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CHAIR JANET L. YELLEN: Good afternoon. I'd like to welcome our guest to the Federal Reserve today as we take another step in addressing the risks that large financial institutions pose to U.S. financial stability. The final rule before the Board would implement more of the Dodd-Frank Act's enhanced prudential standards for large domestic and foreign banking organizations. As the financial crisis demonstrated, the sudden failure or near failure of large financial institutions can have destabilizing effects on the financial system and harm the broader economy. And as the crisis also highlighted, the traditional framework for supervising and regulating major financial institutions and assessing risks contained material weaknesses. The final rule would help address the sources of vulnerability. In developing the requirements for both domestic and foreign banking organizations, the Board has sought to strengthen U.S. financial stability and reinforce its longstanding policy of national treatment and equality of competitive opportunity between the U.S. operations of foreign banking organizations and U.S. banking firms. I look forward to today's discussion of this important initiative. Let me turn the meeting over to Governor Tarullo.

GOVERNOR DANIEL K. TARULLO: Thank you, Madam Chair. The final rule before us today is another component of our ongoing effort under section 165 of Dodd-Frank put in place a set of prudential standards for large banking organizations that become progressively more stringent as the systemic importance of the regulated identity increases. Liquidity risk, risk management standards and the regulation will be added to the final resolution plan and stress testing regulations that are already in place. In the coming months, we will be considering final or proposed rules covering other elements of this set of enhanced prudential standards including risk-based capital surcharges, a supplemental leverage ratio, minimum levels of long-term debt, and quantitative liquidity standards. The requirements applicable to foreign banking organizations with a large U.S. presence are an essential part of regulatory reform in the aftermath of the financial crisis. Beginning in the mid-1990s the profile of foreign bank operations in the United States changed significantly. Foreign banks became more concentrated, more interconnected and increasingly reliant on the kind of less-stable short-term wholesale funding that proves so volatile when financial stress developed. Many reoriented their operations toward borrowing large amounts of U.S. dollars often in demand elsewhere in the world to provide to their parents abroad. Meanwhile, the mix of foreign bank activities in the United States shifted decidedly toward capital markets to the point that in recent years the top 10 broker dealers in the United States have included either four or five foreign-owned firms. The consequences of these changes in foreign bank activities were seen dramatically during the crisis when the funding vulnerabilities of numerous foreign banks and the absence of adequate support from their parents made them disproportionate users of the emergency facilities established by the Federal Reserve. Yet the United States actually lag some other important financial jurisdictions in assuring that large domestic operations of foreign banking organizations have enough capital and liquidity to help provide stability when stress develops. Just as Congress and the Federal Reserve in the past have adapted the regulatory system applicable to foreign banking organizations in response to important changes in their activities, so today, we must address the risks to financial stability posed by the more recent changes I've just noted. The proposed final rule before us today would mitigate these risks in an appropriately modulated fashion. Staff recommend various changes from the proposed rule. Many of these are responsive to suggestions

made by commenters and would reduce compliance and other costs without detracting from the overall financial stability benefits the rule would provide. Finally, I would suggest that the objections raised by those who say this rule would undermine the gains that come from global capital flows overlook or downplay some important points. First, those gains are most endangered when financial activity contracts rapidly in periods of high stress which underscores the imperative of some prudential policies. Second, as we have seen repeatedly, ad-hoc ring-fencing becomes more likely precisely in those periods of stress when it is far more damaging to a vulnerable financial system than a well-conceived set of generally applicable ex-ante measures imposed in normal times. Third, the rule before us walks a middle road between the vulnerabilities of the status quo and a complete subsidiarization model by for example continuing to permit branching. In sum, I would say that the most important contribution we can make to the global financial system is to ensure the stability of the U.S. financial system. And with that, Madam Chair, I'll turn it to Elizabeth MacDonald and Mike. To you, Mike.
To begin the briefing.

MICHAEL GIBSON: Thank you, [inaudible] for the staff presentations today, I will make some brief opening remarks then Elizabeth and Jordan will describe the draft final rule in more detail and then we will be happy to answer your questions. Section 165 of Dodd-Frank enshrines the concept that banking organizations that are larger and pose more systemic risk should be subject to tougher supervisory and regulatory standards. As Governor Tarullo mentioned, today's draft final rule is a key part of the broad package of reform measures that applies to both domestic and foreign banking firms. These regulatory measures are supported by significant changes we have already made to our supervision of the largest most systemically important banking firms through creating a centralized committee that brings a horizontal perspective. The 165 final rule sets out enhanced prudential standards for both domestic and foreign firms. Governor Tarullo described how foreign banks' activities in the United States have changed dramatically over time and as a result the U.S. operations of the largest foreign banks now pose risks to U.S. financial stability that are comparable to the risks posed by the largest U.S. banking organizations. The draft final rule contains enhanced standards for foreign banking organizations that are generally consistent with the enhanced standards for U.S. firms that pose similar risks. Having standards for foreign firms operations in the U.S. that are similar to those for domestic firms will be a change from our past practice and will be a significant change for some foreign banking firms. Although, today's 165 final rule focuses on new regulation, the ultimate goal of the proposal is to enable us to do a better job in our supervision of the activities of foreign banks in the U.S. Supervision generally aims to keep banks healthy so they can lend to support economic growth. And when a bank gets into trouble, we force them to fix their problems, raise capital, and get out of trouble. Because of the changes in foreign bank activities in the U.S. mentioned earlier, it's become harder for us to see when a foreign bank's U.S. operations are getting into trouble and need more supervisory attention. For example, foreign banks have diverse structures, meaning, we do not get consistent regulatory reporting and we cannot as easily monitor the conditions of foreign banks as we can for domestic banks. And without an intermediate holding company we would not be able to do consistent stress testing on a comparable basis to other foreign banking organizations and domestic bank holding companies. So the 165 final rule is needed to enable better supervision of foreign banks' activities in the U.S. I'd also like to briefly mention what the draft final rule does not do. It's not a protectionist proposal. It contains similar requirements for domestic firms that pose similar risks. As Chair Yellen noted, it does not change our basic principles of competitive equality and national treatment. We generally treat foreign and domestic banks the same. The final rule does not require full subsidiarization of the U.S. operations of foreign banks. It will continue to allow foreign banking organizations to operate direct branches in the United States on the basis of their parents' consolidated capital. It does not impose caps on intercompany funding and it does not impose ring-fencing in the traditional way that term is defined because capital and liquidity above the minimums can freely flow in and out of the U.S. Finally, the final rule does not include requirements for nonbank financial companies that have been designated by the FSOC for supervision by the Board, the so-called nonbank SIFIs. Those requirements will be established through a separate process. We don't expect that separate process to take too much time for a nonbank SIFI that is similar to a bank holding company. We expect those enhanced prudential standards will not be too different from what is in this final rule for bank holding companies. On the other hand, for nonbank SIFIs that are predominantly insurance companies, we plan to take more time to tailor the requirements adequately and avoid a bank-centric approach. With that I'll turn it over to Elizabeth.

ELIZABETH MACDONALD: The final rule the Board is considering today would implement enhanced prudential standards for large domestic and foreign banking organizations. The rule which is designed to enhance financial stability by addressing certain weakness in the U.S. regulatory framework that were reveal during the financial crisis and its aftermath was produce by a multi-disciplinary team across the divisions of the Board. In our remarks today, Jordan and I will provide an overview of the basic elements of the package the Board is considering. I will be discussing the final rule for domestic bank holding companies and Jordan will be discussing the final rule for Foreign Banking Organizations. Our colleague Mark Van Der Weide, Molly Mahar, Kwayne Jennings, Christine Graham, and Tara Rice will then help answer your questions about the details of the new requirements. Congress directed the Board in section 165, the Dodd-

Frank Act to impose, enhanced prudential standards on large U.S. banking organizations, large foreign banks and nonbank financial companies designated by the financial stability oversight counsel for supervision by the Board. The act directs Board to increase stringency of the standards in line with systemic footprint of the company. For foreign bank specifically, the statute directs the Board to take into account comparability of home county standards, national treatment and equality of competitive opportunity. The Board has already taken significant steps to impose, enhance prudential standards that address the financial stability risks post by large barking organizations. In October 2011, the Board adopted the final rule to require each large bank holding company to submit annual resolution plans describing the company strategy for orderly resolution and bankruptcy. As a result, firms and supervisors are now focused on opportunities to improve the government's ability to resolve these firms upon failure in a manner that minimizes financial instability. The Board has also established enhanced prudential standards to ensure that large banking organizations are better capitalized. These include final rules requiring U.S. bank holding companies to submit capital plans and to comply with supervisory and company runs stress test requirements. Because of these initiatives, large domestic banking organizations now hold substantially more capital than they did heading into the financial crisis. The Federal Reserve has used stress testing and its broader supervisory authority to prompt the doubling of the weighted average tier one common equity ratio for our largest bank holding companies which account for more than 70 percent of U.S. banking sector assets. From 5.6 percent in late 2008 to 11.3 percent in the third quarter of 2013. In absolute terms that is the net gain of more than 450 billion dollars and the highest quality capital. The Federal Reserve and other federal banking agencies have also approved rules to establish an integrated regulatory capital framework designed to ensure that U.S. banking organizations maintain strong capital positions. The revised capital framework contains certain provisions that apply only to large and internationally active banking firms consistent with their systemic importance and their complexity including a supplementary leverage ratio and a counter cyclical capital buffer. Preliminarily analysis shows that all of our global systematically important banks or U.S. G-SIBS meet the Basel III common equity tier one minimum requirement plus capital conversation buffer. The requirements in the final rule that the Board is considering today are an important milestone in our efforts to ensure that our regulatory and supervisory framework fully addresses the risk post by large banking organizations. The final rule would require large domestic banking organizations to comply with liquidity risk management standards, to conduct internal liquidity stress test and to hold a buffer of highly liquid assets based on the results of such stress tests. The liquidity of framework in the final rule would be based on firm-specific stress scenarios and assumptions tailored to the specific products and risk profile of the company. As such this liquidity framework is intended to complement more standardized approaches to liquidity regulation such as the liquidity coverage ratio developed by the Basel committee and proposed in United States for large banking firms last fall. The final rule would also require a publicly traded bank holding company with total consolidated assets of 10 billion or more. And a bank holding company with total consolidated assets of 50 billion or more regardless of whether it is publicly traded to establish a risk committee of the Board of directors. The risk committee would be chaired by an independent director and have at least one member with risk management expertise commensurate with the size and complexity of the company. A bank holding company with total consolidated assets of 50 billion or more would also be required to retain a chief risk officer with expertise commensurate with the size and complexity of the firm. Now, I'll turn to Jordan who will discuss the final rule for Foreign Banking Organizations.

JORDAN BLEICHER: Requirements in the final rule for foreign banks are targeted set adjustments to the Board's current approach regulating and supervising foreign banks' U.S. operations. Presence of foreign banks in the United States bring significant competitive and counter cyclical benefits to U.S. markets. Board staff actively participate in international efforts to improve cooperation among supervisors around the world. Governor Tarullo and director Gibson have indicated. The final rule would adjust the Board's current regulatory approach in order to take account of changes in foreign banks U.S. operations since their current approach was developed. In preparing the final rule, we have sought to achieve several goals. First, to establish a consistent platform for regulating and supervising the U.S. operations of foreign banks. Second, to limit the extent to which foreign banks are subject to different requirements based on their use of different corporate structures. Third, to increase the resiliency of the large U.S. operations of foreign banks by requiring the increased local capital and liquidity buffers. And fourth, to avoid imposing an excessive burden on foreign banks with more limited U.S. footprint. The final rule preserves the core requirements for foreign banks that the Board proposed in December 2012. Under the final rule, a foreign bank with U.S. non-branch assets of 50 billion or more would be required to hold its U.S. subsidiaries under U.S. intermediate holding company. The Intermediate Holding Company would be subject to risk based and leverage capital requirements, liquidity requirements and other enhanced prudential standards on a consolidated basis. Foreign banks, U.S. branches and agencies would continue to operate outside of the Intermediate Holding Company. Branches and agencies would be subject to separate prudential requirements including the requirement to hold the buffer of highly liquid assets based on the results of internal liquidity stress tests. The primary modifications in the final rule relate to scope and timing. Final rule would increase the asset threshold that triggers the requirement to form an intermediate holding company from 10 billion to 50 billion in U.S. non-branch assets. This revision is consistent of the goal of avoiding imposing an excessive burden on foreign banks whose U.S. operations pose less systemic risk. The final rule would also give relevant foreign banks more time to reorganize their U.S. subsidiaries under an Intermediate Holding Company, would not require foreign banks Intermediate Holding Company to meet leverage ratio requirements until 2018. This extension of the leverage ratio compliance period aligns with the effective date of the Basel III leverage ratio and will minimize any adverse transitional impact on foreign banks in the U.S. economy by giving the foreign banks additional time to bolster the capital possession of their U.S. operations. In addition, the final rule would not require foreign banks' Intermediate Holding Company to comply with the advance approaches risk based capital rules. Because of foreign banks, Intermediate Holding Company will still be subject to the standardized risk based capital rules, stress testing requirements, capital planning requirements and leverage ratio requirements exempting the Intermediate Holding Companies from the advanced approaches capital rules will reduce burden on foreign banks without materially impairing the financial stability objectives of the framework. Finally, we note that some enhanced prudential standards will need to be separately finalized. As direct-- as Director Gibson indicated, the final rule does not include requirements for non-bank financial companies that the financial stability oversight counsel has designated for supervision by the Board. Single counter party credit limits and early remediation requirements will also be separately finalized. Board staff have been actively participating in a Basel committee process to develop a large exposure framework for global banks as directly now just to single counter party credit limits, the Board is required to establish under section 165 of the Dodd-Frank Act. We expect that the Basel committee will complete its work in the large exposure regime in the coming months. When we have a final standard from the Basel committee we'll return to moving forward on the U.S. single counter party credit limit proposal with the benefit of two quantitative impact studies carried out by Board staff last summer to gauge the effect of the Boards in the Basel committee's proposals. With respect the early remediation requirements of the Dodd-Frank Act, staff need more time to determine how best the design the framework to promote beneficial early recovery actions including how to integrate the new Basel free capital thresholds and buffers into the framework. This concludes our prepared remarks. My colleagues and I would be pleased to address your questions.

CHAIR JANET L. YELLEN: Thank you very much. Thanks for--of your hard and excellent work on this rule. I have just a couple of questions, in Dodd-Frank and in this rule, you're putting in place standards that apply to all bank holding companies with over 50 billion dollars in consolidated assets. But in terms of systemic risk seems to me there is a difference between some of the smaller banking organizations that are covered by the rule and some of the largest and most interconnected institutions that are covered. Does the rule differentiate sufficiently among these different organizations to try to avoid excessive burden on the smaller of the and less systemic of this?

CHRISTINE GRAHAM: Yes. So, with respect to standard applied to foreign banks first, consistent with the statute, the draft final rule would apply to all foreign banks with total consolidated assets of over 50 billion or more. However, the standards applicable to foreign banks become more stringent as the risk to financial stability increase. So, the standards applied to foreign banks with combined U.S. assets of over 50 billion are significantly more stringent than those applied to FBO with less. In addition, the IAC requirement applies to FBOs of U.S. subsidiary assets with 50 billion or more which is even a smaller subset. With respect to the standards applied to both bank holding companies and foreign banking organizations, the standards themselves are tailored in their design. For instance, the liquidity requirements require firms to develop liquidity stress scenarios based on terms specifics factors including capital structure and size. In addition, the liquidity framework will require firms to hold larger liquidity buffers to the extent that they are more reliant on forms of funding like short-term wholesale funding.

CHAIR JANET L. YELLEN: Thanks very much. I just have one more question. You mentioned in your presentation that the final rule permits U.S. branches and agencies of foreign banks to remain outside the intermediate holding company and to operate in the United States on the basis of a home country, capital, and their capital requirements in governance structures. Also, that there is no capital cross border intragroup flows. Yet, looking back on the crises, it seems as though many of these branches and agencies were a source of a financial stability risk. And so, my question would be are you comfortable with allowing them to stay outside of that that framework? Do you think we've done enough to address the risks that these branches can pose?

JORDAN BLEICHER: Ok, I'll answer that. Because a foreign bank branch is not a separate legal entity from the foreign bank parent it can't be moved under a U.S. intermediate holding company in the same way in FBOs U.S. subsidiaries can. With respect to whether or not this rule is doing enough to address the risks posed by branches and agencies, I think it directly addresses some of the key risks we saw with branches and agencies in the last crises by requiring branches and agencies to maintain a two-week buffer of highly liquid assets in United States will give firms and supervisors an opportunity to respond for liquidity position of the branch deteriorates including potentially by access in additional liquidity maintained at the foreign bank parent level. I'd also note that an FBO would have to put in place the contingency funding plan and the risk management framework for its entire U.S. operations which would include the branch and agency network.

MARK VAN DER WEIDE: I'd like to expand on that just a little bit. Like he said, this is a pretty important issue. We're marching pretty carefully how foreign banks adapt to our proposal and it is pretty clear that we're increasing the stringency of the regulation around the subsidiaries, the IHC [phonetic] quite a bit. And while we're meaningfully enhancing the regulation of the US branches as well, it's not to the same level as the IHC. So, obviously, there's natural incentives there for arbitrage behavior to occur. This is something that we'll monitor very carefully. We do have some reasons for thinking that we would not see a large migration of activity from the subsidiaries to the branches. Part of that is that about half of the non-branch activity of foreign banks in the U.S. is in their U.S. broker dealer subsidiaries as a general matter under federal banking law, U.S. corporate securities underwriting and dealing can't be conducted in the US branch for foreign bank. So, it'd be difficult for them to move most of those activities in the broker dealer to the branch. Another important factor is a lot of the rest of the non-branch subsidiary activities of the foreign banks are done inside U.S. insured depository institutions. A lot of them are funded by FDIC insured deposits. U.S. branches of foreign banks are not allowed with a few grandfathered exceptions. They're generally not allowed to raise FDIC insured deposits. So, again, it would be difficult to migrate that FDIC insured deposit funded business over to the branch. But that said, we'll be monitoring very carefully to make sure that any migration of activity to the branch that we see is one that we're comfortable with and if we're not, we'll think about adopting the supervisory and regulatory framework.

CHAIR JANET L. YELLEN: Thank you very much. Let me turn to my colleagues, Governor Tarullo.

GOVERNOR DANIEL K. TARULLO: Thank you Madam Chair. So, I want to ask a couple of questions based on comments that or really criticisms of the proposed rule that we're putting to the record by some commenters. The first was on the subject of the potentially deleterious impact of the regulation on repo markets. And so, I wonder if you could--some group of you could explain to the Board what kind of analysis you did of the possible impacts and presumably explain why you're comfortable with making the proposal that you're making today?

[HERE]

TARA RICE: [intset person] Let me start with that one. So, the comments that we received, the main argument was that the business is done in some of the broker dealer offices in repo and sec lending market or the lower margin businesses and these are the activities that could generate the greatest need for incremental capital relative to the margins. So hence, the focus on the repo and sec lending markets, we have done quite a bit of thinking around this. It's an important topic. We've analyzed trends in the markets. We've talked to other regulatory agencies. We have talked to other Federal Reserve banks. Do we think or we do we expect a disruption in these markets? We do not. For a couple of reasons and I'll explain. But let me also note that the large role that some FBO subsidiaries play in this critical U.S. markets. Because of this, we think there are significant financial stability benefits to be gained by requiring FBOs consolidated U.S. subs to comply with these minimum capital standards and other prudential requirements. Ultimately, a more financial stable--a more stable financial system promotes the smooth functioning of all U.S. markets including repo and securities lending markets. So, although it's difficult to predict the precise impact of these requirements on repo and sec lending markets, we view the probability market disruptions to be low. There's a number of U.S. firms with business mixed profiles very similar to the U.S. subsidiaries of FBOs that actively participate in these markets. Those firms, Goldman Sachs and Morgan Stanley for example continue to engage in repo and securities lending activity despite the fact that they're also subject to the leverage ratio and other prudential requirements. To the extent that the largest FBOs subject to the IHC requirement do decide to reduce the size of their repo and sec lending businesses. Their market share could be reallocated among other market participants that may be less constrained by the leverage ratio. And finally, the final rule will give FBO IHCs until July 2016 to form their IHC and until 2018 to comply with the leverage ratio requirements as Jordan noted. The longer transition period will allow FBOs to bolster their capital position. The longer transition time for the leverage ratio will allow phase in a Basel III leverage ratio and it aligns with efforts in Europe to bolster the capital of the largest banks. And finally, let me just conclude by noting that some FBOs with large broker dealer operations have candidly suggested that this additional time could significantly reduce the likelihood of their decision to shrink their businesses here in the U.S.

GOVERNOR DANIEL K. TARULLO: Is there anybody else? Is that--my other question I think is actually related in part of your answer, Tara suggested that the link that may exist here. But a number of foreign banks, well, at least a couple of foreign banks made the argument that there was something unfair about applying the leverage ratio to their U.S. operations because the leverage ratio as it supplied to U.S. institutions by us applies to the global, all their operations whereas many of the FBOs as many of us have already mentioned have a concentration in broker dealer operations in the U.S. And so, I guess their argument is without the leavening effect of a commercial bank's assets and liability structure that there'll be a disproportion and negative effect on them. What's our answer on sort of this kind of fairness or competitive equality grounds?

MARK VAN DER WEIDE: I'll go. I'll try that one. So, we have long thought that the leverage ratio is a pretty useful complement and backstop to risk-based capital rules for all U.S. banking firms, those that are predominantly commercial banking, those that are predominantly investment banking and those that are hybrid. We do have a couple of firms in the United States, Goldman Sachs and Morgan Stanley that are predominantly investment banking. We have subjected them to the U.S. leverage ratio. They have adapted their business to that without disrupting the U.S. financial markets. We think their business models look quite considerably similar to many of the business models of some of the largest US operations of foreign banks. So, we think overall, our proposals are pretty consistent with national treatment. I think if--I think it's also important to take a look at this issue from a reciprocity angle, from taking a look at what foreign regulators are doing to the foreign operations of U.S. firms. As a general matter, foreign regulators who applied to the foreign operations of U.S. firms, the Basel prudential standards to our--to the commercial bank and investment bank operations of our U.S. firms. In foreign--most foreign countries, they have a universal banking model where the commercial bank and the investment bank operations of our guys abroad are combined in the same unit and they have subject to the Basel prudential rules as such because of the remnants of Glass-Stegall in the United States, our commercial banks, investment banks are often in separate entities and the IHC is our mechanism for creating effectively from a regulatory perspective that universal bank to regulate presume it to the Basel of capital standards. But we have every expectation that once the Basel III leverage ratio goes online around the world in January of 2018 that the foreign operations, the foreign banking operations of our U.S. banks will be made subject to that leverage ratio in those local countries. So, we think when all set and done in 2018, when our leverage ratio goes into effect for the U.S., FBO, IHC, our guys will be subject to the same regime leverage ratio wise abroad.

GOVERNOR DANIEL K. TARULLO: It's Mark. Because in other important jurisdictions, the U.S. owned broker dealer operations are already subject to Basel-type requirements, right?

MARK VAN DER WEIDE: Yes. Yes. We would expect the foreign jurisdictions to update that with the leverage ratio when it goes online in 2018. OK. Thank you. Thank you Madam Chair.

GOVERNOR SARAH BLOOM RASKIN: Thank you Madam Chair. And thank you to the staff for preparing this draft final rule regarding enhanced prudential standards for bank holding companies and foreign banking organizations with 50 billion or more in total consolidated assets. With the consideration of this rule today, another hefty course of the regulatory meal for large complex financial institutions is being created. And my questions this afternoon relate to how we move from the meal that has been concocted in the kitchen to the meal that gets delivered to the table. And I want to make sure that I understand the supervisory ramifications of this draft final rule and all of my questions relate to that dimension, the dimension of how the meal will hold up when it leaves the chefs here and gets delivered by those who will serve it. With this draft final rule, the Federal Reserve Board responds to Congresses' directive to assure that U.S. bank holding companies with global consolidated assets of 50 billion or more and foreign banking organizations with a U.S. banking presents and global consolidated assets of 50 billion or more be subject to enhanced prudential standards. Now, Congress also required the Federal Reserve Board to implement early remediation requirements for these and other institutions and as Jordan indicated that part of the regulatory meal has yet to be put in place. Before delving into what is covered here though within the scope of the draft final rule, I want to make sure that I understand what else, besides these early remediation requirements is not covered by today's draft final rule. In particular, if we look at the law, we see that Congress directed us as a Board to impose enhanced prudential standards also to what might describe as the non-bank financial institutions that the FSAC has designated as systemically important and Congress directed that we do this pursuing to Section 165. So currently, the FSAC has designated three non-bank financial companies as systemically important, AIG, General Electric Capital Corporation and Prudential Financial. Now, as I read the preamble to the draft final rule, it contemplates that the Board is going to apply enhanced prudential standards to these non-bank systemically important institutions by rule or order. Now, as Mike Gibson explained, this rule or order approach is different from a blanket imposition of the same requirements being discussed in the text of the draft final rule because it permits the Board to craft enhanced prudential standards that take into account, the very business models, activities, and different regulatory regimes that may exist for the non-bank financial companies. So, my question is whether you can elaborate on the meaning of this rule or order approach, to what extent will non-bank financial companies under the Board supervision be required to implement enhanced prudential standards if a rule and order approach is taken? Will the rules and orders that get crafted for these three designated non-bank financial institutions be made public so that Congress and the public can provide oversight regarding this legal requirement?

MICHAEL GIBSON: So, it is our intention to take action with respect to the non-bank companies that are designated by the FSAC with either a rule or order and we will tailor the requirements to the particular companies. It is part of the statutory framework that all the enhanced prudential standards will apply to the non-bank companies and it's only a question of how is that done. So, with respect to the things like capital and liquidity, we want to make sure we take account of the characteristics of say an insurance company when we provide liquidity requirements. In terms of the process, it's our expectation that we would do something that is made public. And I don't think we fully decided exactly how that would be, but for example, we could put out an order that then would be put out for public comment and then finalize subsequently. That's one example of the way we could do it.

GOVERNOR SARAH BLOOM RASKIN: That's helpful. Thank you. And my next question really goes to some of that Mark, you started to discuss which is this monitoring that we're going to be doing regarding the potential for regulatory arbitrage that may exist given the differences in treatment between the branches and agencies and the entities that have been consolidated under the intermediate holding company. And, you know, in other words when it comes to supervising the branches and agencies that are here in the U.S., the intermediate holding company does not cover them and their activities are under the purview of the home country supervisor. So, can you say something about how the home country supervisor is likely to do this? I'm imagining that most if not all home country supervisors for these 18 or so large foreign bank organizations will not devote the resources to be on sight at the U.S. branch or agency. Foreign jurisdictions generally do not calibrate or construct their home country standards to address U.S. exposures or the potential impact of those exposures on the U.S. financial system. So, my question is, if such an exposure were to be present at the U.S. branch or agency, how would a U.S. regulator see it sufficiently early to do something about it if necessary? And I thought perhaps that, you know, one rationale for the existence of the risk committee structure which is also part of this proposed rule is that, you know, well-defined and appropriately governed risk committee may be able to help spot and address risks that might be building up at the branch or agency level but when I look at that, it wasn't clear to me how this risk committee mechanism will be checked by U.S. regulators in so far as it's ability to check the risks that might be developing at the branch or agency. So, what do you think about how this is likely to work?

MOLLY MAHAR: So, I guess I can start and others can chime in, just in terms of the supervision on the oversight of the branches and agencies operating in this country. So, the Federal Reserve does have umbrella authority over the entire combined U.S. operations and foreign banking organizations and our dedicated supervisory teams for particular foreign banking organizations do look across the entirety of the combined operations. In addition, the branches and the agencies are examined on a regular basis by the chartering agency of those firms. So, we do not defer completely to the home country's supervisor in terms of the oversight and examination of these entities. And we would be able to continue to monitor. Of course we do stay in close coordination with home country's supervisors as well and try to coordinate the oversight as needed. I would also note that you raise the issue of the risk committee structure and an important part of this rule-making as that the responsibility for the entirety of the U.S. operations is embodied in the requirements around the risk committee structure. So, rather than having specific requirements of specific legal entities, this rule does move us forward in requiring a foreign banking organization to have an infrastructure, to look again across the entirety of the U.S. operation.

GOVERNOR SARAH BLOOM RASKIN: So, the risk committee would have to include the-- any risk developing in the U.S. branches and agencies?

MOLLY MAHAR: Exactly, which is something that we've seen and the crises as a problem in terms of being able to aggregate those risks on the U.S. geographic basis and is the motivation for that part of the proposal [inaudible].

MARK VAN DER WEIDE: And having the two-week liquidity buffer as you have described you think is a pretty useful kind of new addition to the regulatory toolkit. Two weeks can be a long time in a crisis, in a stress event. So, getting the branches and incentive to term out their funding a few weeks I think is also kind of a material element of the program going forward.

CHAIR JANET L. YELLEN: OK, start.

GOVERNOR JEREMY C. STEIN: Thank you, Madam Chair. So let me also just start by thanking everybody for the hard work. And I'll follow up on the branch question which a number of others have alluded to. So, you know, as has been noted, the wholesale funding model of these branches was pretty important part of what went on in the crisis. They ended up being some of our bigger customers, some of our special facilities, the TAF and others. So, Mark, as you just said, I mean we're dealing with this to some extent, the branches are not going to be under the IHC, but they are going to have for the first time a liquidity requirement. I just want to ask a question about how to think about what the appropriate calibration is. So, in contrast, the IHC is going to have effectively a 30-day liquidity requirement. The branches as I understand it are going to have a 14-day which is less and which is also a little bit less stringent than the original proposal, which if I have it right, it was 14 days of the branch, but then the rest of the month was going to be required to be held at the parent. So, obviously, some pretty careful thought has been given to kind of calibrating this and striking the right balance, and I just wanted to hear a little bit more about how you guys thought about it, what the motivation was for making the adjustment from the proposal to the final. To the final version of the rule.

MARK VAN DER WEIDE: So, I think this was part of our careful balancing of the figures of the regime on the IHC versus the branch. As far as the delta between the proposal and the final rule. I think our basic compromise there was, in the proposal, we did require the U.S. branches of the foreign bank to conduct a 30-day liquidity stress test and to size a 30-day liquidity buffer. We only require them to keep domestically in the United States, the first 14 days of that. We allowed them to keep day 15 through 30 buffer at the home office. We didn't, however, require them to put day 15 through 30 buffer at the home office into lockbox. We allowed them to manage that liquidity pool as they would manage their global consolidate liquidity pool. We have a lot of negative feedback about that 15 to 30-day requirement in health--the home office. As we assessed the value to protecting US financial stability of keeping the 15 to 30-day buffer at the home office, not in a lockbox, we decided that that was not particularly useful for U.S. financial stability. It's only a marginal benefit. And the foreign banks assessed that it was a pretty significant cost to them in this period of compromise on the proposal. In the middle ground that we were trying to achieve, we thought that was a small loss to U.S. financial stability yet a potentially reasonable cost for implementation. There's no particular magic around the two weeks versus the 30 days, but I think it's fair to say two weeks is more than half of 30 days, even though 14 is less than half of 30, getting those first two weeks is really quite critical in a financial crisis and there are quite a few U.S. investors in short term bank paper that have particularly strong desires for overnight paper and seven-day paper. Getting out 14 days is pretty meaningful.

GOVERNOR JEREMY C. STEIN: And one of the questions which was about resolution, so as everybody knows, a lot of the work on resolution has been centered on the so-called single point of entry model. And I just wanted to ask, how does the IHC structure interact with that model and what ways might it either facilitate in some scenarios or make life more complicated in other scenarios?

ELIZABETH MACDONALD: We believe that as a general matter, the draft final rule would facilitate cross-border resolution. As you mentioned, there are different models, there is single point of entry model for cross-border resolution. There's also a multiple point of entry model for cross-border resolution and different firms prefer different means. They have different preferences vis-a-vis the model for their resolution. For a single point of entry model, the IHC would form one top tier entity that can coordinate with the home country parent and the home country regulator in a resolution. For the multiple point of entry model, the IHC would be a single entry--an entity that could be resolved in the U.S. More generally, we note, however, that the draft final rule is intended to enhance the supervision and regulation of these entities and therefore we hope to make resolution less necessarily and less likely.

GOVERNOR JEREMY C. STEIN: Now does it--did you think it tips the balance in any from-- As you said, there's the single point of entry approach and the multiple point of entry approach, would having an IHC tend to tip you towards preferring in some circumstances a multiple point of entry approach?

MICHAEL GIBSON: I would say probably not because individual global banks are going to choose a single point of entry or multiple point of entry model as their favorite model, depending on how they structure themselves globally. And what they do in the U.S. is probably not a main driver of that. So, what we would have with an intermediate holding company would be compatible with either and would probably make either one easier. And probably because it will force some simplification of legal entities and that by itself should help in any resolution situation.

CHAIR JANET L. YELLEN: Thanks, Governor Powell.

GOVERNOR JEROME H. POWELL: Thanks, Madam Chair. Another comment that comes through, the comment letters and also that one hears around is that the proposal will somehow represent the end of the global banking model and indeed cross-border capital close as well as Governor Stein indicated kind of impede perhaps regulatory cooperation, things like resolution. Would you address that, but could you address the other?

TARA RICE: I'll start with first piece. No, this is not going to be the end of the global banking model. Number of reasons banks are going to be in a better--one, if another crisis comes up, banks will be in a better starting position having capital and liquidity here in this jurisdiction. And one of the criticisms, of course, against that model of having capital and liquidity in one jurisdiction is the fragmentation or the kind of subsidiary organization model, this decentralized model. You know, we've noted before that there's a spectrum between a more decentralized model and a more centralized model of managing capital and liquidity, and there are costs and benefits to both of these models. It is true that over the crisis period, some banks were aided by their ability to move capital and liquidity freely. But versus a more decentralized model, this model where capital and liquidity are managed centrally creates greater potential for ad hoc ring-fencing as Governor Tarullo said. Greater potential for draws and Federal Reserve liquidity facilities and it comes with a degree of cross currency risk in the reliance and swap markets that were shown to be destabilizing during the crisis. And so, we think that this targeted approach--as Jordan said, this targeted to updating our regulatory and supervisory system is going to--it's appropriate to more closely aligned with capital and the liquidity requirements for the U.S. operations of FBOs with the risks post by their U.S. businesses.

CHAIR JANET L. YELLEN: If there are no further questions, I'd like to go around the table and give a sense of people's positions. And I'd like to start with Governor Tarullo.

GOVERNOR DANIEL K. TARULLO: Thank you Madame Chair. Well, as I said in my introductory remarks I think this entire regulation both the generally applicable and the specifically FBO applicable parts of the regulation form a critical component of our efforts to enhance financial stability in the United States. With respect to the FBO part in particular as many of the answers that staff have given to our questions suggest there has been a concerted effort to walk this middle road between leaving the status quo which I think it created a lot of vulnerabilities for the United States. And by implication, the global financial system on the hand and on other hand moving towards a fully national based or subsidy arise approach to banking. I think--and I'm in support--I'm very supportive of the regulation and I appreciate of the work that staff has done. The only comment I would make beyond what I said earlier in support of the approach taken is we have to recognize that not withstanding all the international cooperation on global capital standards and now global liquidity standards and all the work that's going in to trying to make cross Boarder resolution, a viable proposition. We are--we still live in a world in which there are national or regulatory responsibilities and financial responsibilities not withstanding the existence of globally active banks and other forms of financial institutions. So, we do retain the responsibility to maintain the stability of the U.S. financial system. As do our brothering in jurisdictions around the world maintain responsibility for their own. And I think we're going to be in a position indefinitely of trying to balance the benefits of moving capital around the world to deploy it in the most production fashion possible. With the potential for financial instability that usually begins in a particular market with a particular set of excesses. And I think as Mark was suggesting earlier would hit about the right balance here but that doesn't mean it's going to be the right balance indefinitely. And that's why we're going to need to continue to make judgments on its impact in both directions. Thank you Madame Chair.

CHAIR JANET L. YELLEN: Thank you. Governor Raskin.

GOVERNOR SARAH BLOOM RASKIN: Thank you Madame Chair. And I am quite supportive of the proposed final rule. I look forward to seeing it finalized and implemented. And again, commend the staff for their fine work.

CHAIR JANET L. YELLEN: Governor Stein.

GOVERNOR JEREMY C. STEIN: Thank you Madame Chair. Yeah, I'm also strongly supportive. I think this is actually turns out to be one of the most important and constructive things we're going to do in our overall reform agenda. Just to echo what Dan said. I mean the vulnerabilities that were revealed here with the changes and kind of the business model of over time and the inadequacy of our existing framework at the hand and really pretty striking. So, I think this is really a strong step in the right direction. Obviously some choices had to be made and there are some places where I might have done things a little bit differently. And we'll see. And we'll see how things shake out. But it feels to me like for the most part the right balance was struck. I thought the willingness to be accommodating on calendar rather than on the fundamentals of the rule makes a lot of sense. And I'm very happy and supportive.

CHAIR JANET L.YELLEN: Thank you. Governor Powell.

GOVERNOR JEROME H. POWELL: Thank you Madame Chair. Section 165 of the Dodd-Frank Act requires us to really balance the need to prevent or mitigate risks of the financial stability of the United States that could arise from material, financial distress or failure or ongoing activities of large interconnected financial institutions. Including both domestic institutions and the US operations of large financial--large foreign banking institutions with over 50 billion in consolidated assets. It requires us to balance that against in the case of FBO, Foreign Bank Organizations, Foreign Banking Organizations. The principle of national treatment and equality, competitive opportunity and also to take into account the extent to which the foreign financial company is subject in a consolidated bases to home country standards that are comparable to those applied to U.S. financial companies. And I believe that the revised rule strikes a reasonable balance in addressing these different objectives. In particular the Intermediate Holding Company requirement serves the main purpose of the statute to prevent or mitigate risks to the financial stability of the United States by significantly increasing the resiliency of the U.S. operations of large foreign banking organizations. The IHC requirement also provides for a consistent approach to all capital liquidity and other prudential requirements across all U.S. subsidiaries in order to enhance the resiliency of these operations. We’ve benefited from a substantial volume of comments. And I think we've done a good job in thinking about them and incorporating them in a thoughtful way and addressing. As Jordan indicated both the scope and the timing of the requirements and in short I believe that the proposed final rule that we address today is an important step in the continuing process of strengthening our financial system. And I'm pleased to support it.

CHAIR JANET L. YELLEN: And I too support approval of this rule. I think its adoption marks another important milestone in our post crisis agenda to reduce the risks to the financial system in the economy from organizations that post systemic risks. The new requirements pertaining to FBOs should provide a consistent platform for their supervision and regulation of their operations in the United States and help ensure that these operations have sufficient capital and liquidity. I agree with the argument that the character of Foreign Banking Operations have changed dramatically in the United States. And I think this requirement is definitely appropriate in light of those changes. I appreciate the careful attention that staff have paid to the comments that we received on the proposal. And the modifications that have been made to address concerns that were raised. And I do think it's appropriate to allow FBOs until mid-2016 to come in to compliance with the final rules requirements. So, let's proceed to vote on these. First, I need a motion to approve the final rule establishing enhanced prudential standards for bank holding companies and foreign banking organizations with 50 billion dollars or more in total consolidated assets.

GOVERNOR DANIEL K. TARULLO: So moved.

CHAIR JANET L. YELLEN: Is there a second?

GOVERNOR SARAH BLOOM RASKIN: Second.

CHAIR JANET L.YELLEN: Thank you. All in favor say aye.

ALL: Aye.

CHAIR JANET L. YELLEN: Any opposed?

[Silence]

CHAIR JANET L. YELLEN: Well, the aye's have it and the final rule is approved. Now, I need a motion to authorize staff to make technical and minor word changes to prepare the materials for publication in the federal register.

GOVERNOR DANIEL K. TARULLO: So moved.

CHAIR JANET L. YELLEN: And is there a second?

GOVERNOR SARAH BLOOM RASKIN: SECOND

CHAIR JANET L. YELLEN: Thank you, all in favor please say aye.

ALL: Aye

CHAIR JANET L. YELLEN: Any opposed?

[Silence]

CHAIR JANET L. YELLEN: Again the ayes have it, and the authorization to staff is approved. I thank everyone, Governor Tarullo and the staff for your hard work in bringing this to fruition, and The meeting is now adjourned.