know, we'll be a part of that and we'll be monitoring that quite carefully. And if that we feel changes the need for this regulatory approach, we'll come back with a revised set of recommendations.

VICE CHAIR YELLEN: Thank you.

CHAIRMAN BERNANKE: Governor Duke.

GOVERNOR ELIZABETH A. DUKE: Thank you. You've talked a lot about the risk posed by a number of these institutions, but could you tell me a little bit about how you've designed this proposal to address different levels of risk posed by different institutions? You know, I don't think all of them pose the same level of risk.

MAHAR: So we do we have a significant amount of tailoring within the population, particularly because sections 165 and 166 of the act do apply to all foreign banking organizations with $50 billion or more in global consolidated assets, and some with a very small presence in the U.S. So the strictest set of standards included in that proposal would apply to those with the large U.S. presence, which we have defined as combined U.S. assets of $50 billion or more. Examples of those stricter standards would include monthly internal liquidity stress tests, a requirement to hold local liquidity buffers, more enhanced risk management requirements, more robust capital stress testing requirements.

For the firms that have a presence of less than $50 billion in the U.S., we would again have a significantly scaled-back set of requirement. For example, in comparison to the cap--the liquidity requirements, they would only be required to conduct a once annual liquidity stress test. They could also meet that at the parent level or at the U.S. operations level, depending on the firm's preference.

GOVERNOR DUKE: Why not just exempt the ones that are 50 billion or less?

MAHAR: So I think I'll turn that to legal.

CHRISTINE GRAHAM: Sure. So the Dodd-Frank Act directs the Board to impose enhanced prudential standards on bank holding companies with total consolidated assets of $50 billion or more. Because the definition of bank holding company includes foreign banking organizations, the most straightforward reading of the statute would scope in foreign banking organizations with $50 billion or more in global consolidated assets. Accordingly, that's the approach taken in the proposal. However, you know, as Molly was just discussing, the Dodd-Frank Act permits the Board to tailor application of the standards based on risk-related factors. And so that is reflected in the proposal, and we also seek comments on how the standards could be further tailored.

GOVERNOR DUKE: Thank you.

GRAHAM: Thank you.

CHAIRMAN BERNANKE: Governor Tarullo?

GOVERNOR TARULLO: Jeremy, you can actually ask them the questions that you proposed—

[Laughter.]

GOVERNOR STEIN: I could, yeah.

GOVERNOR TARULLO: If you're going to, I won't ask them. But if you're not going to, I wanted--I want to—O.K., so could you address at least one of the questions that Governor Stein mentioned at the end of his statement, which is the question of holding liquidity in currency other than dollars. Because I think Molly mentioned quite rightly that one thing that may motivate us that won't motivate most countries is there's a high incentive for foreign firms to come here in order to raise dollars to on-lend in other parts of the world. But--and to the degree that you've tried to walk this middle road on liquidity requirements, what was you thinking around the nature of the liquidity reserves that need to be--that could be held abroad?

AIKEN: I think this is a good question and we absolutely did think about this as we worked through the proposal. We did not put any specific currency requirements in the proposal. And I think, Governor Stein, you were specifically asking about the component of the buffer that's allowed to be held at the parent. We do not have any particular restrictions around currency. We are fairly specific on some of the liquid assets that we allow--U.S. treasuries, U.S. agencies. So we have put forward some definitions on the buffer side but sort of consistent with the thinking that's included in the liquidity coverage ratio within the Basel III Standard. We haven't pushed firms to do specific currency matching or run specific currency modeled stress test. But we would expect firms to absolutely risk manage their currency risks and appropriately address that in their liquidity risk management, but it is not a specific requirement within the proposal. However, we would, you know, appreciate comment, and this would be something that we would want to consider further.

GOVERNOR TARLLO: So that's actually--that was the other question Mark and Molly maybe in particular wanted to ask. There--as always, there's going to be a lot of questions in the Federal Register Notice on soliciting public comment. Are there a few key areas in which you all are particularly interested in public comment, even though I'm sure you're interested in everything…

[Laughter.]

GOVERNOR TARULLO: … but are there a couple in particular you'd like people to focus on?

VAN DER WEIDE: There probably are. I guess I would say the following might be of most interest to us. We are trying, as part of the proposal, to create a relatively--for the guys who left 50 billion in the U.S., to create a relatively uniform regulatory structure for all of them. I would think there are some advantages in doing that. But yet, we do recognize there are some idiosyncratic differences between some of the large banks in the way they operate abroad and in the U.S. So I think we'd like to hear from individual firms that think they are specially situated because of their home country's law or their home country's supervision. It might require us to tailor in some way, I think, the structure requirement or the capital liquidity requirements. I think we'd also like to hear--highlighting one of your issues--whether we've got the graduation thing right. You know, we've got the Dodd-Frank 10 billion dollars global assets line. We've got the Dodd Frank 50 billion global assets line. And then we created this 50 billion U.S. assets line. Was that the right line? Should there be more lines? I think we'd like to hear from banks around that. And then the third thing I think I would say is the whole liquidity framework, soup to nuts, I think we'd like to hear whether we've designed that right, whether the internal stress test approach is solid, whether the 30-day timeline is correct, whether the differential between the branch and IHC makes sense, whether we defined the high quality liquid asset buffer right, and whether we've dealt with the inter-group closed question right.

GOVERNOR TARULLO: Good, O.K. Thanks, Mr. Chairman.

CHAIRMAN BERNANKE: Governor Raskin.

GOVERNOR RASKIN: Thank you, Mr. Chairman. I have two sets of questions for the staff, and they both really come from the perspective of orderly liquidation and wind down should resolution become necessary. Of course, I really want to reiterate my colleagues in saying that, you know, the proposed rulemaking today before us, I think, does truly represent a significant step forward in addressing one of the many lessons of the financial crisis. Namely, the financial crisis drew open the curtain, and one of the scenes that was revealed were limitations on the ability of some foreign banking organizations to act as a source of support to their U.S. operations under stressed conditions. Now, in the wake of the crisis, we see that some home country regulatory authorities have restricted the ability of banks based in their home country from providing support to their hope--to the host countries subsidiaries. And so, this means that the foreign bank offices here in the United States, should they experience financial problems, may have a hard time convincing their parent banks in another country that they should receive financial support from their parent. In addition, the capacity and willingness of governments to act as a backstop to their large financial institutions seems, to me, to have declined around the world. So at the same time, we're seeing signals that foreign countries and foreign banks will be limiting their support of their U.S. operations. We're also seeing many challenges associated with the resolution of large cross-border financial institutions should a failure in one of these large institutions require an orderly process of unwind. Cross-border resolution, as you pointed out, is still a work in progress. And again, I commend the staff for putting forth an initial proposal that makes some progress towards creating a structure that would assist regulators in performing an orderly liquidation and wind down should one become necessary. So the proposal, as you've described it, creates a structural mechanism, which is this intermediate holding company that would be based in the U.S., and it would be a local platform in essence, to use your words, Molly, managing and supervising U.S. operations. And this local platform would seem to have benefits, not just for financial stability, generally, but also for the firms themselves. The intermediate holding company as that platform would be required to hold the capital and liquidity for the foreign banks' U.S. subsidiaries, and would be the U.S. entity for the foreign bank from which risk management for the U.S. subsidiaries could be conducting. In this way, the U.S. intermediate holding company would provide the Federal Reserve, as the umbrella supervisor of the U.S. operations of foreign banks, a platform to implement a consistent supervisory program across U.S. subsidiaries. And importantly, the U.S. intermediate holding company could also help facilitate the resolution or restructuring of the U.S. subsidiaries of a foreign bank by providing one top-tier U.S. legal entity that would be the entity pursuing to which to the resolution or restructuring in the U.S. would occur. So it strikes me that this feature is a huge plus, you know, because it gets supervisors out of the hornet's nest of resolution issues that could arise for global financial institution. After all, to do a cross-border resolution, important issues among regulatory authorities in different countries have to be agreed upon upfront. These issues include how you resolve claims between the U.S. and other countries, what do you do about cross-border deposit insurance claims, obstacles that are presented by secrecy, laws, and other legal impediments. And we've seen since the crisis that several countries have adopted more effective resolution regimes for large financial institutions that allow losses to be borne by uninsured creditors. But more countries need to do so. Much seems, to me, still to be--needs to be done in enhancing supervision of cross-border exposures and their related risks. And in all cases, the ability of these new regimes to deal with actual failures of large cross-border institutions remains a big unknown. Now, in the recent crisis, we see that countries have little ability to orderly do a wind down of large cross-border banks, many of which were systemic. This proposal is, from one perspective, part of a design of a framework for handling such resolutions that can reduce moral hazard and enhance financial stability. So for example, if a failure were to occur at one of the foreign banks' U.S. broker-dealer subsidiaries, regulators wouldn't have to seek out the foreign parent to determine how to contain that failure. Indeed, the U.S. intermediate holding company would be a U.S. platform where regulators could look for capital support instead, again, of seeking capital support from the foreign parent who may be reluctant or prohibited from itself providing capital support to the US. operations. So risk management, supervision, and, if necessary, resolution all seem to be enhanced with this intermediate holding company structure. So my question--my question is whether that's correct, and if so how confident are we that a failure in a broker-dealer subsidiary prior to the proposed implementation date of July 1, 2015, would be successfully resolved, again, prior to a final rule being put in place?

VAN DER WEIDE: I guess I'll try that one. I think your analysis is pretty sound. I think the benefits that you've identified of the intermediate holding company, both sort of the ex-ante resiliency benefits and the ex-post resolution benefits, are there. From the resolution perspective, you can imagine at least two ways in which the resolution of a large foreign bank that gets into trouble might go. One would be we get to that future desired state where we're pretty confident that we can do a cross-border resolution where the home country supervisor of the foreign bank will reliably take care of the whole foreign bank in the home country and in all the host countries in which it operates. And I think, having in the U.S. operation of that foreign bank in that desired future state, its own capital and its own liquidity makes it more--makes the United States more able, as you say, to not have to then try to draw additional capital liquidity resources from that parent, and therefore I think makes us more able to kind of say yes to the global firm-wide resolution that the home country's resolution authority is going to do. The other way in which a cross-border resolution might process--and the one that would be more disrupted potentially--would be one that kind of falls into national jurisdictions, where each country grabs their piece of the foreign bank and tries to resolve it. If that's the way of the future resolution of a large foreign bank goes, us having more capital and liquidity in the U.S., which would mean the holding company, again, will better protect the U.S. creditors of that entity and better protect U.S. financial stability. So I think having the bigger buffers--capital liquidity in the U.S. operations--both better enables us to participate in a firm-wide global resolution led by the home country resolving authority, and also in case it doesn't work out quite so nicely, and you wind up doing the territorial resolution, we'll have more resources here to protect the U.S. financial system.

GOVERNOR TARULLO: I think Governor Raskin is asking what about between now and the time that the reg is put in place. I mean, Jack--maybe, Jack, you should speak to supervisory practice.

JACK JENNINGS: So, well, perhaps Mike and I could speak to that, but there are a number of initiatives underway to--outside of this proposal--to be addressing liquidity needs for these larger organizations and to build up these buffers working with individual firms, individual supervisors recognizing that, I think, there is a weakness, I need to address this even prior to the proposal. So we have been in touch with foreign supervisors and these firms, and conducting a number of exercises around what we see as a need here in the U.S., which I think we'll continue to work on that in terms of building these buffers. Mike, is there more you might add?

MICHAEL HSU. Yes, so there are a number of supervisory tools and actions that is likely to--that are underway and have been underway for some time to improve the resiliency under the current conditions, as is prior to the implementation of the NPR. I think it would be dangerous, however, to over promise on that, and that there are risks that a resolution-type situation between now and one in the future, but I think that there is--there has been alluded to, there’s a lot of progress that has been made interagency with the FDIC, with the SCC, with other agencies that are stakeholders. A lot of exercises have been done. A lot of progress has been made. So I think that is part of what puts us in a better position today than where we have been in the past.

VAN DER WEIDE: If the broker-dealer during this transition period fails and we don't think the failure would be a threat to financial stability, you know, we'll--we can run it through the bankruptcy code and things should be okay. But if it is a broker-dealer that's quite large and quite interconnected with the U.S. financial system and we do think that its failure could pose a threat to U.S. financial stability, the Dodd-Frank Orderly Liquidation Authority in Title II is available for the resolution of a broker-dealer entity. It's untested, hasn't been used before, and there are some particular challenges in resolving a broker-dealer because it is a large operating company that has lots of counterparties itself, there are some advantages in going into the operate--a non-operational holding company, we wouldn't have that. We do have, at least, the Orderly Liquidation Authority by its terms can apply to a large broker-dealer. If we needed to use it, it would be there.

GOVERNOR RASKIN: So it's helpful and it raises another set of questions that I want to ask. It occurs to me that, with this delayed implementation date which we'll ask for comment on will be a specific set of questions about one thing that we as supervisors will want to consider also is what that delay might do in terms of the risks that are currently embedded in the cross-bed--cross-border resolution process. So just putting the effective--the delayed effective date aside for a moment, you know another issue in the proposal seems at first blush again is others have mentioned to be the exclusion of U.S. branches and agencies from the U.S. capital requirements and the risk management requirements and the intermediate holding company requirements. And I'd like to have you say a little bit again about how confident we are that the U.S. branches of foreign banks can be resolved should they need to without being under an intermediate holding company and without having any U.S. based capital requirements. And I understand, you know, they are not formal subsidiaries. They're not separate legal entities, so they don't have separate--and they don't have separate capital requirements, so they can't be resolved without looking to the foreign parent. How do they get resolved? I understand, you know, there is a fairly, you know, sort of clunky legal process we would follow that would permit us to terminate them as branches, and Ann pointed this out, at the beginning, there would be a notice, a hearing, and we'd work with our U.S. partner regulators to liquidate them. We'd hope that when we’d liquidate them that there is sufficient assets to cover all U.S. creditors. And I think this was the procedure that was followed in the case of BCCI. But now, you know, many U.S. branches and agencies may not be inherently financially stable. Many rely on wholesale financing and don't hold capital. So how would we preclude a run on these entities, you know, perhaps precipitated by a failure of the branches' foreign parent, say, in another country from necessitating the need for U.S.--a U.S.-based capital cushion. You know, what's the path for resolving such a branch failure if one were to occur? And maybe, Jack, that's up your alley again.

JENNINGS: Well, I would maybe start by saying that a lot has changed in recent years in terms of the funding, a more balanced approach in terms of branches, generally. We're not in the situation that we were historically here, with branches not being able to have sufficient assets here with regard to local funding. So I think that is, I think, an important part of this. I think that we have also--we have some experience, oh, you mentioned BCCI on this, but I think we've got ourselves in a better position. We work with our counterparts overseas on matters such as this. We do have a regime wherein we increasingly ratchet up the ratio, if you will, of assets versus third-party liabilities, so that in the event that, as the situation deteriorates, we are putting ourselves in an increasingly better position, such that we don't find ourselves short, if you will, as that is resolved. But as I say, I think the proposal--the benefits of the proposal, of course, are that we are doing that more proactively, more prior to the time when things begin to unwind. But I would say that, chiefly, at this point, we have simply had a--we have been working--firms themselves had been seeing the need to do leverage, and as a result, have been putting themselves in a more stable position here in the U.S. So it's been a combination of their--I think of their, you know, their own evaluation of the situation as well as any supervisory pressure that we have had to bring.

GOVERNOR RASKIN: Thank you.

CHAIRMAN BERNANKE: Governor Stein.

GOVERNOR STEIN: I'd like to just follow up briefly on the discussion that we were having with Governor Tarullo on the design details of the branch-level liquidity rule. So, the idea--that proposal is to have two weeks of liquid assets in the branches as opposed to the more stringent requirement for the intermediate holding companies. So can you just tell me a little bit about how you thought about that and thinking about kind of calibrating it in a sensible way?

AIKEN: That's a good question. It is something we spend a lot of time talking about--probably just to level set, I should first say that for the base requirements, we do require both the IHC and the branch to do the stress test. We do expect them both to have a buffer of liquid assets for 30 days. Really the difference revolves around the location of the buffer. So the IHC has to hold the whole 30-day buffer within the U.S. and the branch only has to hold the buffer in the U.S. for the first 14 days. They can hold days 15 through 30 at the parent, as we discussed earlier. The reason why we put forward the differentiated requirements between the IHC and the branch is based on the fact that the branch is not a separately incorporated entity. I think we've already talked about the fact that the branch is subject to more restrictions on activities than the IHC. But I should also point out that when a firm does hold that buffer of liquid assets for days 15 through 30 at the parent, we do have in the proposal the requirement that the firm has to demonstrate to the Board the firm's ability to be able to bring those assets back to support the U.S. operations under a crisis. So again, it's just a location issue. And then one other final thing I should point out is that we can require firms to hold the entire 30-day buffer in the U.S. for branches, and that is specifically detailed within some of the initial stages of the remediation framework in the proposal.

GOVERNOR STEIN: One follow-up, which is how do I connect in my mind the liquidity regime envisioned here with that under Basel III and the LCR? How is all these stuff going to true up in the end?

AIKEN: That's another good question, that's another good question. And kind of the way we've approach our liquidity regulation is sort of two-pronged and we sort of think about it as, first, enhance risk management, which is what you see in this proposal and it's consistent with what we did on the domestic side. The other component will be a standardized quantitative approach, which we would implement through the Basel III Liquidity Standard. So that's sort of the way we think about it. Within this particular proposal, the stress test requirement and the buffer of liquid assets is a framework that is consistent with the liquidity coverage ratio that is within Basel III, but the real difference is that our proposal is an internal model, a firm-run stress test versus the Basel III Liquidity Coverage Ratio as a supervisory prescribed standardized test. So we're making progress towards that. And staff would expect to bring to the Board a proposal to implement the quantitative portion of liquidity requirements through a future step that we're making that we’ll do for Basel III and we will bring that forward on a timeline that's consistent with the international community. As far as application goes of those standards, we would basically apply them to a subset or to all of the U.S. operations of foreign banking firms with 50 billion and combined U.S. assets, and we would define that in that rulemaking.

GOVERNOR STEIN: Thanks very much.

CHAIRMAN BERNANKE: Governor Powell.

GOVERNOR JEROME H. POWELL: Thank you Mr. Chairman. This is quite a fundamental change and I'll just echo what others have said around the table that all of us, I know, look forward to reviewing carefully and considering the public comments on this. The proposal, it seems to me, moves us down the road toward a more fragmented banking system, toward a more fragmented regulatory system. And I guess I'd like to know if we agree with that statement and more to the point, what are our thoughts about a couple of the consequences, on particular on liquidity front, it seems that the ability to move liquidity around the world during a stressed situation could enhance financial stability. On the other hand, we've articulated today some countervailing benefits. Can you talk about the wing of those two? And then more broadly, the question of the movement of free capital around the world. To the extent, we're trapping capital and liquidity in countries in this approach, you know, becomes a global approach. What do we think about the effect on, you know ultimately, global economic growth?

VAN DER WIEDE: I'll start with a few comments on the fragmentation question and Tara can offer some more of a macroeconomic perspective on the thing. I think from our perspective, we don't think our proposal is a movement towards a fully territorial model for the regulation of multinational banks. We think it's a targeted set of policies that addresses some material risks to U.S. financial stability. Importantly, we think the retention in our proposal with the ability of foreign banks to do direct cross-border branching is a pretty material retention and we think foreign banks being able to continue to directly branch is--will be quite helpful to continuing the cross-border flows that we see and already occur because of those. We also think it's important that our proposal does not add to the set of limits on the ability of the U.S. operations to send money up to the foreign parent. We're going to regulate the way they borrow that money in the U.S. to make sure there isn't excessive maturity mismatch, but we're not going to put new limits on the ability of the U.S. operations to lend money up to the parent. I think it's also important to note that we do continue to think that harmonization of global regulatory standards is an important goal to achieve. So in the Basel III Capital and Liquidity rules, for example, we think are pretty important. We think we need to continue to work to make sure every jurisdiction on the world is implementing those. We think that's important to safeguard the global financial system. And we think that's important to achieve from the global competitive equity for big banks around the world. So we don't think this should be viewed as a kind of a walking away of the Federal Reserve, from kind of that commitment to getting the core prudential standards for global banks on the same or as similar as possible. But I think what we've concluded this that while getting those core prudential standards globally harmonized is a good thing; it's a necessary thing to do. It's not sufficient to protect the U.S. financial systems. So we feel like supplementing that international agreement. We need to have more capital and more liquidity for the U.S. operations and we're trying to calibrate it so that we're getting the right amount of capital in the U.S. and the right amount of liquidity for the risks in the United States. So we're trying not to overshoot on that. We're trying to make it pretty commensurate with the U.S. risks. But we're going to seek comment on whether we've got that calibration right.

TARA RICE: So we spent a lot of time thinking about how this might affect the global financial flows and how it might affect global economic growth. We also spent some time thinking about how this might affect the international banking business model and how asking banks to hold more liquidity locally and hold capital here might cause them to or encourage them to change their strategies. And so, what we've determined as these well-known banks operate along a spectrum of banking business models and by--and the banking business model has been alive and well here in the U.S. for a long time. By encouraging them to change the way they engage in some of their U.S. operations, we think that can only bring some financial stability benefits here to the U.S.. We do expect foreign banks to adapt to these new requirements. And in fact, as Jack had noted, some banks already have adapted, particularly the Euro area banks that have adapted their funding patterns in response to the recent strains in Europe. And so, we think that this proposal may consolidate and give some permanence to the shift away from the riskier funding activities that Governor Stein and Governor Tarullo have noted. We do think this proposal may change the structure of global gross cross-border positions of foreign banks and lengthen out the term structure of their U.S. liabilities. But we believe the direct impact on economic activity is unlikely to be significant. Let me add also that the vast majority of these cross-border positions are in dollars. And so, we've also thought a lot about the role of the dollar in international finance. The dollar has a unique role in trade finance and project finance, and while these gross positions may change, we don't see any impact on the dollar’s central role in international finance. This role comes from the breath and the depth of the U.S. financial markets and the trust people have it in as a store value.

GOVERNOR POWELL: Thank you, Mr. Chairman.

CHAIRMAN BERNANKE: O.K. Any other questions from the Board? If not, I'd like to ask for positions. Can I start with you, Vice Chair?

VICE CHAIR YELLEN: Yes, certainly. First, let me say to the staff that I greatly appreciate the very thorough and thoughtful work you've done in preparing this proposed rule and I want to thank Governor Tarullo for his leadership of this effort. I support putting this proposal out for comment and look forward to receiving the public comments. It seems to me that the regulation of foreign banking activities in the United States raises very thorny issues and I recognize the proposed rule may conceivably have implications for the conduct of business by global banking organizations. But the reality is, as you've pointed out, that the character of foreign banking in capital market activities in the United States has changed enormously since the mid-1990s when we adopted our FBO program. And in the environment we have today, I agree that the requirement that U.S. operations of FBOs have sufficient capital and liquidity on an ongoing basis to support the resiliency of their U.S. operations really does recognize the post-crisis reality that support from the parent may simply not be available in times of crisis. I think it is heartening that supervisors here and abroad are working together to develop the means to resolve the operations of complex global banking organizations and, to my mind, it's important for that work and border efforts to coordinate and harmonize the regulation of internationally active banks to continue. But I agree that our capabilities at this stage are limited. And, all in all, I think staff have put together a very balanced proposal that meets the requirements of Dodd-Frank and also affords national treatment and competitive equity in our markets to banking organizations both based here in the U.S. or abroad.

CHAIRMAN BERNANKE: Governor Duke.

GOVERNOR DUKE: Thank you, Mr. Chairman. As many of you have noted, this proposal does represent a significant change in our approach to supervising foreign banking organizations. Even without the requirements of Dodd-Frank, I think some change in our approach was likely necessary in light of increased complexity, interconnectedness and concentration of U.S. operations of foreign banking organizations as well as the lessons we learned during the financial crisis. I see three very important benefits of this proposal. First, it will ensure that U.S. banking firms and U.S. subsidiaries of foreign banking organizations are subject to substantively the same core prudential requirements such as capital and liquidity, and I think this is important to maintain a level playing field for domestic and foreign firms. Second, the intermediate holding company feature prevents foreign banking organization with similar risks in their U.S. subsidiaries from being subject to very different capital and other prudential requirements based on minor differences in the way they choose to structure their U.S. operations. We tried hard to calibrate our regulatory approach to domestic institutions to correspond to their relative risk to financial stability regardless of charter or primary business line and we should do no less with foreign companies. And finally, at the same time, I think the proposal does recognize that smaller organizations or those with a smaller U.S. presence pose less risk to financial stability in the United States, and accordingly, provides less burdens and requirements for those institutions. I do not believe that a one size fits all approach is any more appropriate in our approach to foreign institutions than it is for domestic ones. Recognize that in spite of these advantages, this represents a substantial change in regulation and one that is not without cost, both operationally and in terms of financial flexibility. Also recognize that changes to the regulation of international financial institutions will affect global capital flows as well as--and global economic growth as well as credit availability and economic performance in the United States. So Mr. Chairman, I'm in favor of issuing this proposal and look forward to receiving and reviewing comments.

CHAIRMAN BERNANKE: Thank you. Governor Tarullo.

GOVERNOR TARULLO: Thank you, Mr. Chairman. Rather than repeating what I said at the beginning, I'll just incorporate it by reference and say that…

[Laughter.]

GOVERNOR TARULLO: …I support putting the proposal out for comment. Thank you.

CHAIRMAN BERNANKE: Thank you. Governor Raskin.

GOVERNOR RASKIN: Thank you Mr. Chairman. We were required by law to have issued a regulation on this topic by January 18th, 2012. For that and for other reasons, I'm supportive of moving this proposal forward and look forward to receiving and reviewing public comments as they come in.

CHAIRMAN BERNANKE: Thank you. Governor Stein.

GOVERNOR STEIN: Again, I'll incorporate by reference and just say thanks again to everybody for all your hard work. I support putting the proposal out for comment. And do I think there are some subtle issues and we'll hear back some interesting things in the comments and we hope to keep our minds open, but supportive going forward.

CHAIRMAN BERNANKE: Thank you. Governor Powell.

GOVERNOR POWELL: I support putting the proposal out for comment.

CHAIRMAN BERNANKE: Thank you. It is a very difficult challenge that you face to try to put together a proposal that preserves U.S. financial stability, keeps the level of playing field between foreign and domestic firms and, at the same time, doesn't inhibit capital flows or economic growth. And furthermore, it all had to be consistent with Basel III and with Dodd-Frank, so it wasn't a simple task. I think this is a good start, a good balanced approach. It is complex. It is--does reflect a lot of work. It is a lot of change. So I think I will just join my colleagues in saying that we do seriously solicit comment. We will pay close attention to the comments and try to learn from those comments. But I do support, I think, going out to get comment from the public is absolutely the right step at this stage and I do support taking that step. All right then, I need a motion to approve.

VICE CHAIR YELLEN: So moved.

CHAIRMAN BERNANKE: Second?

GOVERNOR TARULLO: Second.

CHAIRMAN BERNANKE: All right. All in favor, say aye.

MANY VOICES: Aye.

CHAIRMAN BERNANKE: Any opposed?

[Pause.]

CHAIRMAN BERNANKE: Thank you, the motion is carried and meeting is adjourned.