Transcript of Open Board Meeting

April 8, 2019

CHAIR POWELL. Good morning everyone. I'd like to welcome our guests here at the Fed and also our online viewers.

Today, we'll consider proposals in two areas. The first would modify our regulation of foreign banks based on their size, activities, and risks, just as we have proposed for domestic banks. The second would adjust the timing and content requirements for resolution plan submissions.

Foreign banks play an important role in our economy. They facilitate commerce and provide credit and needed investment. Our longstanding policy is to treat foreign banks as we treat domestic banks. That's the fair thing to do, and it also helps U.S. banks because banking is a global businesses and a level playing field at home helps to level the playing field for U.S. banks when they venture abroad.

Only a few months ago, we proposed refining our regulations for domestic banking firms to account for the size, complexity, business, model, and risks of each firm. Our proposal today would apply a comparable framework to foreign banks.

But because the U.S. operations of most foreign banks tend to have a larger cross-border profile, greater capital markets activities, and higher levels of short-term funding, they often present greater risk than a simpler, more traditional domestic bank. The proposal before us creates categories of increasingly stringent regulation based on the risks that foreign banks pose. A domestic firm that engaged in the same activities would face very similar standards.

Overall, this proposal maintains the substantial resilience built up across the U.S. financial system over the past decade while at the same time making appropriate adjustments for firms that present less risk. I look forward to discussing that proposal.

The second item would modify our resolution planning requirements, also known as living wills. Banks' living wills describe their strategy for an orderly resolution under bankruptcy if they were to fail. Resolution plans are an important part of protecting tax payers in the economy from the failure of a large bank.

We've reviewed several rounds of plans submitted by large banks over the last seven years, and we've learned through that process that it makes sense for banks that are more complex and risky to submit resolution plans more frequently than firms that pose less risk. We are not changing our substantive review standard for the largest and most complex banks, and we are generally formalizing the current practices that have developed over recent years.

I look forward to the staff presentations and will now turn things over to Vice Chair Quarles.

VICE CHAIR FOR SUPERVISION QUARLES. Thank you Chair Powell, good morning. Thank you all for joining us today as we consider proposed regulatory measures on two important topics, tailoring Prudential requirements for foreign banks and resolution plan requirements for domestic and foreign banks, as Chair Powell has just said. Let me begin first by thanking our staff for coordinating and executing these judicious and careful proposals.

Like the domestic tailoring proposal that the Board and the other banking agencies considered several months ago, today's proposals were formulated with a basic objective in mind, to better align the character of regulation to the varying character of the firms to which the

regulations apply. In approaching this objective for foreign banks and in the public's assessment of and comment on today's proposals, there are two key additional guidelines to keep in mind.

First, due regard to the principle of national treatment, to create a level playing field between foreign banks operating in the United States and domestic firms of similar size and business models, and second, due regard to the complexities created by the fact that foreign banking operations in the U.S. are part of a larger global operation with risks that can differ from those of the consolidated U.S. operations. Consideration of national treatment has always been an important element of the regulation of foreign banking operations in the United States, and this is both meet and right. The operations of foreign banks domestically in both lending markets as well as capital markets make significant contributions to the U.S. economy. Over the decades they have regularly accounted for 20 to 25 percent of domestic financial activity, and those contributions should continue and we should ensure that our regulatory frameworks allow them to continue.

As a consequence of this consideration, the foreign bank tailoring proposal should look familiar because it shares the same basic framework as the domestic proposal. Firms are assigned to a category of regulatory stringency based on their size, business model, and risk profile. But it's not a direct transposition of it. We've given serious thought to how to account for the important differences between domestic firms and foreign banks operating in the United States. In addition, the differences in business models between domestic firms and foreign banks in the United States of approximately the same size in their U.S. operations may also mean that the distribution of firms into categories of stringency could vary significantly.

Let me turn to the unique feature of U.S. operations of foreign banks, their membership in the larger global organization. The U.S. operations of foreign banks have apparent affiliates

outside of the United States that can both provide and require support in varying circumstances. That dynamic is central to two key design choices in today's proposal.

The first is the proposal solicitation of comment on whether the Board should impose a standardized liquidity requirement on the U.S. branch and agency network of the foreign bank. Unlike the rest of today's proposal, this aspect does not include a proposal of concrete requirements but rather seeks broad input on the advisability and possible approaches of doing so. Introducing this concept is novel in the realm of international regulation. It is sometimes handled through supervision in other jurisdictions, and I believe that we need robust public discourse domestically and internationally on its advantages and disadvantages.

But let me say a few words about the intellectual underpinnings of the concept. The United States is one of the world's largest host jurisdictions. That is, it finds itself host to a significant number of large foreign branches that engage in short-term wholesale U.S. dollar sourcing. That dynamic has created severe liquidity strain in the U.S. banking system in times of stress, even after the financial crisis. I think now is a good time to give serious consideration to the optimal balance of certainty for host supervisors and local operations in a time of crisis and on the other hand freely available liquidity for home supervisors in consolidated firms in good times. Some degree of certainty about available local resources would form a basis for trust among regulators that might mitigate the human tendency to freeze all available resources in stress.

Given these considerations and the possibility that with shifting global dynamics jurisdictions outside of the United States might also find themselves with similar risks, we should engage in much more dialogue on this subject. It would, of course, be irresponsible to heedlessly barge ahead with concrete proposals on this topic without much more international

discussion of its conceptual merits and the merits of alternative instrumentalities, but similarly, it would be faint hearted to avoid raising this topic for discussion at this opportune time.

The second feature is the measurement of a firm's cross-border exposure. The domestic proposal from last fall and the foreign bank proposal that we review today both use cross-border exposures as a risk indicator for assigning firms to a category of regulatory stringency. The key risks that this indicator seeks to capture are complexity and complications to resolvability. For a domestic firm, cross-border exposures are comprised of exclusively third-party relationships.

The challenging question for us in today's foreign bank proposal is whether the connection between a foreign bank's U.S. operations and its non U.S. affiliates creates similar complexity and resolvability concerns as a firm's cross-border exposure to third parties. The proposal seeks to strike a middle ground between complete inclusion and exclusion of such interaffiliate exposures, and we look forward to robust input on that approach as well as all of the elements of the proposals todays.

Finally, in addition to the foreign bank tailoring proposal, we're also considering a proposal to tailor the requirements for resolution plans. In the seven or so years of resolution plan submissions, we've seen substantial gains in both the resiliency and resolvability of large banking organizations and the broader financial system. Congress recognized this progress when it passed the economic growth regulatory relief and consumer protection act last year, and consistent with the law, the proposal seeks to tailor both the frequency and content of resolution plans according to the business model and risk profile of firms.

Unlike the rapid changes that are possible for banking firms in the areas of capital and liquidity, changes in the legal structure of firms affecting their resolvability now that they've made the very costly material structural changes that we have required, will happen only slowly

and incrementally and will be clearly evident in our regular supervisory processes. The proposals on the table today reflect this fact by requiring regular updates to existing resolution plans, periodic submission of full plans for the most submission firms, for the most complex firms, and the ability of the Board to require resubmission of the full plan when that seems appropriate.

Let me conclude by reiterating our overarching objective. The proposals seek to increase the efficiency of the firms without compromising the strong resiliency of the financial sector. These proposals are a good first step toward that goal, and I very much look forward to the input that we will receive. And now I'll turn it over to Mike Gibson for more detail.

MIKE GIBSON. Thank you, Vice Chair Quarles. Staff is presenting two sets of proposals to the Board today. The first would establish a tailoring framework for applying prudential standards to large foreign banks operating in the United States, and the second would amend the Board's resolution plan rule with the FDIC.

Both proposals would apply requirements to firms based on risk, and the categories of risk would align with the framework proposed for large domestic banking organizations in October. Both proposals are consistent with the economic growth, regulatory relief, and consumer protection act.

Foreign banks bring important competitive and economic benefits to U.S. markets. Since the financial crisis, the Board has made significant changes to its regulatory framework for the U.S. operations of large foreign banks, which have strengthened the resiliency of these firms and the financial system. These improvements include stronger capital and liquidity positions in their U.S. operations, stress testing, more robust risk management, and less fragmented U.S. operations thanks to their intermediate holding companies.

Today's proposals would refine this framework. To promote a level playing field across U.S. and foreign firms, the proposal for foreign banks uses the same framework proposed for large U.S. firms in October.

While the framework would be the same for domestic and foreign firms, the U.S. operations of foreign banks have different structures. For example, they have a mix of subsidiaries and branches. As a result, the impact of the framework will be different for foreign banks than for domestic banks. In particular, more foreign banks would likely trip the risk-based thresholds that lead to higher requirements, in particular, because some foreign banks have less stable funding and complex nonbank operations.

The proposal would maintain the overall strength of the U.S. banking system. The impacts on the U.S. operations of foreign banks are estimated to be a less than one percent decrease in required capital and a less than five percent increase in required liquidity. Compared with the substantial increases in capital and liquidity that have occurred since the financial crisis, these changes are small.

The resolution proposal builds on the Board and FDIC's experience with resolution plans over the past seven years. The largest U.S. banking firms are much better prepared for a resolution after going through as many as five rounds of resolution planning. Today's proposal is tailored to the risk of different firms with the most stringent resolution planning requirements for the largest, most systemically important firms and reduced requirements for firms that present fewer risks to U.S. financial stability. I'll now turn to my colleagues, Brian Chernoff and Asad Kudiya, who will discuss the proposal for foreign banking organizations.

BRIAN CHERNOFF. Thank you, Mike. In October, the Board, with the OCC and FDIC invited comment on a proposed framework for determining prudential standards for large U.S.

banking organizations based on risk. The first set of proposals the Board is considering today would apply the same framework to large foreign banks that operate in the United States with some adjustments to reflect the structures of these firms' U.S. operations.

Overall, the framework would apply more stringent requirements to firms with higher indicators of risk and less stringent requirements to firms with lower indicators of risk. The framework would be the same for large U.S. and foreign banks. It's impact, however, would vary based on differences in the risk profiles of firms in each group.

The proposals consist of two Federal Register notices. The first is a Board-only proposal that would tailor prudential standards relating to capital and liquidity stress testing, liquidity risk management and buffer requirements, risk management, and single counterparty credit limits. The second is an interagency proposal with the OCC and FDIC that would tailor requirements under the agency's capital rule, liquidity coverage ratio rule, and proposed net stable funding ratio rule.

I will begin by introducing the proposed framework, and Asad Kudiya will then discuss the requirements that would apply in each category under the proposed framework and the estimated impact of the proposal. Our colleagues will help us answer any questions about the details of the proposal following staff's prepared remarks.

The presence of foreign banks in the United States brings competitive benefits and facilitates global commerce. These firms serve as an important source of credit to households and businesses in the United States and materially contribute to the strength and liquidity of U.S. financial markets.

The U.S. operations of foreign banks vary in their complexity and risk profile, including the risks they can present to U.S. financial stability. Some firms present significant risks. For

example, the U.S. operations of some large foreign banks rely heavily on less stable forms of funding or conduct substantial and complex capital markets activities in the United States. Following the financial crisis, the Board enhanced the regulatory framework for large foreign banks to improve the resiliency of these firms' operations in the United States and lessen the risks they pose to U.S. financial stability, much like the post-crisis reforms for large U.S. banking organizations.

The proposals before the Board today would build on the Board's practice of reviewing its regulations to ensure they are achieving their intended purpose in an efficient and transparent manner and tailoring capital, liquidity, and other requirements based on the size, complexity, and overall risk profile of banking organizations.

Like the proposal for domestic firms, the proposal for large foreign banks would use risk-based categories to align regulatory requirements with the firm's risk profile and provide consistent treatment across similarly situated firms. As you recall, the framework for domestic firms would apply one of four categories of standards to a firm based on size and other indicators of risk, including cross jurisdictional activity, weighted short-term wholesale funding, nonbank assets, and off balance sheet exposure.

Under the proposal for foreign banks, categories would apply based on the same indicators and thresholds. However, to account for the structures through which foreign banks operate in the United States, the proposals would include some differences. The diagram on page two of the presentation materials provides a simplified illustration of how a foreign bank may structure its U.S. operations and shows terms used in the proposals to refer to the different segments of those operations.

Under U.S. law, foreign banks may operate in the United States through a variety of structures including directly through a U.S. branch or agency or through a separately incorporated subsidiary such as a U.S. depository institution or a nonbank subsidiary. If a foreign bank's U.S. subsidiary operations are large in the aggregate, the Board's enhanced prudential standards rule requires the firm to organize them under a U.S. intermediate holding company.

To focus on risks in the United States, the proposals would apply a category of standards based on the risk profile of a foreign bank's U.S. operations rather than the global consolidated firm. This approach would be consistent with the current practice under the Board's enhanced prudential standards rule, which generally differentiates requirements that apply to a foreign bank based on the size of the firm's U.S. operations.

As an additional difference, the proposals for foreign firms would include three categories of standards rather than four. The proposal for domestic firms included an additional category, category one, that would apply only to U.S. global systemically important bank holding companies or US G-SIBs. This category of standards would not apply to any foreign banks. The remaining categories, number two through four, would align with the same number of categories for U.S. firms.

Finally, the proposals for foreign banks include an adjustment to one of the indicators used to determine to category of standards that applies to a firm. Specifically, in order to reflect structural differences between foreign banks' operations in the United States and domestic holding companies, the proposals would adjust the cross-jurisdictional activity indicator used for category two to exclude certain intercompany transactions of foreign banks as was noted.

Because the proposals would modify this indicator relative to currently reported data, staff has provided a range of estimates for some firms as to the category of standards that would

apply, as shown on the last page of the presentation materials for these proposals. I will now turn to my colleague, Asad Kudiya, who will discuss the requirements that would apply under each category of standards.

ASAD KUDIYA. Thank you, Brian. The proposals would further align the prudential standards for foreign banks to the risks presented to U.S. financial stability as well as to the safety and soundness of the foreign banks U.S. operations, and they are consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act. I will summarize the standards that would apply under the proposals. Following the crisis and as required under the Dodd-Frank Act, the Board applied enhanced prudential standards to foreign banks that met specific global asset thresholds but adjusted the stringency of those standards based on the presence of the foreign bank in the United States.

For foreign banks with a more limited presence in the United States, the Board largely relied on that firm's compliance with comparable standards in its home country. The proposals today would maintain this approach for foreign banks with a more limited presence in the United States. That is, those foreign banks that meet the relevant global asset thresholds with less than $100 billion in U.S. assets. For foreign banks with $100 billion or more in U.S. assets, the proposals would establish three categories of prudential standards that would be consistent with a previously proposed framework for large U.S. banking organizations.

I will be referring to the diagram at page three of the presentation materials. This diagram details the three categories in the standards that would apply under each category. As you can see near the top of the diagram in the row titled IHC, the proposals would maintain the current requirement for any foreign bank with $50 billion or more in U.S. nonbranch assets to form a

U.S. intermediate holding company. This requirement has results in substantial gains in the resiliency and safety and soundness of foreign banks U.S. operations.

The next row of visual details the capital and stress testing requirements that would apply to U.S. intermediate holding companies of a foreign bank under the proposals. The proposals would largely maintain the stress testing requirements that currently apply to U.S. intermediate holding companies subject to category two or category three standards. For U.S. intermediate holding companies subject to category four standards, the proposals would illuminate company run stress testing requirements, and these firms would be subject to supervisory stress testing on a two-year cycle rather than annually. Supervisory stress testing on a two-year cycle would take into account the risk profile of these firms relative to larger, more complex firms.

The next row of the visual details the risk management requirements and single counterparty credit limits that would apply under the proposals. The proposals would significantly simplify the requirements applicable to U.S. intermediate holding companies and align them with the proposal for domestic holding companies. U.S. intermediate holding companies of foreign banks subject to category four standards would no longer be subject to a single counterparty credit limit. This change reflects the lower risk that these firms pose to the financial system.

The next page, page four of the diagram, which includes proposed liquidity requirements under the proposals. Specifically, the proposals would apply full standardized liquidity requirements, also known as the liquidity coverage ratio, or LCR, and the proposed net stable funding ratio or NSFR to U.S. intermediate holding companies of foreign banks subject to category two standards. Like the domestic proposals, these proposals would apply full or reduced LCR and NSFR requirements to U.S. intermediate holding companies of a foreign bank subject

to category three standards depending on levels of weighted short-term wholesale funding as elevated levels of short-term wholesale funding reflect higher liquidity risk.

Finally, for firms subject to category four standards, the domestic proposal did not include standardized liquidity requirements based on an assessment that these firms generally have more traditional balance sheet structures, are less funded by stable deposits, and have less reliance on less stable short-term wholesale funding. These proposals would amend that approach for both domestic and foreign banks. In developing the proposals for foreign banks, staff observed that some firms that meet the criteria for category four standards have a heightened liquidity risk profile. To address these risks, the proposal would apply reduced LCR and NSFR requirements to both domestic holding companies and U.S. intermediate holding companies of foreign banks subject to category four standards that have $50 billion or more in weighted short-term wholesale funding. I note that currently no domestic holding companies meet this criteria, but certain foreign banks are estimated to exceed this threshold.

While the standardized liquidity requirements I have just described would address liquidity risks at the significant U.S. subsidiary operations of a foreign bank, liquidity vulnerabilities also arise at the U.S. branches and agencies of a foreign bank, which could generate significant risks in the United States. The Board's enhanced prudential standards rule requires a large foreign bank to assess the liquidity and needs of its U.S. operations including its U.S. branches and agencies under stress and to hold a liquidity buffer against projected stress outflows reflecting these firm's idiosyncratic risks.

The Board's rules under consideration today do not apply standardized liquidity requirements of the U.S. branches and agencies of a foreign bank. Instead, the proposals would request comment on whether to apply standardized liquidity requirements to foreign banks with

respect to the U.S. branches and agencies and possible approaches for doing so in any later proposal.

In terms of impact, the proposals would lower capital requirements by approximately $3 billion or approximately half a percent of risk-weighted assets under current conditions. Measured over the economic and credit cycle, the impact on capital requirement should be roughly neutral on the levels of capital in the U.S. banking system. The proposed changes to liquidity requirement would represent in the aggregate an increase of between half a percent to four percent in total liquidity requirements for U.S. intermediate holding companies. This increase is largely because the U.S. operations of foreign banks tend to rely on weighted short-term wholesale funding and the estimated increase in liquidity requirements reflect their increased liquidity risk profile.

Staff estimates that most or all firms currently hold sufficient liquid assets to meet these requirements. The requirements would help ensure that U.S. intermediate holding companies maintain sufficient liquid assets under a range of stress assumptions and sustain the safety and soundness of the U.S. operations of foreign banks.

Finally, compliance requirements for firms subject to category three and category four standards would generally decrease in line with their small at-risk profile. This concludes staff's prepared remarks on these proposals. My colleagues and I would be pleased to answer your questions.

CHAIR POWELL. Thanks very much and now you have an opportunity to ask questions of staff beginning with Vice Chair Clarida.

VICE CHAIR CLARIDA. Thank you Mr. Chair, and thank you to the staff for really diligent, excellent work on this. Just one question. The statute directs the Board to give due

regard to the principles of national treatment and equality of competitive opportunity. How does this proposal meet those requirements?

MARY WATKINS. Sure, I can answer that. So by setting sort of a similar framework as the domestic proposal with some adjustments to reflect the sort of unique structures that foreign banks have in the United States and using the same sort of risk indicators, we're hoping to set and maintain the competitive equality between foreign and domestic institutions. And in particular, you can see that through the cross-jurisdictional indicator metric and how we're really trying to be quite thoughtful about that.

CHAIR POWELL. Great. Thank you. Vice Chair Quarles?

VICE CHAIR FOR SUPERVISION QUARLES. Could you talk a little bit more on this issue of interaffiliate exposures and the reasoning behind the particular proposal of the sort of infinite variety of the continuum one might have on which exposures to include and which not?

MARY WATKINS. Sure. So, I think as you noted in your remarks, the domestic firms, it really is just a third-party measure, and we're mindful that some of that, and trying to align the sort of purpose of the indicator as a measure of complexity and risk with the way that foreign banks operate in the United States. In particular, they do have a number of transactions with their parent, with their affiliate, and so by seeking a middle ground, we're trying to appropriately calibrate that indicator with the risk that we're trying to achieve. And we're seeking and looking forward to comments on that for the proposal.

GOVERNOR BOWMAN. You mentioned that the proposal would request comment on liquidity requirements for foreign banks U.S. branches. Can you discuss more broadly your current approach to branch liquidity and how the proposal addresses liquidity risks of foreign banks branches in the U.S.?

ASAD KUDIYA. Absolutely. So as I mentioned in my remarks, the U.S. branches and agencies of foreign banks do present liquidity risks. These branches and agencies tend to rely on short-term wholesale funding compared to U.S. banking organizations given their business model and structure. For example, U.S. branches and agencies are limited in their ability to accept retail deposits.

Accordingly, under the Board rules, accordingly, the Board supervision regulation of foreign banks U.S. operations does focus on this risk. Under the Board's rules today, large foreign banks with significant U.S. operations are required to conduct internal liquidity stress tests for their branches and agencies and hold a buffer of highly liquid assets based on the results of the firm's, of the idiosyncratic risks, the idiosyncratic results of those stress tests.

GOVERNOR BOWMAN. Thank you.

CHAIR POWELL. Great. Thank you. Then Mike, back to you for our second discussion item.

MIKE GIBSON. Okay. Thank you, Chair Powell. For today's second item, I will now ask Katie Ballantine and Jay Schwartz to discuss the proposed changes to the resolution plan rule.

KATIE BALLANTINE. Thank you. As mentioned, I will provide an overview of the proposal that is before the Board to revise the resolution planning rule.

The Dodd-Frank Act requires certain domestic and foreign firms to submit resolution plans to the Board and the FDIC. Resolution plans, commonly known as living wills, describe a firm's strategy for rapid and orderly resolution under bankruptcy in the event of material financial distress or failure. The main objective of resolution planning is to mitigate the effects of a firm's failure on U.S. financial stability.

The Board and the FDIC assess resolution plans and provide joint feedback. Over five rounds of resolution plan submissions, significant progress has been made. Firms have modified their structures so that losses will not be borne by tax payers. Firms have also taken steps to ensure that services used by legal entities across the group would continue to be provided through resolution.

The proposal accounts for changes to the resolution planning requirement made by the Economic Growth, Regulatory Relief, and Consumer Protection Act. The proposal also builds on the Board and FDIC's experience the past seven years implementing the requirements and tailors application based on firm size, complexity, and scope of operations. This is a joint proposal with the FDIC and Board staff worked closely with FDIC staff in its development.

I will begin by introducing the resolution plan filing groups and frequency of future submissions. Jay Schwartz will then explain the content of resolution plan submissions.

The proposal will place some firms on a two-year submission cycle and other firms on a three-year cycle. The longer filing cycles would allow sufficient time for the development to feedback and for the firms to incorporate the feedback in their future submissions. The proposal also includes three types of resolution plan submissions. Full plans, targeted plans, and reduced plans. Jay will provide more detail on the contents of each of these submissions.

I direct your attention to the second page of the presentation materials for resolution plan requirements and to figure A, entitled Resolution Plan Filing Groups.

The first filing group is firms subject to category one standards, the U.S. G-SIBs. This is the group of firms in the far left column on the visual. They would submit a plan every other year alternating between full and targeted plans. The two-year submission cycle is consistent with current practice. Since the failure of a firm in this group would pose the most serious threat to

U.S. financial stability, the proposal would apply the most stringent resolution planning requirements to these firms.

The next filing group is domestic and foreign firms subject to category two or category three standards, the middle column on the visual. Like the U.S. G-SIBs, these firms' resolution plan submissions would alternate between full and targeted plans. Compared to the U.S. G-SIBs, the domestic and foreign firms in this group are generally smaller and engage in less complex activities with a lower systemic risk profile. For the majority of foreign firms in this group, the preferred outcome is a successful home country resolution that encompasses their U.S. operations, not the separate U.S. resolution approach described in their U.S. plan. Accordingly, the proposal would establish a three-year filing cycle for this group, adjusting the requirements commensurate with firms' resolution risk profile, activities, and resolution strategies.

The third group is foreign firms with 250 billion or more in global assets. They would file reduced plans every three years. Most of these firms have a limited U.S. presence, in some cases, a single small branch. Staff believes a three-year cycle is appropriate given the firm's limited U.S. operations and fewer interconnections with other U.S. market participants.

The proposal would no longer apply resolution planning requirements to less complex domestic firms with total assets less than 250 billion and risk-based indicators below the category one, two, or three thresholds. Generally, these firms have simpler legal structures and limited nonbanking operations. In reviewing these firms' previous plan submissions, the agencies have not identified deficiencies or shortcomings that require remediation.

Similarly, the proposal would no longer apply resolution planning requirements to foreign firms with global assets less than 250 billion where the firm's U.S. assets are less than 100 billion, and their risk-based indicators are below the category one, two, or three thresholds.

Generally, these firms' limited U.S. operations are conducted in a branch which would not be resolved through bankruptcy. Accordingly, resolution plan submissions do not seem warranted given these firms' limited U.S. presence and activities. I will now turn to my colleague, Jay Schwartz, who will discuss the content of resolution plan submissions.

JAY SCHWARTZ. Thank you. As Katie noted, the proposal would make several changes to the content of resolution plans. In particular, the proposal would identify three types of resolution plans, full, targeted, and reduced. The visual on the fourth page of the resolution presentation materials before you identified as figure B compares the informational content requirements for full and targeted plans.

Beginning on the left side of the visual, the first column lists the central components of the public and confidential sections of a full resolution plan. The proposal does not propose any changes to the public section of a resolution plan, which would remain consistent for full and targeted plans. The components specified for the confidential section of a full plan are consistent with those required under our current resolution planning rule, and through numerous plan submission cycles, staff has found that they capture the information needed to evaluate a firm's resolution preparedness.

As shown in the second column, targeted plans under the proposal would include a subset of the information that would be included in full plans. Notably, all targeted plans would include information about capital, liquidity, and a firm's plan for executing a recapitalization and resolution. Staff believes that these constitute core elements for assessing the risk that a firm's material financial distress or failure would adversely affect U.S. financial stability, and accordingly, this information would be required to be included in targeted plans.

In addition, targeted plans would be required to capture material changes to other aspects of the firm's plan that have occurred since the firm's last submission. Staff believes that the proposal would strike the appropriate balance between burden and ensuring that resolution plans contain up to date information by capturing these types of changes. The proposal would also give the agencies the ability to identify at least one year in advance additional information requirements for targeted plans, which could be used to focus on emerging issues or areas of concern.

Moving on from the visual, the proposal would adopt new procedures to facilitate tailoring of informational content. When appropriate, the agencies could modify certain information elements of a full plan either on their own initiative or pursuant to a public request from a firm. The agencies would have sole discretion to jointly deny any firm request for such a modification. The proposal would also introduce a third category of plans, reduced content plans, to be submitted only by certain foreign banking organizations with a limited U.S. presence.

Staff believes that there is less risk to U.S. financial stability from these firms' material distress or failure because they have small or relatively simple U.S. operations. Accordingly, after filing an initial full plan, their periodic reduced plan submissions would only be required to include material changes from their prior submissions and an abbreviated public section. For most of the firms in this group, reduced content plans would be similar to what they currently file.

Staff believes several features of the proposal should help to ensure that firms continue to make progress in improving their resolvability and that the agencies continue to receive appropriate information regarding resolution preparedness. For example, the agencies would retain the authority to jointly require interim updates between filings or more frequent

submissions from firms. The agencies could also require a full plan submission when a targeted or reduced plan would otherwise be required, and the proposal would require firms to provide the agencies with notice of certain extraordinary events such as mergers that occur between submissions.

In addition to the changes to filing frequency and plan content that we have described, the proposal would also make certain procedural changes to the provisions of the rule regarding critical operations. Collectively, these changes are intended to help ensure that critical operations designations remain up to date and increase transparency around the agency's critical operations designations. That concludes our overview of the changes that would be included in the resolution plan proposal. My colleagues and I would be pleased to answer any questions you may have.

CHAIR POWELL. Thanks. Any questions for staff on resolution plan proposal?

GOVERNOR BRAINARD. So, let me ask, on these new procedures, an institution could request for a full plan that's certain of the requirements other than those included in a target plan could be waived, and that requires both agencies or only one agency to deny it?

JAY SCHWARTZ. So, that would, that request would be granted unless both agencies jointly deny the request.

GOVERNOR BRAINARD. So, they'd both need to proactively deny. And is that available to G-SIBs as well as institutions greater than 250 billion?

JAY SCHWARTZ. It is.

GOVERNOR BRAINARD. Thank you.

CHAIR POWELL. Great. If you have no further questions, then we now have an opportunity for Board members to state their position on the proposals, and we'll start with Vice Chair Clarida.

VICE CHAIR CLARIDA. Thank you, Mr. Chair. I am in favor of both proposals, the notices of proposed rulemaking on revised prudential standards for foreign bank organizations and on amended resolution planning requirements, and I look forward to reading the public comments on these notices. Thank you.

CHAIR POWELL. Thanks. Vice Chair Quarles.

VICE CHAIR FOR SUPERVISION QUARLES. Thank you, Mr. Chair. I am in favor of the proposals. I gave my thoughts at length at the beginning. I think the only thing that I would want to reiterate here is like Vice Chair Clarida, I think we should be, this notice and comment process in general with respect to all of our regulatory proposals is something that I think is very important and that this is the beginning of the process as opposed to the end of the process and that we're very much looking forward to input on all aspects of the proposals.

CHAIR POWELL. Thanks. Governor Brainard.

GOVERNOR BRAINARD. Thank you, Mr. Chair. I appreciate the work that's gone into the proposed rules. I've consulted closely with my colleagues in the hope that we could achieve some balance in these proposals. Unfortunately, in my assessment, the proposals go beyond the requirements of S2155 and weaken important safeguards including for banking institutions with total assets above $250 billion at a time when large banks are comfortably meeting the post-crisis requirements, providing ample credit to the economy, and enjoying robust profitability.

Let me start with the proposal to modify prudential standards for foreign banking organizations. Foreign banks responded to the enhanced prudential standards we put in place

following the financial crisis by decreasing the risk of their operations in the U.S. and strengthening capital, liquidity, and risk management at the U.S. holding company, and I saw this as important progress.

In the crisis, we saw that the combined U.S. operations of foreign banks can pose important risks as was discussed here today to U.S. financial stability because of their reliance on dollar denominated short-term wholesale funding from the U.S. to fund the parent's global activities. That's why the Board stated its intention to implement a liquidity coverage ratio, an LCR standard for the combined U.S. operations of foreign banks when we finalize the LCR rule for domestic banks in 2014. Today's proposal does not achieve that commitment.

While it applies liquidity requirements to the intermediate holding companies of foreign banks, the proposed rule doesn't apply liquidity standards to the U.S. branch and agency networks of foreign banks even though they rely roughly twice as much on short-term wholesale funding as the IHCs. Most U.S. branches serve as important sources of dollar funding for activities of their foreign parents and rely heavily on runnable short-term wholesale funding. As a result, they can face significant run risk at times of stress. This risk is relatively unique to U.S. financial markets as Vice Chair Quarles remarked, due to the special role of the dollar globally.

Leading into the crisis, dollar lending from U.S. branches to their foreign parents grew to very high levels, and it's important to remind ourselves that during the crisis foreign branches were among the most active users of discount window borrowing. We've long discussed addressing this vulnerability by proposing the application of standardized liquidity requirements to the branches and agencies of foreign banks. This would reduce the incentives to shift assets to branches from IHCs, which is important in light of the fact that branch assets have grown as a percentage of foreign bank activities in the U.S. since the IHC requirements were put in place.

I'm disappointed the proposal today does not address the important outstanding liquidity risk at the branches.

Turning to the proposal to reduce resolution planning requirements, we saw clearly in the crisis that the failure of one or more large banking organizations may lead to severe stress in the financial system as fire sales and run dynamics spread contagion. The Dodd-Frank Act requires firms to develop resolution plans that provide a credible path to orderly resolution in bankruptcy, to ensure tax payers will not again be on the hook.

I support some reduction in the frequency of plan submissions to temper the substantial work entailed. However, today's proposal goes beyond the requirements in ways that may leave the system less safe. It would allow even the largest and most systemic firms to obtain a waiver for many elements of their full resolution plan if only one agency fails to proactively disapprove that request. Under the proposal, banks with 250 billion to 700 billion in assets would require a full resolution plan only once every six years and most domestic banking organizations in the range of 100 to 250 billion in assets would no longer be required to file a resolution plan at all.

It's important to remind ourselves that it isn't only the failure of the largest and most systemic firms that pose a risk to the financial system. During the crisis, the failures of large banks in that 100 to 250 billion dollar asset size range necessitated distress acquisitions, and the failure of a large banking organization with roughly 300 billion in assets triggers substantial spillovers. These episodes would have led to rapid depletion of the deposit insurance fund had those institutions not been acquired in distress, an avenue that is less likely to be available today. On balance, therefore, I can't support the proposals. Thank you, Mr. Chair.

CHAIR POWELL. Thank you. Governor Bowman.

GOVERNOR BOWMAN. Thank you, Mr. Chairman. I also appreciate the work that the staff has done on these proposals. I support the objectives of maintaining a strong and stable banking system, providing strong protections for financial stability, promoting a level playing field across the U.S. and foreign firms, and aligning requirements that apply to firms with the risks they pose to the financial system. I believe these proposals meet these broad goals.

It's very important that we keep the highest standards and requirements for the very largest of banks, and I'm pleased to see that this proposal does that. I also think the staff has done great work to align our standards under this framework with the risks posed by foreign banks. That strikes me as sensible. And as staff noted, FBOs bring important competitive and economic benefits to U.S. consumers and businesses. How we treat liquidity at branches will be very important, so I'll look forward to seeing comments on how we can do that most effectively. I'm in favor of supporting and moving forward with these proposals.

CHAIR POWELL. Thanks very much. Thanks to everyone for your comments. I, like others, am very much looking forward to hearing the comments for how we can improve on these approaches that we're considering and on the other topics raised today, in particular the treatment of liquidity at branches and agency, as others have discussed.

I think that proposed refinements to our framework for foreign banks are thoughtful and targeted and enhance the risk sensitivity of our rules without changing the overall resilience of the U.S. financial system. They also help lay out a fair playing field in keeping with our principle of national treatment. So, I too will vote in favor and look forward to the comments. And we will now begin voting on the proposals.

First, on the FBO tailoring proposal, I need a motion to approve a proposed rule making that would establish a revised framework of prudential standards for large foreign banks as well

as make limited revisions to the proposed prudential standards for large domestic holding companies, a joint proposed rulemaking that would establish, pardon me, a revised framework of capital and liquidity requirements for large foreign banks, as well as make limited revisions to the proposed requirements for large domestic holding companies, and proposed revisions to regulatory reports and instructions consistent with the foregoing notices of proposed rule makings, and staff to make any minor or nonsubstantive changes to prepare the documents to for publication in the Federal Register.

VICE CHAIR CLARIDA. So moved.

CHAIR POWELL. May I have a second?

VICE CHAIR FOR SUPERVISION QUARLES. Second.

CHAIR POWELL. I will ask for votes now.

VICE CHAIR CLARIDA. Aye.

VICE CHAIR FOR SUPERVISION QUARLES. Aye.

GOVERNOR BRAINARD. No.

GOVERNOR BOWMAN. Aye.

CHAIR POWELL. And I will vote aye as well. Turning to the resolution, pardon me a second, turning to the resolution plan proposal, I need a motion to approve a joint proposed rule making to revise resolution plan requirements for large domestic and foreign banking organizations and staff to make minor or nonsubstantive changes to prepare the documents for publication in the Federal Register.

VICE CHAIR CLARIDA. So moved.

CHAIR POWELL. May I have a second?

VICE CHAIR FOR SUPERVISION QUARLES. Second.

CHAIR POWELL. I will now ask for votes.

VICE CHAIR CLARIDA. Aye.

VICE CHAIR FOR SUPERVISION QUARLES. Aye.

GOVERNOR BRAINARD. No.

GOVERNOR BOWMAN. Aye.

CHAIR POWELL. And I vote aye as well. I want to join others in thanking the staff for your hard work and insight in developing these proposals and very much look forward to hearing the feedback, as I know we all do, and with that, our business is concluded. Thanks very much.