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Statement on Proposals to Modify Enhanced Prudential Standards
for Large Banking Organizations
by Vice Chairman for Supervision Randal K. Quarles

Good morning. I want to begin by thanking our staff for the formidable effort that stands behind the proposals before us today. Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act barely five months ago, and completing the thorough analysis and detailed drafting for a major regulatory proposal in that handful of months--over a year ahead of the statutory deadline--has required ardent focus and dedication, well beyond the norm.

Fundamentally, these proposals embody an important principle: the character of regulation should match the character of a firm. We have learned much in the period since the crisis about how to assess both sides of that tailoring equation. Up to now, the Board has accomplished this alignment through the simple sorting mechanisms of asset size and international exposure. As our experience with measuring the risk profile and systemic footprint of large firms has increased over the past 10 years, we have developed more risk-sensitive proxies--ones that relate more directly to the interconnectedness and complexity of firms--to assess the character of the firms we regulate and to determine the regulations and supervisory frameworks that should apply to them.

Let me spend a few minutes focusing on the U.S. banking firms with total assets between $100 and $250 billion. These are firms that for the most part do not exhibit meaningful levels of interconnectedness and complexity. Accordingly, the liquidity coverage ratio (LCR) and the proposed net stable funding ratio (NSFR) requirements would be eliminated for these firms. But

liquidity risk still exists for these firms and, accordingly, liquidity requirements would not disappear altogether. The firms' internal liquidity stress testing, risk management, and reporting requirements would continue, though liquidity stress testing and reporting would become significantly less frequent. For capital, these firms would move to a two-year cycle for supervisory stress testing, and would no longer be subject to the statutory company-run stress testing requirements. While the proposal will not be final in time to be formally effective for the 2019 supervisory stress tests, I expect that the Board will move promptly to vote on action making 2019 an 'off-cycle' year, in which we would rely more on normal-course supervisory tools. Effecting the two-year cycle for the firms in this size range as soon as possible would provide immediate burden relief consistent with the statute's intent.

Turning to those firms with greater than $250 billion in assets, but that are not global systemically important banks, the proposal notably modifies an important aspect of their standardized liquidity regulation. These firms would move from being subject to the full LCR, and NSFR when it is finalized, to a modified LCR calibrated at a level in the range of 70-85% of the full LCR. A reduction of this magnitude is appropriate because most U.S. banking firms in this group are not engaged in complex activities and have more stable funding than systemic banks given their relatively traditional business models. At the same time, the proposed requirements recognize the importance for firms of this size to still be subject to significant standardized liquidity standards, as well as internal liquidity stress testing and risk management requirements.

The purpose of the package of proposed changes is not to reduce the capital adequacy or liquidity resiliency of the U.S. regional bank holding companies. To illustrate that, let me take a moment to share the impact in a broader perspective. The total amount of capital maintained by

large bank holding companies that are subject to stress testing requirements is currently about $1.3 trillion. The cumulative effect of the proposed changes we are considering today would result in a decrease of $8 billion of required capital, or a change of 0.6 percent.

On the liquidity side, the same set of firms maintains approximately $3.1 trillion of high quality liquid assets. The cumulative effect of the proposed changes, would be a reduction of between 2 to 2.5 percent of high quality liquid assets, depending on where the final rule lands in the proposed 70-85% range. Although the regulatory relief from these proposals may be modest in the grand aggregate, for many of the affected firms individually the changes should meaningfully reduce the compliance burden associated with their regulation. As a result, I am hopeful that firms will see reduced regulatory complexity and easier compliance with no decline in the resiliency of the U.S. banking system. I look forward to hearing staff's presentations of the details of the proposals, and will now turn it over to Mike Gibson, the director of supervision and regulation.