Transcript of Open Board Meeting
October 30, 2015

CHAIR YELLEN. Good afternoon. I'd like to welcome our guests to the Federal Reserve as we consider two regulations that are designed to increase the resilience of our financial system.

The first item before the Board today is a proposed rule that would increase the loss-absorbing capacity of systemically important U.S. bank holding companies and the U.S. operations of systemically important foreign banks. Importantly, the core of the proposal would require that these banking firms maintain at all times a minimum amount of long-term debt that could be converted into equity in resolution. The proposal, combined with our other work to improve the resolvability of systemic banking firms, would substantially reduce the risk to taxpayers and the threat to financial stability stemming from the failure of these firms. Accordingly, the proposal is another important step in addressing the "too big to fail" problem.

The second item before us today is a final rule that would reduce the risks that derivatives pose to financial stability by requiring bank swap dealers to collect and post margin on most of their swaps that are not centrally cleared. The final rule would set the minimum margin requirements for uncleared swaps higher than those for cleared swaps, providing market participants with an incentive to shift derivatives activity to central clearinghouses, enhancing market resilience and transparency. The final rule would also provide greater assurance that the default of a major participant in the over-the-counter derivatives market would not impair the viability of other participants.

Let me now turn to Governor Tarullo.

GOVERNOR TARULLO. Thank you, Madam Chair. You just alluded to the fact that a key aim of post-crisis regulatory reform has been to address the too-big-to-fail problem. One part of this effort has been to increase substantially the resilience of systemically important banking organizations by strengthening capital requirements, introducing liquidity requirements, and conducting rigorous annual stress tests. The other part of this effort has been to make the failure of systemically important banks possible without either causing disorder in financial markets or requiring injections of government capital. This work has been conducted by our colleagues at the FDIC in developing strategies for the exercise of their statutory orderly liquidation authority, and jointly by our two agencies in requiring effective and realistic resolution planning by large banking organizations.

The current proposal builds on these undertakings. As staff will explain more fully in a moment, the core of the proposal is a requirement that the parent holding companies of systemically important U.S. banking firms maintain outstanding a substantial amount of unsecured long-term debt issued to unrelated investors.

The principal effect of the long-term debt requirement will be to increase the loss-absorbing capacity of a GSIB even after it has failed. This in turn should help reassure counterparties that, together, any remaining equity and the long-term debt will be able to absorb additional losses and recapitalize the operating subsidiaries of the failed firm. The proposed rule should also reduce run risks associated with short-term wholesale funding by mandating that firms have a more substantial base of stable funding that is structurally subordinated to funding at operating subsidiaries. Finally, because the holders of the mandated long-term debt will be on notice that they are truly subject to losses in the event of a resolution, the proposal should also improve market discipline.

The proposal also applies to the U.S. intermediate holding companies of foreign GSIBs. The IHCs, though, will be subject to an internal long-term debt requirement. That is, they will have to issue the debt to their foreign parents. By ensuring that U.S. operations of foreign banks will have their appropriate share of the loss-absorbing capacity of the foreign consolidated firm, the proposal will enhance prospects for orderly resolution of the foreign banks by their home jurisdiction authorities. But if, for any reason, that resolution is unsuccessful, the internal long-term debt will be available to U.S. authorities for orderly resolution and recapitalization of the IHCs.

Let me mention, in this regard, that we are close to completing an agreement with other home country regulators of GSIBs that will require all those firms to maintain a minimum level of total loss-absorbing capacity. Achievement of this agreement will be a major accomplishment for U.S. regulators and our like-minded counterparts in other jurisdictions. This requirement is congruent with our long-term debt requirement, though it allows equity capital in excess of minimum net regulatory requirements to help satisfy the standard. The proposal before us today would include this TLAC, or total loss-absorbing capacity requirement. So with that, let me turn to Mark Van Der Weide to lead the staff presentation.

MARK VAN DER WEIDE. Thank you, Governor Tarullo. I think very little additional introduction to this proposed rule is required before I turn it over to Felton Booker and Mark Savignac to walk you through the details. But I thought I would emphasize two points.

The first is that staff considers this long-term debt proposal to be a key component of our policies to promote the orderly resolution of our most complex and large banks, but the Board staff and FDIC staff continue to analyze, through the resolution planning process and otherwise, what additional changes to the organizational structures of these firms and other features of these firms that may be needed to achieve our joint resolvability goals.

Second, I want to emphasize that Board staff has consulted extensively with FDIC staff on this proposal over the past two years. And I'd like to express appreciation for the important contributions of FDIC staff to our--to development of our thinking on these issues. Felton?

FELTON BOOKER. OK. Thank you Mark. I'll start by discussing key provisions of the proposed rule. The proposal has four key elements, an internal--I'll start with the external, an external long-term debt requirement and related TLAC requirement for U.S. GSIBs and internal long-term debt requirement and related TLAC requirement for the intermediate holding companies controlled by foreign GSIBs, a set of clean holding company limitations that would be applicable to U.S. GSIBs and covered IHCs and finally, a regulatory capital deduction treatment for the investments in the unsecured debt of the parent holding companies of U.S. GSIBs.

I'll focus primarily on the long-term debt and the TLAC requirements for U.S. GSIBs and the calibration of those requirements. And my colleague Mark Savignac will cover the remaining provisions.

The primary goal of this proposal is to ensure that U.S. GSIBs have sufficient amounts of equity and long-term debt to absorb significant losses and recapitalize themselves in failure without taxpayer support. This proposal would, in effect, requires the GSIBs and their investors to pre-fund the orderly resolution. This would be the Board's first rule-making to establish requirements for the capital structure of the bank holding company to enhance its resolvability and the resiliency of its operating subsidiaries during a resolution. As Governor Tarullo mentioned in his opening comments, the core element of today's proposal is the external long-term debt requirement. And that requirement, of course, would be applied to the parent holding companies of eight U.S. GSIBs. These firms would be required to maintain an outstanding minimum amount of long-term debt that would be equal to 6 percent of the firm's total risk-weighted assets, plus its applicable GSIB surcharge or if greater, 4.5 percent of its total leverage exposure under the supplemental leverage ratio. The minimum amount is calibrated to take into consideration firm-specific risk profiles and the firm-specific systemic footprint for each of the GSIBs as well as the applicable regulatory capital rules.

I'll discuss the approach to calibration in just a moment, but we should first say that for long-term debt to be effective in a resolution as a loss-absorbing instrument, the quantity of that debt is important, but also the location and quality of that debt. To that end, the proposal would require external long-term debt to be issued directly by a parent holding company rather than a subsidiary, to ensure that the long-term debt is best positioned to absorb firm wide losses during an orderly resolution. The proposal would also provide that external long-term debt be unsecured, have a remaining maturity of greater than one year, and be plain vanilla rather than containing exotic features. The requirements help ensure that a known amount of loss-absorbing capacity, or in this case, loss-absorbing debt, would be available for write-down or conversion into equity at the point of failure. One implication of these requirements is that structured notes is an example would not count as external long-term debt.

In addition to the external long-term debt requirement, the proposal also includes a broader TLAC requirement for U.S. GSIBs. The TLAC requirement would further increase the resiliency of U.S. GSIBs and also help promote comparability of loss-absorbency standards applied to GSIBs across major international jurisdictions. The TLAC provisions would require the parent holding companies of U.S. GSIBs to maintain an aggregate minimum amount of external long-term debt and equity. When fully phased in, the U.S. GSIBs minimum external TLAC requirement would be equal to not less than 18 percent of the firm's risk-weighted assets or 9.5 percent of the firm's total leverage exposures. To calibration, staff conducted several types of calibration analyses to help inform where we ultimately ended up on both the long-term debt requirement and the TLAC requirement. The proposed external long-term debt requirement was primarily calibrated on what we can refer to as the capital refill framework. Under that framework, the objective of the external long-term debt requirement is pretty simple, in that each U.S. GSIB must have a minimum amount of long-term debt such that if the firm was to deplete all of its equity capital and was placed into resolution, it would have a sufficient amount of long-term debt at that point to recapitalize itself back up to going concern regulatory capital levels. Staff looked at a host of historical loss data for large U.S. bank holding companies to assess the size of potential losses that would--that a U.S. bank holding company might sustain as a way of gauging the amount of loss-absorbing capacity needed to ensure that a firm could be recapitalized following significant losses. In this analytical work, staff examined the long-term historical distribution of losses relative to risk-weighted assets for U.S. bank holding companies. And the required amount of long-term debt implied by this analysis is in a range of 7 percent to 16 percent of risk-weighted assets, is consistent with the calibration implied under the capital refill framework.

Staff also informed the proposal of the long-term debt in the TLAC requirement by analyzing losses at major financial firms during the 2007-2009 financial crisis, including U.S. bank holding companies that participated in the first Supervisory Capital Assessment Program or SCAP which, of course, is the precursor to CCAR, as well as including other large financial firms in that analysis. In that analysis, we looked at historical loss data, estimates of firm's specific taxpayer solvency support and contemporaneous loss projections from the 2009 SCAP stress test. The proposed calibration of the minimum external TLAC requirement is generally sufficient to cover the worst case experiences from this analysis. In addition, staff reviewed experiences from foreign GSIBs and other global financial firms that incurred substantial losses during recent financial crisis. And the proposed calibration would be robust enough to address most but not all of the international loss events.

So finally, the estimates from staff regarding shortfalls and costs. So staff estimates of the aggregate minimum amount of a long-term debt required under the proposal for the eight U.S. GSIBs would be approximately $680 billion. Six of the eight U.S. GSIBs were estimated to have shortfalls relative to the combined long-term debt and TLAC requirements with an aggregate shortfall of approximately $120 billion. However, and importantly, any U.S. GSIB that already meets the capital requirements and buffers under the Board's existing capital rules would be able to fill any shortfall under this requirement solely by issuing additional long-term debt. With that understanding, staff have also analyzed, you know, the likely path to compliance and estimated that the aggregate increase annual funding cost for those firms which generally is the increased debt servicing cost would lie within a range of $680 million to $1.5 billion. The analysis concluded that the estimated benefits would outweigh the estimated cost, and that the proposed requirements would yield substantial net benefit to the U.S. economy. I'll now turn to Mark Savignac to describe the remaining provisions.

MARK SAVIGNAC. Thank you, Felton. I will now discuss the remaining three components of the proposal beginning with the internal long-term debt in internal TLAC requirement. As Governor Tarullo mentioned, the proposal would also subject the U.S.

operations of foreign GSIBs to internal long-term debt and TLAC requirements. These internal resources could be used to pass losses incurred by the U.S. operations up to the foreign GSIB parent and out of the U.S. financial system. These requirements would apply to all U.S. intermediate holding companies that must be established by foreign GSIBs under the Board's enhanced prudential standards rule. The proposal refers to these intermediate holding companies as covered IHCs. The structure and calibration of these requirements would generally parallel the structure and calibration of the external long-term debt and TLAC requirements. But, there are a few differences.

First, internal long-term debt and TLAC serve a slightly different purpose than external long-term debt and TLAC. The term external refers to the fact that the long-term debt and TLAC that U.S. GSIBs would have to issue would be issued to third party investors and would be used to pass losses out of the firm to those investors. By contrast, internal long-term debt and TLAC would be used to transfer losses within a firm. Transferring losses from the covered IHC to a foreign affiliate would serve to mitigate the risk to the financial stability of the United States from the failure of a foreign GSIB. It should also contribute to the home country's resolution of the foreign GSIB under a single point of entry of resolution strategy pursuant to which the foreign GSIB's U.S. operations could continue to operate normally without entering resolution.

To serve these purposes, internal long-term debt and TLAC would be subject to several additional requirements. First, they would have to be issued from the covered IHC to a foreign entity that controls the covered IHC. Second, internal long-term debt would have to be contractually subordinated to all third party liabilities of the covered IHC to ensure that internal long-term debt would absorb losses ahead of any third party creditors. Finally, internal long-term debt would have to contain a contractual provision giving the Board the authority to cancel the debt or convert it to equity if the Board finds that the covered IHC has become nonviable and that the foreign GSIBs home country resolution authority has placed the foreign GSIB into a resolution proceeding. This contractual trigger requirement would help mitigate the effect of the foreign GSIB's failure on U.S. financial stability by ensuring that losses could be passed up without any need for a potentially destabilizing interruption to the covered IHC's normal activities or entry of the covered IHC into a resolution proceeding.

A second source of distinctions between the proposed internal requirements and the proposed external requirements arises from the fact that foreign GSIBs have differing resolution strategies. Most will have single point of entry resolution plans. And the internal TLAC requirements for the covered IHCs of these GSIBs would be set modestly lower than the external TLAC requirements for U.S. GSIBs in order to facilitate the single point of entry resolution of the foreign GSIB, which could be expected to provide some additional support to the covered IHC if necessary. But other foreign GSIBs may have multiple point of entry resolution plans under which the covered IHC or one of its subsidiaries would itself enter resolution. A covered IHC in this latter group would be subject to internal TLAC requirements that are generally the same as the external TLAC requirements proposed for U.S. GSIBs, because the covered IHC would enter into a resolution just as the U.S. GSIB would, and to not expect additional support from its foreign GSIB parent. Finally, because covered IHC's are not subject to the GSIB surcharge rule or the enhanced supplementary leverage ratio, the capital refill calibration approach that Felton discussed leads to internal long-term debt requirements for covered IHCs that would be somewhat lower than the external long-term debt requirements proposed for U.S. GSIBs.

I now turn to the third component of the proposal, the clean holding company component. The proposal would subject to the top-tier holding companies of U.S. GSIBs and covered IHCs, which I will refer to collectively as covered holding companies, to so called clean holding company restrictions. These are restrictions on the operations of the covered holding company that are intended to facilitate a single point of entry resolution. A covered holding company would be prohibited from issuing short-term debt to third parties, entering into qualified financial contracts with third parties, having liabilities that are subject to a guarantee from a subsidiary or issuing guarantees of subsidiary liabilities that could create cross default or offset rights for the subsidiary's creditors. These restrictions would mitigate the risk that imposing losses on the covered holding companies TLAC holders, would pose a risk to U.S. financial stability. They would ensure that any losses can indeed be imposed on TLAC holders rather than being absorbed by the covered holding companies subsidiaries or their creditors. And they would limit the complexity of the covered holding company so that it could be resolved in a rapid and orderly manner. The proposal would also cap the value of non-TLAC third party liabilities that the top-tier holding company of a U.S. GSIB can have at the same or lower priority in bankruptcy as its external long-term debt. The value of these capped liabilities would be prohibited from exceeding 5 percent of the value of the GSIB's external TLAC.

The fourth and final component of the proposal is a new regulatory capital deduction requirement which would be applied to all banking organizations that are subject to the Board's capital rules. Such a requirement would mitigate the financial system contagion that could result from the failure of a U.S. GSIB. Under the proposal, these Board-regulated institutions would be required to apply a regulatory capital deduction treatment to their investments in unsecured debt issued by the top-tier holding companies of U.S. GSIBs. This element of the proposal would incentivize Board-regulated institutions to minimize their holdings of such unsecured debt. Staff are consulting with other bank regulators regarding consistent application of these capital deduction requirements to all banking organizations.

I now turn to the proposed effective dates. Most of the proposed requirements would take effect as of January 1, 2019. The main exception would be the risk-weighted assets component of the proposed TLAC requirements which would be phased in at a lower level as of January 1, 2019 with full compliance required by January 1, 2022. The proposal would be open for public comment until February 1, 2016. That concludes our prepared remarks. We would be pleased to answer any questions you may have.

CHAIR YELLEN. Thank you very much. Let me start off with two questions. The first is this, the rule that you're proposing specifically calls for minimum amounts of unsecured long-term debt in addition to a minimum level of TLAC. Now, my understanding is that foreign countries that host GSIBs are likely to impose a TLAC requirement that's similar in magnitude to ours, but that they're unlikely to go forward with a long-term debt requirement. Now, often, I think people think of equity capital as being--providing a superior form of loss absorbency to debt. But this requirement, this proposal actually would prefer, within limits, to see a debt being issued than as an alternative, for example, high quality capital. So, my question is, can you make clear to me what that--why we have this distinct preference for issuance of long-term debt within limits over capital?

FELTON BOOKER. So, as a general matter the inclusion of the minimum long-term debt requirement recognizes that equity may not be as a perfect substitute for long-term debt at least in the context of an orderly resolution. As we know from past bank failures at the time most large banking institutions enter into failure, equity has been fully depleted. And then the question then becomes what source of reliable capital can be available or made available post=failure? So, as a post-failure source of capital, equity is far less reliable than long-term debt. And the, I think, the interest in ensuring that in the lead up to and at the point of failure, there is a known, observable quantity of loss-absorbing capacity, lead us to believe that that last firewall should be debt and not equity.

CHAIR YELLEN. OK. Second question. If we were looking at a firm that needs to be resolved using a single point of entry type approach, doesn't the debt actually need to be pre-positioned in the material subs of the holding company? And if that's right, is staff thinking about perhaps a rule that would relate to pre-positioning of a debt within the holding company, your--what is your thinking on that matter?

FELTON BOOKER. So that's exactly right, Chair Yellen. We agree that a successful resolution would require appropriate internal distribution of the loss-absorbing capacity in addition to the external loss-absorbing capacity proposed today. Today's proposal does not include this internal TLAC element, but it does seek public comment on and provides a sketch of a potential way of addressing that. Conceptually, this internal loss-absorbing capacity could be in the form of either preposition resources such as the parent's equity or long-term debt investments in its operating subsidiaries, or in the form of contributable resources, which would be assets that would be held at the holding company, and could be flexibly contributed to any subsidiary that incurs substantial losses, needs to be recapitalized. And staff look forward to receiving comments on this portion of the proposal.

CHAIR YELLEN. Thank you very much. Vice Chair?

VICE CHAIRMAN FISCHER. Thank you, Madam Chair. When there were proposals some while a back, a while back that banks needed to hold more capital, we were treated to lots of stories about how requiring them to hold more capital will prevent them lending, would absorb lending capacity. Now, we're wanting these firms to add 120 billion -- American GSIBs -- to add 120 billion to a particular cost of assets. Is that going to be an interference in their ability to make loans?

MARK VAN DER WEIDE. I'll start now, I'll turn it over to Lane. So we did do quite a bit of quantitative analysis, not just to size the calibration of requirement to achieve our financial stability goals as Felton described, but also to do an assessment of what impact the rule might have on not just the funding cost of those firms but also on lending spreads and on GDP in the United States. And our short answer to this, in part because of the way we’ve calibrated and in part because there are, relatively, we believe, inexpensive ways for the firms to meet the requirement, it is just a long-term debt requirement. It's much cheaper to comply with than an equity requirement. And there are some pretty inexpensive ways that firms can adapt their current balance sheet to meet the requirement. They don't need to go out and raise massive quantities of new debt. They don't need to grow their balance sheet. We wouldn't expect they would do that. It's a relatively more expensive way for them to come into compliance, but there are some relatively inexpensive ways for them to come into compliance, such as taking debt that they have currently at the subsidiary level, moving it up to the parent level, where we think it's more available for flexible deployment. And also, they have a fair amount of debt that’s in its last couple of remaining years of maturity, which could be pretty easily refinanced out to a longer term. So, we don't think the cost to compliance of the firms is going to be that great. We don't think the impact on lending spreads in the economy is going to be that great. We don't think the impact on GDP is going to be that great. We do think the financial stability benefits will be larger.

VICE CHAIRMAN FISCHER. Yeah. Second question, and I may not, going to put this as accurately as I should. If I got this straight, the LTD requirement on the American subsidiaries of foreign GSIBs, may be spreading, it is a requirement of what the parent holds, is that right?

MARK VAN DER WEIDE. So, our proposal would impose external long-term debt requirements on the U.S. GSIBs, and then internal long-term debt requirements on the U.S. operations of foreign GSIBs. We expect that many other countries will adopt similar parallel internal long-term debt requirements on the local operations of foreign GSIBs. So, our U.S. GSIBs, for example, have large operations in the UK. We expect that the UK will adopt somewhat parallel regime to ours on the internal long-term debt stage. They haven't adopted that yet, but I think it's reasonable to expect they will do that. The FSB standard that's being negotiated does have an internal TLAC requirement. So, I think our expectations are in the major foreign jurisdictions in which our U.S. GSIBs operate, they will ultimately be similar internal long-term debt requirements between their local foreign subs and their U.S. parent.

VICE CHAIRMAN FISCHER. OK. Thanks very much. Thank you, Madam Chair.

CHAIR YELLEN. Thank you. Governor Tarullo?

GOVERNOR TARULLO. Thank you, Madam Chair. Felton, you are--I want to come back to your discussion of shortfall. And Mark Van Der Weide touched on this a second ago. But the nature of that shortfall that you're talking about here is different, right, from the kind of shortfall we talked about when we were doing the GSIB surcharges and Basel III. Because there, we're talking about essentially either going out to raise large amounts of capital or else retaining substantial amount of earnings over some period of time in order to meet that. But here, the nature of the shortfall, is it fair to say the nature of the shortfall is in many instances restructuring the term, the duration of the debt that the firm already holds or, I guess, the location where they hold that as well?

FELTON BOOKER. I think that's exactly right and I don't have much to add to what Mark said previously about there being low-hanging fruit for a number of the firms to fill that gap whether it's refinancing debt at the subsidiary level or debt that are ruled. And the shortfall would not give credit to in the one-to-two year space.

GOVERNOR TARULLO. The numbers that you cited, 600 billion, well, that was--those average across the eight firms, are those costs going to be concentrated in a few other firms?

FELTON BOOKER. So, the--I see. So on the funding cost range, which was 680 million to 1.5 billion, the cost to compliance is largely going to be at the discretion of how the firms decide to reach, you know, sort of the effective path to reaching compliance. Again, not to go back to the same examples, but some firms will have an ability to move more debt up quite cheaply through the financing and other options. And then you have firms that may choose to, for business practice reasons, may choose to go about reaching compliance differently, including, but we don't expect them to have to grow their balance sheet, but some may choose that that's the way they want to do that.

GOVERNOR TARULLO. And I've got a related question to, actually that's sort of a variant on the Chair's first question. She began by saying, you know, that people usually think of equity as the better loss absorber and why we are requiring debt here. And, I guess, a variant on that is, people usually think of deposits as a superior, or at least preferable form of funding. So, why are we requiring firms that currently may rely dominantly on deposits for their funding to have a different form of funding and possibly to increase their debt levels? And it seems, you know, seems slightly out of keeping with the way we've normally treated issues. With liquidity regulation, for example, the stickiness of deposits is something that works to the advantage of a firm in our liquidity regulation. So what is the reasoning for--behind possibly requiring a firm to take on--not just to change the duration of debt it already has, but possibly to take on debt even in the face of what may be a large proportion of sticky deposits?

MARK VAN DER WEIDE. I'll have that one. So, the proposal is not designed to favor any particular business model or disfavor any particular business model. It's designed to make sure that we've got appropriate amounts of loss absorbency at all the GSIBs, whatever their current or future business model might be. You're right. The proposal does not count deposits in any form as eligible long-term debt, but there are some pretty good reasons for why we don't think it's appropriate to count those sorts of deposits as long-term debt. They may be very sticky and they may--may be that the bank should get significant credit for those deposits in the liquidity regulatory regime, and they do. But this is not a liquidity regulatory regime. It's a loss-absorbency regime. And deposits need to be thought about differently under a loss-absorbency regime.

Now, I would say to some extent, part of the purpose of the proposal is designed to provide additional protection to the depositors and the deposit insurance fund of the subsidiary banks, to the GSIBs. But the problem with deposits from a loss-absorbency perspective include some of the following things. First of all, most deposits as you know are--tend to be demand or short term. They don't have the tenor. They don't have durability that we'd like to see in loss absorbency. Second of all, they rank equally or senior to most of the other liabilities of the firms.

They don't have the contractual or structural subordination that we like to see in loss absorbency. And final reason I'll mention, is just that depositors as a general matter are not good loss absorbers in a crisis. Imposing losses on depositors has proven to be a pretty contagion-transmitting type of a move. So we prefer to impose losses on the more entities, institution, sophisticated institutional investors and bonds that are better able to handle those sorts of losses. I would note that the proposal does make the long-term debt requirements significantly a function of the SIFI surcharge, the GSIB surcharge of the firm. Our GSIB surcharge structure does tend to be more strict on the investment banking model, actually, than the commercial banking model so there's a little bit of an offset embedded in the GSIB surcharge element of the rule.

GOVERNOR TARULLO. Thank you, Madam Chair.

CHAIR YELLEN. Thank you. Governor Powell?

GOVERNOR POWELL. Thank you, Madam Chair. So, Felton, your discussion with the Chair, you talked about the relative benefits of getting equity in a resolution. So we've, as you pointed out, we've chosen to have both a long-term debt and a TLAC requirement. Can you discuss--are those two things complementary? They're both, you know, it's the more binding of the two that will be binding on these institutions so, why do we need both?

FELTON BOOKER. I think we do think about them as being complementary, both equity and long-term debt are a type of loss-absorbing instrument, right, they both provide loss-absorbing capacity. The primary distinctions we discussed before is just the reliability of those instruments in the context of a resolution. And we have a minimum long-term debt requirement which, whether it's the right analogy or not, I used it earlier, sort of the final firewall, is the most reliable form of post-failure capital. Above that, the firewall, we've allowed some amount of loss absorbency to be filled with excess equity, but have controlled still this minimum amount that must be long-term debt, is known clear, observable and not subject to the same volatility that equity is.

GOVERNOR POWELL. Thank you. And then one other question, which is the last part of the proposal, which would require banks a billion and up to deduct from capital and the value of any debt issued by--set by the GSIBs, eight GSIBs, or the IHCs. So the question there I would have is, if you thought about it, what can you say about the effects that it would have either on, you know, market making in those instruments or, frankly, on compliance burden for smaller institutions. What are you thinking on those things?

FELTON BOOKER. I'm happy to start. Yes please.

BEN MCDONOUGH. Governor Powell, we'd be happy to answer that question. Board staff did consider the impact of this part of the proposal. And preliminary analysis conducted by Board staff suggests that institutions that are subject to the Board's capital requirements currently don't own a substantial amount of unsecured debt issued by the GSIBs, the U.S. GSIBs. In addition, the proposal would exclude an underwriting position in another company's eligible long-term debt that is held for five or fewer business days. And therefore to your point to the extent that companies are doing underwriting, in the GSIBs debt, there would be an exclusion to the extent that they hold that position for five or fewer business days.

GOVERNOR POWELL. Great. Thank you, Madam Chair.

CHAIR YELLEN. Governor Brainard? OK. If there are no more questions, what I'd like to do is go around and ask everybody to state their position on the proposal. Let me start, Vice Chair.

VICE CHAIRMAN FISCHER. In favor of the proposal, Madam Chair.

GOVERNOR TARULLO. As am I, Madam Chair.

GOVERNOR POWELL. As am I, Madam Chair.

CHAIR YELLEN. Governor Brainard?

GOVERNOR BRAINARD. As am I.

CHAIR YELLEN. And I, too, am in favor of the proposal. And so, we will need two motions to put this into effect. First, I need a motion to publish for comment the proposed rule establishing total loss-absorbing capacity and buffer long-term debt in clean holding company requirements for U.S. global systemically important banking organizations and U.S. intermediate holding companies for foreign globally systemically important banking organizations. I need a motion.

VICE CHAIRMAN FISCHER. So move.

CHAIR YELLEN. Thank you. Second?

GOVERNOR POWELL. I will second it, Madam Chair.

CHAIR YELLEN. Thank you. All in favor?

ALL. Aye.

CHAIR YELLEN. Any opposed? OK. That passes. And now, I also need a motion to authorize staff to make technical changes and minor changes to prepare the related Federal Register documents for publication.

VICE CHAIRMAN FISCHER. So move.

CHAIR YELLEN. Second?

GOVERNOR TARULLO. Second.

CHAIR YELLEN. All in favor?

ALL. Aye.

CHAIR YELLEN. Any opposed? OK. Very good. Then let's move on to the second item on our agenda, which concerns the final rule regarding margin and capital requirements for uncleared swaps. And let me turn to Mark Van Der Weide to start us off.

MARK VAN DER WEIDE. Thank you, Madam Chair. In addition to the GSIB long-term debt proposal, the Board is also considering this afternoon a draft final rule that will establish margin requirements on non-centrally cleared swaps. Reducing systemic risks from derivatives is one of the key pieces of the global financial reform program put in place after the financial crisis, and one of the key goals of the Dodd-Frank Act. This reform program is a response to the significant weaknesses in derivative markets that were revealed during the crisis, which were well exemplified by the collapse of AIG. Under the global financial reform program and under Dodd-Frank, standardized OTC derivatives should generally be cleared through a central counterparty, and derivatives that are not centrally cleared should be subject to margin requirements.

Margin requirements for noncleared swaps will have two main financial stability benefits. First, many OTC derivatives are not standardized today. It would be difficult to standardize in the future, and accordingly will be unlikely to move to central clearing. These noncleared swaps will pose the same type of systemic spillover risks that materialized in the financial crisis. Margin requirements will reduce these risks in bilateral relationships by ensuring that collateral is available to offset losses caused by the default of a derivative's counterparty. More broadly, a regulatory regime in which all derivative market participants know that margin will be available to deal with the significant default will improve overall market confidence and reduce the scope for contagion-based run dynamics to materialize during a period of financial stress. The second benefit is to provide market participants with an incentive to move more OTC derivatives to central clearing. Clearing houses require margin to be posted against cleared swaps. Without margin requirements on noncleared swaps, market participants would have a meaningful incentive to avoid clearing. With the margin requirements on noncleared swaps being discussed today, the incentives will go in the right direction and firms will have an incentive to clear their standardized derivatives.

Finally, it should be stressed that the final rule being considered today is part of a larger global reform program. Following a mandate from the G20, a team of global bank and securities regulators, lead by our very own director of Banking Supervision and Regulation, Mike Gibson, has worked very hard over the past few years to establish a global framework for margining over-the-counter derivatives. This framework was adopted by the Basel Committee and the International Organization of Securities Commissions in September 2013. Today's final rule reflects the high level principles of that global framework. As a result, these margin requirements would reduce systemic risk in the derivatives markets in a globally harmonized manner, which is critical given the global scope of derivative markets. I will now turn the presentation over to my colleagues, Sean Campbell and Anna Harrington, who will describe the key features of the draft final rule.

SEAN CAMPBELL. Thanks, Mark. The final rule being considered today is an outgrowth of the proposal that was issued by the Board and the FDIC, OCC, Farm Credit Administration, and Federal Housing Finance Agency in September of 2014. It was developed jointly with these other prudential regulators, and we have consulted with the CFTC and the SEC as required by the Dodd-Frank Act. Over 50 comments were received on the proposal and the draft final rule has been modified to address some of these comments. In the remarks that follow, we will discuss some of the most significant changes relative to the 2014 proposal. Title VII of the Dodd-Frank Act established a comprehensive new regulatory framework for swaps. As part of this new regulatory framework, swap dealers and major swap participants, collectively swap entities, are required to register with the CFTC and SEC. For swap entities that are regulated by one of the agencies other the CFTC or SEC, sections 731 and 764 of the Dodd-Frank Act require the agencies to adopt joint rules imposing initial and variation margin requirements on all non-cleared swaps. These swap entities are primarily banks.

The final rule would adopt a risk-based approach in establishing margin requirements consistent with the statutory requirement that these rules help ensure the safety and soundness of the swap entity and be appropriate for the rest of the financial system associated with non-cleared swaps held by swap entities. In implementing a risk-based approach, the final rule would distinguish among different types of counterparties for purposes of establishing margin requirements. In particular, the final rule makes a distinction between swaps with other swap entities, such as swap dealers, swaps with financial end-users, such as insurance companies, and swaps with other counterparties, such as multilateral development banks and sovereigns that are neither swap entities nor financial end-users. Staff believes that the relative risk of each of these types of counterparties are sufficiently different to warrant differential treatment in the final rule.

I now turn to a brief discussion of the final rule's specific margin requirements. The final rule establishes initial margin requirements on a swap entity's non-cleared swaps. Initial margin can be thought of as a performance bond that assures the performance of a swap entity's counterparty and can be used to replace the swap in the event that the counterparty defaults. Moreover, initial margin is the key risk management tool that is employed by central counterparties in cleared swap markets. Initial margin amounts may be calculated according to a simple and transparent standardized table or a more risk sensitive internal risk management model that is overseen and approved by regulators. These initial margin requirements on non-cleared swaps should be considered a significant change to market practice going forward. While the collection of initial margin on non-cleared swaps has been a common market practice among some segments of the market, these requirements will significantly broaden the extent to which the initial margin is applied to non-cleared swaps. Under the final rule, a swap entity that transacts with another swap entity or a large financial end-user would be required to collect and post initial margin from and to its counterparty. Requiring both the collection and posting of initial margin on swaps with these large financial counterparties should result in a meaningful reduction in systemic risk by reducing the probability of failure of swap entities and the potential damage to the financial system in the event of a default of a swap entity.

Of course, reducing systemic risk in the derivatives market will come at a cost. Collecting and posting initial margin on non-cleared swap transactions will require a significant amount of high quality liquid assets that will not be able to be used for other purposes. The amount that will be needed to satisfy these new requirements depends on a number of factors that cannot be known in advance. But one estimate suggests that in the long run, roughly $315 billion will be required for initial margin on non-cleared swaps with third parties. The cost of the requirements to swap market participants will depend on the difference between the cost of financing initial margin collateral and the rate of return earned on the collateral. Some swap market participants, such as asset managers and insurance companies that maintain very large stocks of eligible collateral assets, will face relatively low costs. Other participants, however, will face higher costs. One estimate of the cost of raising the collateral needed to satisfy the initial margin requirements is roughly $2.5 billion per year. While these amounts are not trivial, staff believes that the overall reduction in systemic risk offered by the requirements, which will benefit the entire economy, outweigh the cost that will be borne by the non-cleared swap market.

In addition to initial margin, swap entities would also be required to exchange variation margin on a daily basis with other swap entities and financial end-users. Variation margin reflects the change in the mark to market evaluation of a swap between two counterparties. Regular and timely exchange of variation margin ensures that current credit exposures do not build to unsustainable levels that can post systemic risks to the economy. Unlike the initial margin requirements, which represent a significant change in market practice, the impact of the variation margin requirements is likely to be low because the exchange of variation margin on a regular basis is a current risk management best practice that is widely adopted by swap market participants. Moreover, the regular exchange of variation margin is also required on cleared swap transactions. When a swap entity engages in a swap transaction with a counterparty that is neither a swap entity nor a financial end-user such as a sovereign entity, the swap entity will only be required to collect initial or variation margin to the extent that the swap entity deemed its collection necessary as a result of the risk of the counterparty in the swap. Accordingly, in the case of these counterparties, such as sovereigns, the final rule would require that the swap entity collect margin in accordance with its own credit risk management policies and procedures.

Recent legislation also directs the agencies to promulgate the interim final rule before the Board today. That exempts from initial and variation margin requirements non-cleared swaps of certain counterparties that would quality for an exception from clearing. Most notably, a non-financial end-user that uses swaps to hedge or mitigate risks, as well as small banks and certain other small financial institutions with total assets of $10 billion or less. I will now turn to my colleague, Anna Harrington, who will describe the draft final rule’s provisions on eligible collateral, segregation, cross border application and swaps between affiliates.

ANNA HARRINGTON. In addition to the amounts of initial and variation margin required, the final rule also establishes the types of collateral assets that may be used to satisfy these requirements. In the case of additional margin, the final rule is largely consistent with the 2014 proposal and permits a broad array of eligible collateral, including certain government bonds, corporate bonds, equities, and investment funds backed by sovereign bonds. The value of these assets, however, would be adjusted by a risk-based haircut to ensure that the amount of initial margin collected could withstand fluctuations in asset market values. Staff believes that the broad scope of eligible initial margin will alleviate the liquidity cost of the requirements and will minimize potential distortions in the underlying asset markets without reducing the efficacy of the requirements.

In the case of variation margin, as in the 2014 proposal, the final rule would require cash to be used to make variation margin payments for swaps between swap entities. Staff believes that limiting variation margin collateral to cash where both counterparties are swap entities is appropriate and consistent with current market practice. On the other hand, when a swap entity faces a financial end-user counterparty, any collateral that is eligible for initial margin may be used to satisfy the variation margin requirements. This reflects a broadening of eligible variation margin collateral relative to the 2014 proposal, which permitted only cash to satisfy the variation margin requirements. This change helps to address a number of comments from financial end-users, such as insurance companies and asset managers, who contended that holding significant amounts of cash would place a measurable drag on their investment portfolio return. Staff believes that allowing financial end-users to use non-cash collateral that is subject to robust risk-based haircuts to satisfy variation margin requirements will further reduce the liquidity burden of the requirements without materially reducing the prudential protections of the margin requirements.

When initial margin is provided to a counterparty, there is a risk with the counterparty defaults and that posted collateral cannot be recovered. To address this risk and to protect the safety and soundness of the swap entity, a swap entity would be required to arrange for the segregation of any initial margin it posts to its counterparty at one or more third party custodians. A swap entity would also be required to place initial margin that is collected in accordance with the final rule at a third party custodian. In addition, the custodial agreement must prohibit the custodian from rehypothecating the collateral. Staff believes that these collateral safe keeping provisions are important to ensure that initial margin collateral will be available when it is most needed and thereby result in a significant reduction in systemic risk. Given the global nature of swap markets, the final rule’s margin requirements would be applied to swap transactions across different jurisdictions. While swaps of U.S. swap entities with U.S. counterparties would be covered by the requirements of the final rule, swaps between foreign swap entities and foreign counterparties generally would not be subject to the margin requirements. In addition, certain foreign swap entities would be permitted to comply with the U.S. swap margin rule by meeting the requirements of a foreign margin rule for their swap transactions if the agencies determine that the foreign rule is comparable to the U.S. rule. Moreover, in certain cases, a U.S. swap entity could post initial margin to a foreign counterparty pursuant to a foreign rule that the agencies have determined is comparable to this final rule. This approach is intended to limit the extraterritorial application of the margin requirements while preserving to the extent possible competitive equity among U.S. and foreign firms.

For swap transactions with affiliates, the final rule requires a swap entity to collect and post variation margin, which generally reflects current market practice. The final rule also contains special rules regarding initial margin for swap transactions between a swap entity and its affiliates. Under the 2014 proposal, swaps between a swap entity and its affiliate would have been subject to the same requirements as swaps between a swap entity and a third party. A number of commenters contended that inter-affiliate swap serve important enterprise-wide risk management purposes and that requiring initial margin on these swaps would disincentivize good risk management practices. A swap between a swap entity and its affiliate poses risk to the swap entity, which generally is an insured depository institution that the Dodd-Frank Act directs the agencies to protect. Accordingly, and similar to the 2014 proposal, the final rule would require swap entities to collect initial margin from their affiliates on a daily basis, which would protect the swap entity from the risks of a swap with an affiliate. Unlike the 2014 proposal, however, the final rule would not require swap entities to post initial margin to their affiliate counterparties. Instead, a swap entity would calculate the amount of initial margin that it would have been required to post to an affiliate and provide that information to the affiliate on a daily basis. As in the case of swaps between swap entities and third parties, initial margin requirements for inter-affiliate swaps will require a significant amount of collateral assets. Some estimates suggest that swap entities will need to raise an amount of initial margin collateral on inter-affiliate swaps that is 50 percent as large as will be required on their non-cleared swaps with third parties.

As previously discussed, the requirements of this draft final rule represent a significant change to market practice. A number of operational and legal changes by swap entities and other market participants would be required to comply with the new requirements. It is important to provide firms with sufficient time to conform to the new requirements. Accordingly, the requirements would be phased in over a four-year period beginning September 2016. Moreover, the largest and most sophisticated entities would be required to comply with the requirements first, with smaller and less sophisticated entities following over the next several years. This concludes staff's prepared remarks. My colleagues and I would be pleased to answer your questions.

CHAIR YELLEN. Thank you very much. I'll start off with two questions. Mark, in your opening comments, you mentioned that the requirements are intended to provide incentives to centrally clear swaps, where there is a choice, where they could be either cleared or not cleared. Can you give me a feeling? It's hard for me, you know, reading the rule, to get a sense of how strong the incentives are in this proposal where there is that kind of choice. To what extent do these rules really encourage central clearing and penalize keeping over-the-counter non-cleared alternatives?

SEAN CAMPBELL. So, let me try to address that question. I think the--perhaps the easiest way to think about addressing that question is just to think about the differences in initial margin between cleared transactions and uncleared transactions. So, the specifics depend in range, depending on the specific swap that you're talking about and the specific clearinghouse. But generally speaking, the amount of initial margin that would be required on an uncleared swap is between 30 and 40 percent higher than that would be required for a cleared swap. And so that's, you know, that's a significant hurdle that to anybody is going to be visible and is going to provide an incentive to engage in cleared transactions where that's appropriate and make sense.

I guess, just to come back to one other point made in the context of your question, I'm not sure that the staff would be comfortable in characterizing that as a penalty. Rather, I think we think that the fundamental characteristics of uncleared swaps are such that a more significant initial margin requirement is consistent and appropriate. So in particular, those swaps are less liquid, less standardized, more bespoke and are subject to a range of risks that you just don't see in the cleared swap markets. So in some sense, the aim of this rule is to get to a place where in the derivatives markets both the cleared swap market and the uncleared swap market are operating under equal footing from a fundamental risk perspective. And the staff is confident that this rule goes a long way towards achieving that objective.

CHAIR YELLEN. OK. In a way a related point, my understanding is just trying to get a sense of how large the margin requirements are. They rely on internal models. And that made it hard for me to get that sense. But a more general question is how comfortable are you relying on firms' internal models to assess the magnitude of initial margin? Are we doing something through the supervisory process? What, if those models, do you have confidence in them?

SEAN CAMPBELL. Sure. I think again in light of the, you know, events of the past five or six years, I think, you know, the entirety of the staff's view of the wisdom of internal models has changed somewhat. In the context of these uncleared swaps, it's important to recognize that we are dealing with some of the sort of more complex financial products and the spectrum of complexity. And so, trying to find a simple standardized table, once it's one size fits all approach to margin is actually a rather challenging task. Having said that, I think that staff is broadly comfortable with the rules, permittance of using internal models, first and foremost, because those models are going to be subject to regulatory oversight and approval by their primary financial regulator and the--the approval. And the rule has an entire section that is devoted to the standards that must be met to gain that approval from the regulator. Part of those approval standards are consistent back testing. Basically, looking at data that has evolved over time and assessing whether or not the pronouncements of the underlying risk models are accurate. And so, you know, the simplest way to characterize the standards that are required to get model approval and sort of the upkeep in governance that's required over time is trust and verify, and I trust. And so I think the staff intends to fully focus on the verify part of that statement.

CHAIR YELLEN. Great, thank you very much. Vice Chair?

VICE CHAIRMAN FISCHER. Thank you, Madam Chair. It was very interesting to listen to you describing why nonetheless despite the fact that foreign--that we believe that foreign regulators are unlikely to impose or require inter-affiliate swaps to be regulated. And as I started thinking about it, I thought, well, we're kind of doing something that's different and maybe we need to think about it again. The more I listen to you, the more I wondered why the foreign--is not imposing these requirements. Do you know?

SEAN CAMPBELL. So far be it for me to put words in the mouth of my foreign colleagues. However--but I can say a little bit about what, you know, what we've discussed kind of an international fora with respect to, you know, their viewpoint on the issue. And I think that a lot of it, at least in the context of the European regulators, stems from their version of the Dodd-Frank Act, EMIR. And again, not being a personal expert in all of the, you know, sort of all of the details of EMIR. But, you know, many of my foreign colleagues would claim that the requirements of EMIR effectively all but rule out such a requirement. And so that there is a--they are responding to a statutory requirement to which they are beholden. That would make levying inter-affiliate margin requirements difficult if not impossible.

VICE CHAIRMAN FISCHER. Second question, in your view that, on average the swap transactions are going to cost more than they have in the past?

SEAN CAMPBELL. The inter-affiliate swap transactions?

VICE CHAIRMAN FISCHER. No, just in general.

SEAN CAMPBELL. Just in general? They are certainly going to cost more. I mean it depends on who you are. So, you should state it that way. So, if you take the example of an asset manager or hedge fund that deals with a large dealer bank today, they are paying initial margin on every trade they do with the dealer and they're also providing two way--they're also providing variation margin on every trade. So, for those folks, this rule is going to look a lot like current market practice. If you take a look at swap dealers on the other hand, swap dealers right now, when they face another swap dealer, they will generally exchange variation margin in a normal course. So that's not going to be a change relative to the rule. But the levying of initial margin requirements on a swap deal at a swap--swap dealer to swap dealer transaction is quite frankly an enormous change in market practice. They currently don't do it now. And the amounts of margin that I quoted in my prepared remarks of $315 billion are primarily being driven by the amounts that large swap dealers are going to be putting up on in initial margin for their swap transactions.

VICE CHAIRMAN FISCHER. The volume of swap transactions is astronomical. Is this going to reduce the volume?

SEAN CAMPBELL. So, I know I'm an economist so I'm supposed to not mind forecasting. But I'm also aware of our usual record in forecasting. But I would say that, you know, at the margin, surely it's going to be the case, it will be some folks who find that the additional requirements are just too costly. But to the extent that those swap transactions are responding to fundamental real economic risks that are needed to hedge, we don't think that these margin requirements get in the way. I think to say--to reiterate something that I said earlier, I think staff believes quite strongly that these margin requirements are effectively commensurate with the actual underlying risks of the swap transactions themselves. And to the extent that that's the case, we don't think it skews the incentives in a way that would provide sort of a significant incentive away from actually engaging in good sound risk management practices.

VICE CHAIRMAN FISCHER. Thanks, again, Madam Chair.

CHAIR YELLEN. Governor Tarullo.

GOVERNOR TARULLO. Thank you, Madam Chair. Just picking up on the Vice Chair's earlier question about the contrast between U.S. practice--we intend to be U.S. practice and possibly other counties' practice, I wonder whether an additional element here may just be the different institutional structures that we've created within the U.S. system where we do have a ring around the depository institution. And rule 20--Section 23A Reg W are more or less requiring us to insulate the IDI from what may happen in other parts of the holding company. So maybe I could ask the legal division, even absent this, would we feel like we had an obligation to do something under Section 23A as amended?

SCOTT ALVAREZ. Yes. So, Dodd-Frank actually does cover--there has been some doubt about the place of derivatives in 23A but Dodd-Frank took care of that and requires us to amend 23 to cover the credit exposure that the bank has to an affiliate through derivatives transactions. That's a rule we're continuing to develop. But we will--we're considering that in light of the swap margin rule, which I think goes a long way in that direction. But they both pull in the same direction.

GOVERNOR TARULLO. Thank you.

CHAIR YELLEN. Governor Powell.

GOVERNOR POWELL. Thank you, Madam Chair. Could you just say a little more about the way these requirements fall upon outstanding swaps, particularly as it relates to netting?

ANNA HARRINGTON. Sure. So, the requirements of the rule will not apply to any swap entered into prior to the relevant compliance states. But there are provisions that allow netting and that would let a covered swap entity and its counterparty agree to treat pre-compliance state swaps and post-compliance state swaps together or separately under the netting agreement.

GOVERNOR POWELL. They comply with the new margin requirements.

ANNA HARRINGTON. Right, yes.

GOVERNOR POWELL. So you don't have to comply with some of the margin requirements, but you can't net unless you do.

ANNA HARRINGTON. You can't net them together unless you do but you could identify them separately, treat the pre-compliance state swaps. It's not subject in the post-compliance state swaps as subject to the final rule, or if you decide to net them all together, all would be subject to the final rule.

SEAN CAMPBELL. So I think the basic idea here is it's dealer's choice.

GOVERNOR POWELL. Yeah.

SEAN CAMPBELL. So, if you like the new requirements and you want to put everything into the same bucket, then you're free to do that but you're not required to do that.

GOVERNOR POWELL. OK. So the only other thing was--so we still got this language in the rule about requiring covered swap entities to collect initial and variation margin to the extent they deem it necessary to address credit risk. But at the same time we're proposing this--prepare the proposal rule under TRIPRA. TRIPRA, yeah. Yes. And where--so, where does--where all does that leave, you know, commercial end-users?

ANNA HARRINGTON. So the language that you're pointing to that leaves the collection of initial margin to the discretion of a covered swap entity was in the proposal, and in the proposal it will apply to a group of counterparties that included other counter--we termed it other counterparties, and it included commercial end-users. Since that--since the time of the proposal, Congress passed legislation that exempted commercial end-users using swaps to hedge or mitigate commercial risk from the requirements of the rule. So, the language that you're referencing, Governor, is still in the final rule and would be available to the other types of counterparties that were eligible to take advantage of it in the proposal. So for instance, sovereign entities would still be at the discretion of the covered swap entity.

GOVERNOR POWELL. They're all commercial and they're covered by the exemption. OK. Thank you.

CHAIR YELLEN. Governor Brainard? OK. Then let me ask people to state their positions before we take up votes on four separate motions. Vice Chair.

VICE CHAIRMAN FISCHER. In favor, Madam Chair.

CHAIR YELLEN. Thank you. Governor Tarullo?

GOVERNOR TARULLO. I agree.

CHAIR YELLEN. Governor Powell?

GOVERNOR POWELL. As am I.

CHAIR YELLEN. Governor Brainard? [Governor Brainard nods.] And I join my colleagues in supporting finalizing this proposal. Now we're going to vote on four separate motions. So first I need a motion to approve the final rule imposing margin in capital requirements for covered swap entities.

VICE CHAIRMAN FISCHER. Second.

GOVERNOR TARULLO. I second.

CHAIR YELLEN. All in favor?

ALL. Aye.

CHAIR YELLEN. OK. Second, I need a motion to approve the interim final rule to implement the requirements of Title III of the Terrorism Risk Insurance Program and the Authorization Act of 2015.

VICE CHAIRMAN FISCHER. So move.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. All in favor?

ALL. Aye.

CHAIR YELLEN. Next, I need a motion to delegate authority to the director of the Division of Banking Supervision and Regulation to approve internal margin models in accordance with the final rule.

VICE CHAIRMAN FISCHER. So move.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. All in favor?

ALL. Aye.

CHAIR YELLEN. And finally, a motion to authorize staff to make technical and minor changes to prepare the related Federal Register documents for publication.

VICE CHAIRMAN FISCHER. So move.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. All in favor?

ALL. Aye.

CHAIR YELLEN. OK. So, thank you all very much for an excellent set of presentations and most importantly for all the terrific work you've done over quite a number of years to bring these proposals to fruition and to get them out for proposed comments. So, thanks very much to the staff and to my colleagues, Governor Tarullo, and our colleagues involved in banking supervision committee. OK. And I think we stand adjourned.