Transcript of Open Board Meeting
June 3, 2016

CHAIR YELLEN. Good afternoon and welcome to our guests who are attending or watching our meeting.

Today, we are considering two proposals related to the insurance companies subject to the Federal Reserve's oversight. The first is an advance notice of proposed rulemaking or ANPR on insurance capital rules to address the risks for two groups of firms: systemically important insurance companies and other, less complex companies that own both an insurance subsidiary and a bank or a savings and loans subsidiary. These groups present different risks to the financial system and the ANPR outlines two approaches to capital regulation that are tailored to their different risks.

The ANPR presents potential capital frameworks that are adapted to the unique nature of the liabilities and risks of companies significantly engaged in insurance activities. Because the ANPR is conceptual, it will allow all interested parties an early opportunity to comment before we turn to developing proposed rules. It's important to note that the frameworks in the ANPR would address all the risks posed across both regulated and unregulated subsidiaries. I believe this proposal is an important step toward capital standards that are both appropriate for our supervised insurance firms and that enhance the resiliency and stability of our financial system.

The second proposal before us today is a proposed rule that would establish a range of enhanced prudential standards for systemically-important insurance companies. These standards build upon the core provisions of our consolidated supervisory framework for large domestic and foreign banking organizations, but would be appropriately tailored to the business of insurance.

Let me now turn to Governor Tarullo who led the effort to develop these two proposals.

GOVERNOR TARULLO. Thank you, Madam Chair. Before the staff presentation of the two proposals before us, I wanted to make a few observations on the ANPR which I think echo some of the themes that you've already struck.

First, as we have done with bank holding companies, the framework envisioned in the ANPR would put in place a tiered approach to capital regulation of insurance firms within our jurisdiction that applies different requirements to groups of firms, which reflects the different risks they pose to the safety and soundness of depository institutions and to the financial system more generally. Incorporating the tiering principle into financial regulation both promotes achievement of our regulatory mission by applying more stringent regulation for firms that pose greater risk to the system and helps avoid the imposition of unnecessary compliance costs on those that pose lesser risks.

Second, the staff has used the flexibility given us by the December 2014 changes to the Collins Amendment to fashion an approach that reflects the ways in which traditional insurance activities differ from those of commercial banks, broker-dealers, and other forms of financial intermediaries. Among the more important of these distinctions is the more stable funding model of traditional insurance businesses.

For the current group of a dozen insurance holding companies that we supervise solely because they own a depository institution, the capital requirement would literally build on the requirements placed on the insurance affiliates of the holding company by their insurance regulators. However, even for the firms designated as systemically important where a more conventional consolidated approach to capital is needed and where we would thus create risk categories for assets and liabilities across the holding company. The ANPR contemplates that those risk weights and factors would be designed with insurance activities in mind.

Third, and finally, I want to note my agreement with the use of an ANPR as the vehicle for inviting public comment on this dual approach to capital regulation. This is an entirely new approach and before staff begins the task of fully developing proposed regulatory text, it is important to receive public comment on the overall merits of this approach, as well as suggestions as to how it might best be elaborated. While the use of an ANPR obviously modestly slows down the process of getting a final rule in place, that delay is worth the benefit of our getting our ultimate regulatory regime right.

And with that, let me turn to Mark Van Der Weide to introduce the staff presentation.

MARK VAN DER WEIDE. Thank you Governor Tarullo.

The draft insurance rulemakings before the Board today represent another example of the staff's commitment to supporting the Board's tailored approach to supervision and regulation. Among the institutions that the Board supervises, those that significantly engage in insurance activities are different from banks in terms of their business model and risk profile. And the most appropriate supervisory and regulatory approach for these firms is one of the best that reflects the risks of the business of insurance, and is proportional to the threat that the firm poses to financial stability.

The Board serves as the consolidated supervisor of two general categories of insurance institutions. Those that own one or more insured depository institutions, which I'll refer to as insurance thrift holding companies. And those that have been designated as systemically important by the Financial Stability Oversight Council, which I'll refer to as systemically important insurance companies. Presently, the population of insurance thrift holding companies consist of 12 firms, while the systemically important insurance companies consist of currently AIG and Prudential. The Board's supervisory objectives differ for these two populations.

For the insurance thrift holding companies our supervisory efforts focused on safety and soundness of the consolidated firm, and protection of the subsidiary depository institution. With the systemically important insurance companies, our supervision has additionally emphasized in macroprudential perspective, promoting financial stability and mitigating systemic-wise.

The draft rulemakings before the Board today would advance these supervisory objectives. As the Chair indicated, the first is an advance notice to proposed rulemakings, or ANPR, on capital requirements for both populations of our supervised insurance firms. And the second is a notice of proposed rulemaking, or NPR, on enhanced prudential standards for the systemically important firms. The rulemakings would support the Board's execution of its statutory mandates in a manner that is appropriate for insurance and tailored to the type and systemic footprint of individual firms. They also reflect the hard work of a wide range of Federal Reserve staff, some of whom will be presenting to you today, into a broad and valuable mix of insurance, accounting, regulatory, and legal expertise to this enterprise. Let me now turn the floor over to Tom Sullivan to introduce the ANPR on capital.

THOMAS SULLIVAN. Thank you, Mark.

The first draft rulemaking, we forwarded you today as an advance notice of proposed rulemaking, on capital requirements for supervised institutions significantly engaged in insurance activities. This is a topic that staff has been carefully considering for some time. And underlying all of our efforts is a desire to get it right. We have engaged extensively with a variety of stakeholders on these issues over the past few years, and the ANPR reflects our continued commitment to receiving stakeholder input.

As you know, an advance notice of proposed rulemaking differs from a notice of proposed rulemaking in terms of its substance and goals. While an NPR is essentially a draft, a developed draft—an ANPR, a more conceptual outline and as such, would invite comments on the broad contours for the capital frameworks before we turn to proposing on details.

The drafting NRP discusses two independent capital frameworks, appropriate for the business mix, and risk profile of our supervised insurance institution. The proposal takes a bifurcated approach. With the building block approach, favored for insurance thrift companies, and in a consolidated approach for the systemically important insurance companies. We believe that this bifurcated approach is optimal. It would most efficiently advance the Board's differing supervisory objectives for the two populations, with supervised insurance institutions. I will now turn to Linda Duzick, who would discuss the consolidated approach in more detail followed by Suyash Paliwal who would discuss the building block approach. Linda?

LINDA DUZICK. Thank you, Tom. I'll discuss one of the two capital frameworks presented in the ANPR. Termed the consolidated approach.

The financial crisis demonstrated the need for a stronger, regulatory and supervisory assessment of the resiliency of large financial firms. Among other things, it revealed that too narrow a focus on the safety and soundness of the individual legal entities in a corporate group, could result in a failure to detect threats to the group and to financial stability that emerge from unregulated or less regulated subsidiaries of the group. Indeed, the near collapse of AIG during the financial crisis was precipitated in significant part by activities not within the purview of the regulators. Severe losses in a non-insurance subsidiary of AIG undermined confidence in the entire organization and contributed to the firm's inability to obtain adequate funding. Hence, the crisis reaffirm the importance of consolidated supervision which encompasses the parent company and all of its subsidiaries, and allows the Board to understand a supervised institution's activities, resources, and risks from the perspective of the entire enterprise. In addition to building on the benefits of consolidated supervision, a consolidated capital standard deters firms for moving assets among its affiliates in order to take advantage of lower capital requirements at the legal entity level.

The ANPR's proposal of the consolidated appreciate reflects the importance of considering all risks from an enterprise-wide perspective, and minimizing regulatory arbitrage. The consolidated approach would also minimize the risks to the safety and soundness of the firm and to financial stability from double leverage. That is the use by a parent firm, of borrowings to fund equity investments in subsidiaries. The consolidated approach would categorize all of the consolidated insurance group's assets and insurance liabilities into risk segments; apply risk factors to the amounts in each segment; total these risk-weighted amounts to arrive at consolidated capital requirements; and, then set a minimum ratio of consolidated capital resources to the institution's consolidated capital requirements. The consolidated approach would use risk weights or risk factors that are appropriate for the long-term nature of many insurance liabilities.

The ANPR invites comment on the consolidated approach as a suitable regulatory capital framework for systemically important insurance companies. In addition to covering all risks and reducing the opportunity for regulatory arbitrage and double leverage, the consolidated approach which would more easily enable the Board to perform supervisory stress tests.

Any implementation cost associated with the consolidated approach should be more than outweighed by the benefits of enhanced resiliency. Because these institutions are large, internally and externally complex, and systemically important the consolidated approach is more suitable than the building-block approach. With that, I'll turn the floor over to Suyash Paliwal for a discussion of the building-block approach.

SUYASH PALIWAL. Thank you Linda and Tom. I will discuss the second of the two main approaches in the ANPR, termed the building-block approach.

As its name suggests, the building-block approach uses certain building blocks, existing capital requirements for the various legal entities in an insurance group to constructing enterprise-wide capital requirement. This framework reflects an approach that relies in part on the state-based capital requirements for state-regulated insurance companies and in part on the Board's existing bank capital requirements. The building-block approach thus aims to achieve an enterprise-wide perspective while utilizing capital requirements already in place.

Under the building-block approach, the capital requirement for each regulated subsidiary generally would be based on the regulatory capital rules of that subsidiary's lead regulator, whether a state or foreign insurance regulator for insurance subsidiaries, or banking regulator for depository institutions or other banking subsidiaries. The regulatory capital requirement for any non-insurance, non-banking subsidiaries would be based on the Board's existing standardized risk based capital rules applicable to affiliate to the bank holding companies. The building-block approach would then aggregate capital resources and capital requirements across the firm's subsidiaries and calculate combined enterprise-wide capital resources and requirements. The comparison of aggregate capital resources to aggregate required capital would represent enterprise-level of capital advocacy. In some situations, the subsidiary's legal entity level requirement may need certain adjustments, for instance to eliminate intercompany transactions. Should the Board adopt the building-block approach, we would also need to develop a mechanism to harmonize the calibration levels of different regulatory regimes and reflect the Board's supervisory objectives. The existing legal entity level capital requirements does--may need to be scaled in order to bring the various building blocks to a comparable base for aggregation.

The ANPR invites comment on its building-block approach as a suitable regulatory capital framework for the 12 insurance thrift holding companies supervised by the Board. We note that these firms fall under the Board's supervision because they own an insured depository institution. For the insurance thrift holding companies, we submit that the building-block approach would streamline implementation costs and other implementation burdens while achieving the Board's supervisory objectives of insuring enterprise-wide safety and soundness in protecting the subsidiary depository institution. Moreover, for these firms, which tend to be smaller and whose failure would have a different impact on the broader economy compared to the systemically important insurance companies, the additional implementation costs of the consolidated approach may outweigh the incremental benefits.

Members of the Board we would be delighted to address any questions they may have.

CHAIR YELLEN. Thank you very much. Let me begin by thanking the staff for excellent, excellent work in putting these proposals before us. I have two questions. The first relates to international efforts, particularly through the IAIS that I know has been working for some time to develop an insurance capital standard for internationally active insurance groups. Can you give me a sense for how the proposal that you've put forward does or doesn't synch up with the efforts that are going on there?

LINDA DUZICK. Yes, Chair Yellen. As you know, the Federal Reserve Board is a member of the IAIS, and we have participated in the work to develop the international insurance capital standard. There are both similarities and differences between what we are proposing today in the ANPR. The consolidated approach does share some similarities with the ICS, but also has important distinct differences. Both present a consolidated approach to a group-wide capital requirement. However, there are major differences as well. We are supporting a gap-based framework and there currently is a gap-based evaluation framework considered in the ICS, however, there also is a market-adjusted evaluation framework, but we have great concerns about--due to the degree of volatility it introduces. We support the work of the IAIS along with our American partners, the federal insurance office, and state insurance regulators. And we look forward to continuing to work on that project for something that can develop eventually into an appropriate international standard.

There is a distinct difference between--however, the building-block approach and the ICS, given that the building-block approach represents an aggregation approach rather than a consolidated approach as the ICS does.

CHAIR YELLEN. And let me ask you one more question. Tom, in your opening remarks, you emphasized the staff has been working for a long time to really get this right. And I know, one of the issues that initially made it difficult to devise a regime that would be right for insurance companies was the Collins Amendment which was modified in 2014 to give the Board more flexibility in designing these requirements. And I guess my question would be, do you feel you've had adequate flexibility or are there still constraints that you face in designing a regime you think is appropriate for these companies?

THOMAS SULLIVAN. We do, Madam Chair. We think we have the flexibility we need to move forward. But as we've noted in proposing an ANPR, we do want to seek outsider comment and continue the engagement we've had with stakeholders to make sure we do get it right.

CHAIR YELLEN. Thank you very much. Vice Chair?

VICE CHAIRMAN FISCHER. Thank you, Madam Chair. And thank you members of the staff for the very important work you've done in this area which required a lot of thinking about how to regulate insurance companies which is not something we've done before.

Insurance company liabilities are usually longer-term than those of other financial institutions. Do you think they'll be having for a given asset a lower risk weighting because of the longer horizon then they would have if it was held in the bank?

MARK VAN DER WEIDE. So, we have to devise a capital regime both for the systemic firms and for the insurance thrift holding companies that does take into account the nature of insurance business model. Most notably, the different nature of the liability structure. As Governor Tarullo foreshadowed his opening remarks of the traditional insurance liability is a much longer-term a liability than the typical bank liability. And I think staff generally feels that as a general matter, a firm of more stable funding can face a lower capital requirement.

At this point in the ANPR though, we're not specifying a particular calibration of any asset-risk weight to our liability-risk weight. But in the next step, we propose an actual capital rule for these firms, the length of the insurance--traditional insurance liability will be something that we're clearly focused on quite a bit. Similarly for the insurance liabilities that non-traditional insurance liabilities that can be runnable, which are I think more of a feature, some of the liabilities, the two systemically important firms. That will also be a factor in the capital requirements that we devise for those two firms to address the runnability, and the systemic risk created by the runnability of some of their non-traditional liabilities.

VICE CHAIRMAN FISCHER. Thanks very much. A second question, one you must have thought about all the time you were working on this framework, if the general framework we're describing here for insurance companies were in place, or had been in place just before, say, in late August 2008, would you have prevented the bankruptcy of AIG?

THOMAS SULLIVAN. We do believe that the combination of the two proposals before you would have addressed the risks and the stress that was confronted by AIG at the time of the crisis. Taken together, both a consolidated approach to capital, which AIG was not subjected to before, and some of the--we're going to be talking in a moment about the provision in the notice of proposed rulemaking for enhanced prudential standards, which include risk management and liquidity risk management. Taken together, we do believe that that would have addressed the stresses that was undertaken at AIG. Yes.

VICE CHAIRMAN FISCHER. So a consolidated approach would have taken care of the financial institution that was--section of AIG that was a problem--was the main cause of the problem.

THOMAS SULLIVAN. Yeah. There were no capital requirements for the financial products division because it was a non-regulated entity that was not contemplated in a--there was no consolidated requirements, so there was no requirement for capital for financial products.

MARK VAN DER WEIDE. The other risk that AIG--another material risk that AIG faced was liquidity risks for the CDS products that they sold. They faced substantial margin calls on those products, and they had a substantial run on their securities lending portfolio. The second part of the proposal, the notice of proposed rulemaking on liquidity risk management, will make sure that a future AIG has some kind of a liquid asset buffer to deal with those potential liquidity outflows. And in 2007, AIG was not subject to that sort of regime.

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

CHAIR YELLEN. Thank you. Governor Tarullo.

GOVERNOR TARULLO. I have no questions. Thank you.

CHAIR YELLEN. Governor Powell.

GOVERNOR POWELL. I don't have any questions. Thank you.

GOVERNOR BRAINARD. Thank you, Madam Chair. Well, thanks to staff for some very nice work. I noticed that you made the judgment not to follow on the approach taken by Europe in Solvency II, and I agree with that judgment. I'm just wondering if you could talk a little bit about some of the challenges that have been encountered with that approach and why you decided to take a different direction.

LINDA DUZICK. Yes. The Solvency II has been introduced by the European Union. Although it took 15 year to develop, it just became effective January 1 of 2016. Some of our initial reads and responses from companies has been that there's been a very great concern about the volatility because of the market adjusted evaluation. We also have great concern because so much of it includes an internal models-based option in Solvency II, and we have great concern about what that does about the ability to supervise the internal models extensively and comparability across firms as well, and it also can lead to a result that reflects a much lower capital requirement than we may think is prudent.

CHAIR YELLEN. Okay. If there are no further questions, what I would like to do is ask member of the Board to state their position on the set of--on the proposals before us. Vice Chair?

VICE CHAIRMAN FISCHER. I support the proposals.

CHAIR YELLEN. Governor Tarullo.

GOVERNOR TARULLO. As do I.

CHAIR YELLEN. Governor Powell.

GOVERNOR POWELL. Madam Chair, I think the bifurcation approach is very appropriate, and that the decision to go with an ANPR is quite sensible, and I'm happy to support the proposal.

CHAIR YELLEN. Thank you. Governor Brainard.

GOVERNOR BRAINARD. Madam Chair, [inaudible] support it as well.

CHAIR YELLEN. And I, too, support the proposals by staff. We now need to take up two separate motions. So, first I need a motion to approve publishing for public comment an advanced notice of proposed rulemaking relating to capital requirements for supervised institutions engaged in significant insurance activities.

VICE CHAIRMAN FISCHER. So moved.

CHAIR YELLEN. Second?

GOVERNOR TARULLO. Second.

CHAIR YELLEN. Thank you. All in favor?

ALL. Aye.

CHAIR YELLEN. And next I need a motion to authorize staff to make technical and minor changes to prepare the related *Federal Register* documents for publication.

VICE CHAIRMAN FISCHER. So moved.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. Great. All in favor?

ALL. Aye.

CHAIR YELLEN. Very good. Thank you.

So, I think we can now move to our second matter, the notice of proposed rule-making, and let me turn to Tom Sullivan to introduce this.

THOMAS SULLIVAN. Thank you, Madam Chair.

During the preceding decades and during the recent financial crisis, a number of insurers experienced material, financial distress and had significant deficiencies in the areas of corporate governance and risk management. Moreover, history has demonstrated that insurers may experience failure if they do not manage their liquidity in a prudent manner. The enhanced prudential standards for FSOC-designated systemically important insurance companies being considered today would address these key issues. In particular, the standards would require the board of directors and senior management of these companies to adhere to concrete requirements related to corporate governance, risk management, and liquidity risk management.

The standards are based on best practices of large interconnected financial institutions, but with modifications to reflect insurance-centric risk. The systemically important insurance companies each currently meet some, but not all of these best practices. It's important to note as well that the proposed standards are qualitative and not quantitative in nature.

Together, these standards would be an integral part of keeping systemically important insurance companies strong and resilient to adverse market developments and should contribute to a more robust U.S. financial system and economy.

I'll first turn to Noah Cuttler to discuss further the corporate governance and risk management standards. Noah?

NOAH CUTTLER. Thank you, Tom.

To help ensure strong corporate governance and risk management, the proposal would require all systemically important insurance companies to identify, measure, monitor, and manage risk at an enterprise-wide level. This includes risks that may arise from intergroup transactions, unregulated entities, or centralized material operations. In addition, the proposal would identify the parties responsible for carrying out the company's risk management practices.

To that end, the proposal would require the board of directors of these companies to have an independent risk committee that would be responsible for the policies and oversight of the company's global risk management framework. A systemically important insurance company also would be required to have a chief risk officer, responsible for implementing and maintaining the company's risk management framework. The chief risk officer would be required to ensure that all risk within the company, regardless of where they were originated or are currently housed, are within the company's overall risk limits. This includes identifying, measuring and monitoring intragroup risks.

In addition, the corporate governance and risk management standard would require a systemically important insurance company to have a chief actuary. These companies have complex balance sheets that depend heavily on estimates of future revenues, the amount and timing of payments, and reserves that the companies need to meet those payments. Actuaries play critical role in estimating these amounts. The chief actuary of a systemically important insurance company, therefore, would provide enterprise-wide oversight across the company's legal entities, lines of business, and geographic markets.

I will now turn it over to Matt Walker to discuss the liquidity risk management standard.

MATT WALKER. Thank you, Noah.

The proposed liquidity risk management standard has been tailored to apply to systemically important insurance companies. Historically, most insurance products created little liquidity risk since their payments were contingent upon the occurrence of specified events, such as the death of a policyholder or the destruction of property. However, some insurers today also offer investment and retirement products with account values that can be withdrawn at the discretion of policyholders, sometimes with little or no surrender penalty. The option to surrender creates the potential to strain the liquidity of the firm and adversely affect the broader economy through fire sales and other externalities.

To reduce the risk of failure triggered by liquidity events, the proposed liquidity risk management standard would require a systemically important insurance company to implement a number of provisions to manage this liquidity risk. One important requirement of the standard is robust oversight of liquidity risk management by systemically important insurance companies' board of directors, risk committee, and senior management. The proposed rule would also require a systemically important insurance company to produce comprehensive enterprise-wide cash flow projections, maintain a contingency funding plan, and carefully monitor collateral and legal entity of liquidity risk.

Perhaps the most significant aspect of the proposal is the requirement for firms to conduct regular internal liquidity stress testing. This requirement would be more principles-based than the liquidity coverage ratio rule applied to bank holding companies and does not include Fed-prescribed assumptions around surrender rates for various liability types.

Related to the internal stress testing requirement, the proposed role would require a systemically important insurance company to maintain a buffer of highly liquid assets sufficient to meet stressed net cash outflows for 90 days. This 90-day period, which is longer than the 30-day period that applies to bank holding companies, reflects the long-term nature of most insurance liabilities. Because this longer time horizon implies more time to convert assets into cash, the proposed rule would consider a relatively wider range of assets as liquid than the rule applied to bank holding companies. The proposal specifies a list of eligible liquidity buffer assets including most investment-grade debt issued or guaranteed by a sovereign entity or U.S government-sponsored enterprise, investment-grade corporate bonds, publicly listed common equity shares, and certain investment grade municipal bonds.

Members of the Board, we would be delighted to address any questions you have.

CHAIR YELLEN. Thank you very much. Let me just kick things off with one question. So, I think the liquidity risk management standards that you've proposed here for these, you know, systemically important insurance firms are, you know, a very important risk management tool. But, in the case of the large and systemically important bank holding companies, as you mentioned, we do have quantitative requirements, the LCR and the NSFR. So, my question would be, do you see this as the first step and later on, you would contemplate putting in place comparable or appropriate quantitative requirements? Or do you think this is sufficient in terms of liquidity management?

MARK VAN DER WEIDE. As we've tried to build out the insurance supervisory regulatory framework for the 14 insurance-focused firms that we have, we have spent a lot of time thinking through whether it make sense to do some kind of a quantitative liquidity rule for the systemically important firms in particular. At this point, we don't have a recommendation to bring on you on that. But in the near term, we think the right foci for the Board are on the capital rules for all 14 firms and for the broader enhanced prudential standards for the two systemically important firms. But we do continue to analyze the pros and cons of a potential future quantitative liquidity rule for the systemic firms.

As we approach completion of these two rulemakings, I think we'll come back to the Board with a recommendation to you as to whether or not we should do something like that. To the extent that we do want to do something like that, it will clearly be far different from a cut-and-paste of the LCR and the NSFR, the bank-based rules, because of the very different nature of a lot of the insurance liabilities. There will have to be a quite different framework to be appropriate for these firms. But that’ll be something we'll come back to you on the future.

CHAIR YELLEN. Okay. Thank you very much. Vice Chair?

VICE CHAIRMAN FISCHER. Thanks, Madam Chair. This is a set of regulations that's going to be relevant to companies, which are already regulated on a state basis. How will you--the regulations must differ from state-to-state. How is this going to be coordinated? Made to work?

THOMAS SULLIVAN. So, the state supervision focuses on legal entities. And while some of their supervision is expanding to look at the consolidated enterprise, again, that their authority relies with the legal entities. For the two systemic firms that we're talking about here, we will be looking at the totality of the enterprise and making sure that there is liquidity for the consolidated enterprise. So it is distinctive in that manner. You know, we think it's particularly important because of, you know, the question you asked earlier with respect to the ANPR that we, again, have a complementary NPR here with a requirement around liquidity risk management. We don't go so far as Mark has suggested of, you know, a hard quantitative number but we do believe that the best practices outlined in this NPR will advance some of the practices of the industry.

VICE CHAIRMAN FISCHER. And are there other aspects of what's been done in the case of banks like stress testing that we're going require for insurance companies?

MARK VAN DER WEIDE. Yeah, so the statute of the Dodd-Frank Act requires us to impose a large number of enhanced prudential standards on the systemically important insurance companies, any FSOC-designated company. We are in the process of building out that entire framework. We've put the resolution planning requirement already in place, and the firms have submitted resolution plans that we're looking at. The NPR before you today is a few more of the Dodd-Frank Act required provisions. There are several more that will be coming, one of which is the stress testing requirement, and we've been working relatively concurrently on the capital rule and the stress testing framework. Establishing the capital rule is more or less a condition precedent of establishing the stress testing requirement. Stress testing is an assessment of whether the firm can stay above the minimum capital levels in a stress period. So, once we get the capital rule in place, we'll be in a position where we can launch the stress testing. But intellectually, we're developing them together at the same time. So that will be coming as well as a few other things that are required in the Dodd-Frank Act, like single-counterparty credit limits. But many of the additional enhanced prudential standards that we haven't yet completed hinge off with the capital rule, so it's critical to get the capital rule in place that we can complete the broader set.

VICE CHAIRMAN FISCHER. Thanks. Madam Chair.

CHAIR YELLEN. Thank you. Governor Tarullo?

GOVERNOR TARULLO. No further questions, Madam Chair.

CHAIR YELLEN. Governor Powell? Governor Brainard.

[Silence.]

CHAIR YELLEN. Okay. Hearing no more questions, let me again ask people to state their positions on these proposals. Vice Chair?

VICE CHAIRMAN FISCHER. I favor these proposals.

CHAIR YELLEN. Thank you.

GOVERNOR TARULLO. As do I. It’s a good next step for the provision that is [inaudible] doing is putting into regulatory form some of the practices that you've tried to evolve in the supervision today. And so, I think, in the step-by-step approach, we're ready for this one, but not for the other things that Mark was talking about.

CHAIR YELLEN. Governor Powell.

GOVERNOR POWELL. I support these proposals.

CHAIR YELLEN. Governor Brainard.

GOVERNOR BRAINARD. I support them.

CHAIR YELLEN. And I do as well. And we now have two separate motions that we need to take up. The first is to approve publishing for public comment a notice of proposed rulemaking to implement enhanced prudential standards for non-bank financial companies with significant insurance activities. I need a motion.

VICE CHAIRMAN FISCHER. So moved.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. All in favor?

ALL. Aye.

CHAIR YELLEN. And now I need a motion to authorize the staff to make technical and minor chances to prepare the related *Federal Register* documents for publication.

VICE CHAIRMAN FISCHER. So moved.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. All in favor?

ALL Aye.

CHAIR YELLEN. So, the motions are approved, and I know all my colleagues and I want to thank the staff for their very hard work that's gone into this and Governor Tarullo and the committee for your effort and moving this to completion.

GOVERNOR TARULLO. Now, they can have a good, relaxing weekend.

CHAIR YELLEN. Thank you, all.