Transcript of Open Board Meeting
October 10, 2019

CHAIR POWELL. Good afternoon, everyone, and I'd like to welcome our guests here to the Fed and also our online viewers. Today, we will consider several rules, chief among them final rules that would more closely tailor our enhanced prudential standards to match the overall risk profiles of large domestic and foreign banks. We will also discuss a final rule to tailor our resolution plan requirements, and a proposal inviting public comment on changing the fees we charge large banks to cover the cost of supervision under these new standards.

In the rules before us, we are applying the discretion granted to us by the Economic Growth, Regulatory Relief, and Consumer Protection Act. In that act, Congress charged the Board with tailoring its regulations for firms with less than $250 billion in assets based on factors related to the risks a firm poses.

Like the proposed rules we put out for public comment, the final tailoring rules would apply a framework to large banks that sorts them into different categories. And the framework would be generally the same for domestic and foreign banks. U.S. regulators have a long-standing policy of treating foreign banks the same as we treat domestic banks. That is the fair thing to do. It also helps U.S. banks, because banking is a global business, and a level playing field at home helps to level the playing field for U.S. banks when they compete abroad.

As staff will detail, the framework uses several measures to evaluate the risk of a bank. Size will remain a key factor in our evaluation of a firm's overall risk, but the rules add additional measures of risk to our tailoring framework. These measures include cross-border activity and resilience to runnable funding. Incorporating these risk measures will better capture a firm's overall complexity and risk. This will make our regulation and supervision more risk-sensitive.

Our resolution plan rule will use that same framework to better match our requirements to the risks of the firms. The largest firms will continue to file plans every two years, as we've been doing recently, while firms with less systemic risk will file plans less frequently.

I want to emphasize that all of our rules keep the toughest requirements on the largest and most complex firms, because they pose the greatest risks to the financial system and to our economy. Firms that take on less risk will see their regulatory burdens appropriately set to match that risk. In this way, the rules maintain the fundamental strength and resiliency that has been built into our financial system over the past decade. Congress and the American people rightly expect us to achieve an effective and efficient regulatory regime that keeps our financial system strong and protects our economy, while imposing no more burden than is necessary.

I look forward to hearing staff presentation and I now turn it over to my colleague Vice Chair Quarles.

VICE CHAIR QUARLES. Thank you, Chair Powell. Thanks to everyone for being here, joining us as we consider the final rules on tailoring prudential requirements and resolution plan requirements for domestic and foreign banks, as well as the companion stress testing and assessments rules. I would like to begin, first, by thanking our staff and the staffs of the Federal Deposit Insurance Corporation and Office of the Comptroller of the Currency for their hard work and efficiency.

I am pleased that, in developing the final rules, we were able to maintain our objective from the proposals, which was developing a regulatory framework that more closely ties regulatory requirements to underlying risks, in a way that does not compromise the strong resiliency gains we have made since the financial crisis. It wouldn't have been possible to produce such high quality work were it not for the open exchange of ideas and openness to feedback that have been evident over the past year. In particular, I would like to focus today on three reasons why I think this feedback was necessary to our success.

First, as I noted, the final rules that the Board is considering today were made stronger by the fact that we collaborated closely with the FDIC and OCC. This close collaboration allowed us to benefit from additional expertise on topics such as regulatory capital and liquidity requirements, as well as the special expertise that we have jointly developed with the FDIC in the area of resolution planning. These interagency conversations improved the quality of both the initial proposals that we issued for public comment, as well as the final rules before us today. This feedback, at both the staff and the principal levels, facilitated the frank conversations that were necessary for us to stay on course and produce timely rules.

The second, vital source of feedback is the feedback that we receive through the public comment process. Because of the breadth and importance of our responsibilities, combined with the fact that the Board is an independent agency, we have a special obligation to be transparent and accountable to the public. Our first line of defense is the notice we give to the public through the rulemaking process, before we make the consequential decision to impose or remove a regulatory burden. It is equally important that we provide an adequate justification for our proposed actions with the rules. And above and beyond our legal obligation to provide this justification, providing a clear rationale for our actions fosters transparency and accountability.

So in addition to written comments, our staffs made an extra effort to meet with all interested members of the public, those that would be directly affected by the rules, but all those with an interest in the process. These exchanges are valuable because they allow parties to expand on ideas in their written comments and hear firsthand from our staff how we think about the proposals. By my count, we held over 20 meetings with the public during the tailoring rulemaking process. We post a summary of these meetings, including the names of the staff who participated, the names of the outside parties, and a description of the issues that were addressed, on our public website. And this practice helps to facilitate transparency and to reassure the public that, quite literally, their voices are being heard.

And the third source of valuable feedback in this rulemaking process has been from our peer regulators and supervisors. They are wrestling with many of the same difficult questions that were presented by the tailoring proposals, as we all try to strike the correct balance in calibrating the stringency of our local capital and liquidity requirements, giving due regard to national treatment and competitive equity. As Chair of the Financial Stability Board, I feel a special obligation to ensure that we are listening carefully to this feedback and taking steps to build a consensus around our prudential standards. We all benefit when there are clear and consistent standards promulgated by all prudential regulators.

So in that regard, we will be focusing our attention in the coming months on the question of branch liquidity requirements. We received helpful public feedback on this issue in response to questions in the tailoring proposals. I've also received direct feedback on this issue from our peer bank supervisors in other jurisdictions, who were grateful that we didn't rush to judgment about the correct course of action. I’m looking forward to continuing the dialogue at the international level.

Let me end by noting another area where I believe greater focus on process can help us improve our substantive outcomes. That is in the area of bank supervision. We have recently taken a number of steps to improve the transparency of our bank supervision practices, such as by publishing a semiannual report on bank supervision, providing greater transparency around the models we use in stress testing. Just as we did with the tailoring proposals, I am eager to identify other process improvements to our supervisory framework that would not sacrifice the important strides we have made in resilience since the crisis.

And with that, let me turn it over to Michael Gibson, Director of the Division of Supervision and Regulation.

MICHAEL GIBSON. Thank you, Vice Chair Quarles. The staff will be making two presentations today. First, we will present a revised framework for applying tailored prudential standards to large domestic and foreign banks based on their risk profile. Second, we will present amendments to the Board's resolution plan rule with the FDIC. Large domestic and foreign banks, as well as the financial system as a whole, are significantly stronger since the financial crisis. There has been more than a doubling of capital and liquidity at large banks as well as the introduction of tough stress tests and resolution requirements. Consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act, the rules before you today would maintain that resiliency while better matching our rules to the risks of the firms. In particular, the rules would maintain the most stringent requirements for the largest and most complex firms are reducing compliance requirements for the smaller and less complex firms. The rules therefore support the important gains made since the financial crisis while improving efficiency. Our first presentation will describe the framework that sorts large firms into four categories based on risk indicators. The rules tailor the regulatory requirements with increasingly stringent requirements as risks increase. The revised framework is generally the same for domestic and foreign banks, so it promotes a level playing field. Foreign banks bring important benefits to U.S. markets and have different structures and business models from their domestic counterparts. The final rules take these differences into account for foreign banks.

A separate proposal would invite public comment on modifications to how the Board charges fees to cover the expenses of supervising and regulating large holding companies. The proposal would align the assessment process with the new categories. After concluding the first discussion on tailoring, our second staff presentation will describe the tailored resolution planning requirements, which would use the categories established by the tailoring rules. The most stringent requirements would be maintained for the largest, most systemically important firms and requirements who would be reduced for firms with less risk. For the first presentation on the tailoring rules, I will turn to my colleagues Asad Kudiya and Mark Handzlik.

ASAD KUDIYA. Thank you, Mike. Both crisis reforms have increased the resilience of large banking organizations in the financial system. These improvements have resulted in a substantial increase in the quantity and quality of capital and liquidity, a rigorous and dynamic stress testing framework, a reduction in reliance on less stable funding sources, and improvements in resolvability. As part of its ongoing efforts to improve the efficiency of the regulatory framework, the Board, along with the OCC and the FDIC, invited public comment on a series of proposals that aimed to preserve the resiliency of the financial system, while better aligning regulatory requirements with the risk of a banking organization. These proposals also were consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act.

The final rules the Board is considering today are largely similar to their proposals with certain targeted changes in response to comments received. I will describe the framework and the changes from the proposals. My colleague Mark Hanzlik will then discuss the requirements that would apply in each category under the framework and the estimated impact of the final rules.

Our colleagues will help us answer any questions about specific details following our prepared remarks.

The final rules establish a framework for applying prudential standards to U.S. banking organizations, including U.S. bank holding companies and certain savings and holding companies with $100 billion or more in assets. Their framework builds on the Board's current practice of tailoring its standards by sorting firms into different categories based on indicators of a firm's risk, including indicators of size, cross-jurisdictional activity, weighted short-term wholesale funding, non-bank assets, and off-balance sheet exposure. These indicators reflect both safety and soundness and financial stability risks. Total asset size provides a simple measure that correlates with the impact of a firm's failure or distress in the financial system, and larger banking organizations also face safety and soundness risks associated with greater managerial and operational complexity. Cross-jurisdictional activity as operational complexity in normal times, and can complicate the ability to conduct an orderly resolution of a firm if it fails, particularly in times of stress. Reliance on short-term wholesale funding provides an indicator of a firm's vulnerability to funding runs, which can rapidly erode the financial position of a firm and can also transmit distress to other market participants, for example, through asset fire sales. Non-bank assets represents a measure of business and operational complexity and can involve a broader range of risks and those associated with purely banking activities. Finally, off-balance sheet exposure reflects risks of activities that can lead to draws on capital and liquidity in times of stress.

These indicators will be used to sort large firms into one of four categories, each with its own set of standards. The most stringent set of standards, category 1, would apply to U.S. global systemically important bank holding companies, or U.S. G-SIBs. These firms have the potential to pose the greatest risks to financial stability, and as a result they remain subject to the most stringent requirements. The second set of standards, category 2, would apply to firms that are very large or have significant international activity measured as $700 billion or more in total assets, or $75 billion or more in cross-jurisdictional activity. The third set of standards, category 3, would apply to firms that have heightened risk profiles measured as $250 billion or more in total assets, or $75 billion or more in weighted short-term wholesale funding, non-bank assets or off-balance sheet exposure, but that do not meet the thresholds for category 1 or category 2 standards. The final set of standards, category 4, would apply to firms of $100 billion to $250 billion in total assets that do not meet any of the other risk-based indicators I have described. These firms would be subject to less stringent standards relative to larger and more complex firms. The final rules would apply the same framework to foreign banks as it would apply to domestic firms, with certain adjustments to reflect the structure of foreign banks operations in the United States, consistent with the principle of national treatment and equality of competitive opportunity. Most significantly, the final rules would determine regulatory requirements for our foreign bank based on the risk profile of the foreign banks U.S. operation, rather than on the risk profile of the global consolidated firm.

In response to the proposals, the Board received approximately 50 comment letters. Some commenters supported the proposed changes. Other commenters asserted that the proposal should have included additional reductions and regulatory requirements, and certain other commenters asserted that the proposals, in reducing certain regulatory requirements, went beyond the changes required by the Economic Growth, Regulatory Relief, and Consumer Protection Act. While the final rules are generally consistent with the proposals, there are certain targeted changes in response to comments. First, the proposals requested comment on a range of calibrations for the reduced liquidity coverage ratio, or LCR requirement, that would apply to firms subject to category 3 or category 4 standards, between 70 to 85% of the full requirement. In response to comments and to appropriately tailored requirements, the final rules calibrate the requirement at the top end of the range at 85% for firms subject to category 3 standards. The calibration would be 70% for firms subject to category 4 standards that have an increased liquidity risk profile. Next, the foreign bank proposal would have determined the applicability of LCR requirements based on the risk profile of the foreign banks' combined U.S. operations, which would include the foreign banks, U.S. branches, and agencies. In response to comments, the final rules that apply this requirement to a foreign bank's U.S. intermediate holding company based on the risk profile of the U.S. intermediate holding company. This change simplifies the framework overall, as requirements that apply to the combined U.S. operations of a foreign bank would be based on the risk profile of its combined U.S. operations. All the requirements that apply to a U.S. intermediate holding company will be based on the risk profile of the U.S. intermediate holding company. In addition, the final rules will indicate that the Board continues to assess whether to develop a standardized liquidity requirement with respect to the U.S. branches and agencies of a foreign bank.

In total, the final rules would largely keep existing requirements in place for the largest and most complex firms subject to category 1 or 2 standards, while modestly reducing requirements for firms subject to category 3 standards, and significantly reducing regulatory requirements for firms subject to category 4 standards as a result of their smaller risk. I will now turn to my colleague Mark Handzlik, who will discuss the requirements that would apply under each category of standards.

MARK HANDZLIK. Thank you, Asad. As Asad noted, the final rules would establish four categories of prudential standards to further differentiate the application of those standards to large domestic and foreign banking organizations. My remarks will summarize the standards that would apply under each category. The visual included in the presentation materials reflects each of these categories of standards, along with our projections of the firms to which they would apply.

Starting from the left of the visual, you'll see the category 1 and 2 standards would be the most stringent. The firms subject to category 1 standards, U.S. G-SIBs, account for the majority of total banking assets in the United States, and have the potential to pose the greatest risk to U.S. financial stability. The existing post-financial crisis framework for U.S. G-SIBs has resulted in significant gains in resiliency and risk management. The final rules would maintain the most stringent standards for these firms. Requirements applicable to firms subject to category 2 standards, which are reflected in the second column of the visual, would also be generally unchanged. These firms are either very large or have substantial international activity and accordingly would remain subject to very stringent standards under the final rules. Category 3 standards, which are reflected in the third column of the visual, would apply to firms with relatively lower risk profiles as compared to firms in category 1 or 2, but that show elevated risk as compared to the firms in category 4. As a result, while these firms would still be subject to enhanced standards, the final rules would modestly reduce the regulatory compliance requirements. With respect to capital, these firms would continue to be subject to risk-based capital and leverage requirements and the final rules would largely maintain the existing stress testing standards for these firms. For banking organizations subject to category 3, the final rule would remove the requirement to comply with most internal models based capital requirements.

The models for applying the internal models based capital requirements require an extensive resource investment by both firms and supervisors. The final rule also would remove the requirement to recognize in regulatory capital, unrealized gains and losses, unavailable for sale securities. With respect to liquidity, firms in category 3 would continue to be subject to the LCR rule, internal liquidity stress testing requirements, and enhanced liquidity risk management standards. As Asad mentioned, for foreign banking organizations, the LCR rule would be applied to a U.S. intermediate holding company based on the intermediate holding companies risk profile. By contrast, internal liquidity stress testing requirements and enhanced liquidity risk management standards would continue to apply to a foreign banking organization with respect to its combined U.S. operations, consistent with the existing enhanced prudential standards framework. To better align requirements with risks, firms in category 3 with relatively less reliance on short-term wholesale funding--that is, firms of less than $75 billion in this type of funding--would be subject to a reduced LCR requirement, calibrated at 85% of the full LCR requirement. Other category 3 firms would be subject to the full LCR requirement. The final rules would include the most significant reductions in regulatory compliance requirements for firms subject to category 4 standards, as reflected in the fourth column of the visual. With respect to capital, the final rules would continue to apply the generally applicable risk-based and leverage capital requirements to firms in this category. In addition, the rules would reduce stress testing requirements for these firms. Currently, these firms are required to conduct their own company-run stress test twice a year, and are subject to the Board’s supervisory stress test once a year. Under the final rules, these firms would no longer be required to conduct and publicly report the results of the company-run stress test, and the Federal Reserve would subject these firms to the supervisory stress test 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. With respect to liquidity, the final rules generally would remove the current LCR requirement for these firms. However, if a holding company has $50 billion or more in weighted short-term wholesale funding, it would be subject to a reduced LCR requirement calibrated at 70% of the full LCR requirement. Seventy percent calibration reflects the lower liquidity risk profile of these firms relative to firms subject to the 85% reduced LCR requirement and those subject to the full LCR requirement. Category 4 standards also include quarterly, rather than monthly, internal liquidity stress testing and simplified liquidity risk management requirements. The firms that would not be subject to LCR requirement have more traditional balance sheet structures, are largely funded by stable deposits, and generally have little reliance on less stable funding. As a result, the internal liquidity stress test and associated buffer requirement are sufficient to address the liquidity needs of these firms. In general, and as Asad mentioned previously, the final rules would tailor regulatory compliance requirements for firms in accordance with their risk profiles.

Next, I will discuss the impact of the final rules. With regard to capital requirements, the final rules would not modify regulatory capital requirements for firms that would be subject to category 1 or category 2 standards. For firms that would be subject to category 3 or category 4 standards, however, staff expects the final rules to lower capital requirements in our current conditions and reduce compliance costs. Staff expects the final rules to slightly lower capital requirements by approximately 0.6% of their total risk-weighted assets. Staff also expects reduce compliance cost for banking organizations in category 3 and 4 compared to current capital requirements. The individual impact on capital levels for these firms can vary under different economic and market conditions. Liquidity requirements also remain largely unchanged for firms subject to category 1 or 2 standards. For firms with assets over $100 billion, staff estimates that total liquidity requirements would decrease by approximately 2%. Staff also expects reduced compliance costs for firms in category 3 and 4 compared to current liquidity requirements.

Turning briefly to another matter before the Board today, staff is also seeking the Board's approval of a separate proposal that would invite public comment on revisions to the methodology for determining the fees imposed on large bank holding companies and savings and loan holding companies for the estimated cost of their supervisory and regulatory programs for these firms, consistent with the Economic Growth, Regulatory Relief, and Consumer Protection Act. This concludes staff prepared remarks. My colleagues and I would be pleased to answer your questions.

CHAIR POWELL. Thank you. So I thought the way we’d proceed is there'll be an opportunity for questions about this presentation. Then we'll have the second presentation, there'll be another opportunity for questions about that one. And following that, we'll have an opportunity to state our positions and offer comments. OK? And I'll ask a question. I have a question about stress testing. So these rules would remove the requirement for company-run stress test. This is for category 4, obviously. And in addition, some firms would be on a two-year supervisory stress testing cycle. Can you talk about why we think those changes are appropriate? And also, how will supervision ensure that firms are managing the risks throughout the two-year cycle now that the stress tests are only going to be every other year for these category 4 firms?

RICHARD NAYLOR. So you're correct. The final rules will remove some specificity of the requirements for how firms perform their own stress tests as part of their capital plan, as well as public reporting requirements, but it won't remove the Federal Reserve's long-standing expectation that firms conduct capital planning. So, on an annual basis, we conduct a review of capital planning process that will continue just as it is now, where we looked at the governance as well as the internal controls and risk management over capital planning for category 4 firms.

CHAIR POWELL. One other question. We've got four categories. And so there's the potential for cliff effects as we know. Is that just--that's an inherent part of the system, and we're OK with it, or are we going to manage that issue? How do we think about the potential cliff effects?

ALYSSA O'CONNOR. Yes. So overall, as my colleagues had mentioned, the tailoring framework is intended to align the regulatory requirements that apply to a firm with this risk profile in a transparent way. It's also intended to incentivize firms to reduce their risk profiles. So for example, the framework is intended to incentivize firms to reduce their asset size, to lower their reliance on less stable funding, and that can lead to concentrations of firms below particular levels. It's worth noting though, however, that indicators for particular firms will be measured on a four-quarter average. Use of a four-quarter average will be a more accurate measurement of a firm's risk profile over a longer term. And therefore, it will take into account fluctuations in activities, business practices, and the like.

CHAIR POWELL. OK, thank you. Any questions? Vice Chair Clarida?

VICE CHAIR CLARIDA. You know, one question. Thank you, Mr. Chair, and thank you to the team for hard work over many months on this. Can you speak briefly about what aspects of the final rules reflect our discretion versus being required by the new law?

MARY WATKINS. Sure. So the—as we've said a number of times, the final rule works to better align our requirements to the risk profile of firms. It also implements certain elements of S2155, including by raising the sort of threshold for minimum threshold for application from 50 to at least 100, right? And then as you may remember, the law provided the board with the discretion to apply standards in that 100 to 250 band. And this framework would be—would establish a way of doing that taking into consideration all of the risk profile.

CHAIR POWELL. Thank you. Vice Chair Quarles? Your questions are answered, I imagine.

VICE CHAIR FOR SUPERVISION QUARLES. Exactly. At this point, if I had questions, that should be some cause for alarm.

CHAIR POWELL. Governor Brainard?

GOVERNOR BRAINARD. Just a follow on to that question. But this also includes changes for institutions that are above 250, 250 to 700 also have changes that are contemplated.

MARY WATKINS. That's on work that we have been doing to tailor our regulatory framework that predates the law and is now sort of consistent with the law.

GOVERNOR BRAINARD. Right.

GOVERNOR BOWMAN. Chair Powell. Yes, I have a question to follow up on your cliff effect question. So how will we work with firms as they're approaching a new threshold, say a $97 billion asset firm when they're approaching that 100 billion asset firm and if they plan to stay at that are below the level, how will we supervise them appropriately to ensure that we're managing that risk and supervising them appropriately?

MICHAEL GIBSON. So, I think the four-quarter averaging is intended to give firms a lot of predictability about when they're going to approach and go over the threshold as explained. So, it should be possible for the firms to do some planning and the supervisors would be working with the firms obviously to, you know, the extra requirements that are going to come into effect to make sure those are well-understood and that the firms have processes underway. There are some thresholds in the regulations and the laws currently and we already do that, have those discussions with firms to help them manage that.

If a firm is managing to stages below a threshold but they'll be subject to the lower requirements. And, you know, we would be expecting that our supervisors would be sensitive to firms that have told us they're planning to grow over the threshold, and we'll be, you know, asking some questions to those firms about how they're planning to come in compliance with the new requirements. If firms are telling us, they're planning to stay below the threshold then we wouldn't.

GOVERNOR BOWMAN. Thank you.

CHAIR POWELL. Great. Thank you. No further questions. Mike, back to you for the second presentation.

MICHAEL GIBSON. OK. We'll now have the second staff presentation on the resolution plan rule and the presenters are Katie Ballintine and Steve Bowne.

KATIE BALLINTINE. Thank you. 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 orderly resolution under bankruptcy in the event of material financial distress.

In April 2019, the Board and the FDIC invited comment on a proposal to amend the resolution planning rule. The proposal was designed to tailor application of the resolution planning rule, based on firm size, complexity, and scope of operations. The final rule under consideration by the Board today maintains the most stringent requirements for firms whose material financial distress or failure would pose the highest degree of risk to U.S. financial stability, and tailors the requirements for other firms commensurate with their resolution risk profile, activities, and resolution strategies.

The final rule is largely similar to the proposal with a few changes made in response to comments. I will describe the submission cycles and resolution plan filing groups under the final rule. Steve Bowne will then explain the content of full, targeted, and reduced plans under the final rule, and key differences between the proposal and the final rule.

Like the proposal, the final rule would modify the current annual filing requirement by providing each filer at least two years between resolution plan submissions. Under the current rule, the agencies have regularly needed to extend the annual requirement to provide additional time for plan preparation and review. The final rule's longer filing cycles are expected to allow sufficient time for the agencies to develop feedback and for the firms to incorporate the feedback in their future submissions. Commenters supported elimination of the annual filing requirement.

The largest most complex firms will have a two-year cycle consistent with current practice and all of the other filers will have a three-year cycle. I direct your attention to the first page of the resolution presentation materials and Exhibit A entitled Resolution Plan—Expected Resolution Plan Filing Groups.

The first filing group is the U.S. G-SIBs from subject to category 1 standards. These are the firms in the far left column of the visual. The U.S. G-SIBs would submit a plan every other year, alternating between full and targeted plans. The two-year submission cycle would formalize the agencies current practice for the U.S. G-SIBs, and as Steve will discuss in more detail, staff believe the targeted plan elements constitute the key information needed to assess firms resolvability.

The next filing group is firms subject to category 2 or category 3 standards. The middle column on the visual. These firms would file a resolution plan every three years. 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. Accordingly, the final rule adopts a longer filing cycle for these firms, while retaining the full and targeted plan requirements.

The third group is foreign firms with 250 billion or more in global assets not subject to category 1, 2, or 3 standards. They would file reduced plans every three years. Most of these firms have a limited U.S. presence. Given their limited U.S. operations and fewer interconnections with other U.S. market participants, the final rule retains the proposals longer filing cycle. Like the proposal, the final rule will no longer apply resolution planning requirements to smaller and less complex domestic and foreign firms with total assets less than 250 billion and risk-based indicators below the category 1, 2, or 3 thresholds.

In reviewing these firms' previous plan submissions, the agencies have not identified deficiencies or shortcomings that required remediation. Generally, these domestic firms have simpler legal structures and limited non-banking operations. The foreign firms in this group generally have limited U.S. operations, often consisting of a single 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.

Consistent with the proposal, the final rule also includes changes to the provisions of the rule regarding critical operations, including a new requirement that firms develop and maintain a process to assess periodically whether their operations are critical to U.S. financial stability.

These changes are intended to improve the identification of critical operations. I will now turn to my colleague Steve Bowne, who will discuss the content of resolution.

STEVE BOWNE. Thank you, Katie.

As Katie noted, the final rule would identify three types of resolution plans: full plans, targeted plans, and reduced plans. Exhibit B to the resolution presentation materials before you contains a visual that summarizes the content requirements for full and targeted plans under the final rule, which are unchanged from the proposal. The left column of the visual lists the information required to be included in the public and confidential sections of a full plan. These informational requirements will be unchanged from the rule that is currently in effect.

Through numerous plan submission cycles, staff has found that these requirements capture the information needed to evaluate a firm's resolution preparedness. As shown in the right column targeted plans will contain a subset of the information that is required to be included in the full plan. The elements for a targeted plan were selected because staff believed they constitute the information that is most important to assessing firms resolvability. In particular, this includes information regarding capital, liquidity, and the firm's plan for executing a recapitalization as well as any material changes that have occurred to the firm since its prior plan submission. The final rule would also formalize a third type of plan, reduced plans, which would be submitted only by a certain foreign banking organizations with a limited U.S. presence. Because these firms generally have small or relatively simple U.S. operations staff believe there is less risk to U.S. financial stability from their material distress or failure. Accordingly, they would file an initial full plan followed by reduced plans that would include only material changes since their previous filing.

Moving on from the visual I will now briefly describe some of the changes to the proposal based on public comments. The agencies received 14 comment letters on the proposal. Many of the commenters expressed support for the proposals changes to the resolution plan rule, while some expressed concerns that the changes might go too far. Several commenters asserted that the final rule should require the agencies to provide feedback to firms within one year following a resolution plan submission, and should also require the agencies to provide at least 12 months advance notice when taking actions that would affect informational content requirements, or resolution plans submission dates. Staff believe that these changes would improve the rule by providing additional certainty and predictability about resolution planning requirements. Accordingly, the final rule would include these changes.

The agencies also received comments regarding their proposal to introduce new procedures by which a firm could request that the agencies change certain informational requirements for a full resolution plan. The purpose of allowing these requests would have been to facilitate tailoring of informational content requirements to individual firms. Under the proposal such request would have been deemed approved unless the agencies jointly denied them within six months. In response to this element of the proposal, some commenters expressed concern that the new process might inappropriately reduce informational content requirements for some filers. On the other hand, some commenters generally supported the new process, but also asserted that the agencies should have done more to tailor informational content requirements between U.S. G-SIBs and other filers.

To address the concerns raised by commenters, the final rule would make two changes to the proposed process. First, the process would not be available to the U.S. G-SIBs, but only to other filers. Second, these requests would require the joint approval of both the Board and the

FDIC. Staff believe that the first change would create a clear distinction between the U.S. G-SIBs and other filers and would help to ensure that the U.S. G-SIBs continue to submit the most detailed resolution plans under the final rule. Requiring joint agency approval of these requests would be consistent with other provisions of the rule, which generally require joint agency approval. That concludes our summary of the final resolution plan rule and the major changes from the proposal. We welcome any questions that you may have.

CHAIR POWELL. Thanks very much. Can you, Steve, maybe say a little more about the what's not in the targeted plans? And what sort of tests did you apply to exclude things? And do you feel that we will have lost any understanding of resolvability by the things we've excluded? If you could just talk a little more detail about, you know, how we thought about that difference?

STEVE BOWNE. Yes. So, the targeted plan would not include certain information that would be in a full plan that tends to remain relatively static from one submission to the next. And so examples of those sections of the plan could include corporate governance processes for approving a resolution plan or management information systems or certain information about organizational structure. However, the targeted plan would be required to describe material changes that have occurred to the firm since its last submission, and any changes that would result to its plan as a result [inaudible].

CHAIR POWELL. It would have materially affected the plan in effect?

STEVE BOWNE. That's right. And so it's that catch all that we think would help to ensure that the targeted plan doesn't omit important information notwithstanding the reduced requirements.

CHAIR POWELL. OK. Thank you. Any further questions? Vice Chair Clarida?

VICE CHAIR CLARIDA. Yes, thank you Chair Powell. How does the final rule fit in with the Board's previous work on resolution planning?

KATIE BALLINTINE. The final role can be viewed as continuing our current practice because it maintains the two-year filing cycle, the current guidance, and all the informational requirements for the full plan. For other filers, the final rule tailors application of the requirement based on the relative degree of risk a firm's failure could pose to U.S. financial stability.

CHAIR POWELL. OK. Thanks. Governor Brainard questions? No?

CHAIR POWELL. Governor Bowman?

GOVERNOR BOWMAN. I do have a question. A provision was added in the final rule that wasn't included in the initial proposal regarding the timing of our feedback on a firm's resolution plan. That provision requires that our feedback be provided one year prior to the resolution plan filing deadline. Can you explain our reasoning behind adding this proposal and whether that's sufficient time for us to provide feedback and for them to review it and incorporate it?

KATIE BALLINTINE. So though— to your point, the final rule would require the agencies to provide feedback no later than one year after a plan has been submitted. And we should note that the one year time period is a maximum time limit. So it could be the case that the agencies are able to provide feedback more quickly. Based on the agency's experience implementing the resolution planning requirements over the past seven years, the agencies expect that one year will be sufficient time for plan review going forward. And in recent cases, the agencies were able to provide feedback within six months. So the agencies will strive to continue that trend under the final rule.

CHAIR POWELL. OK, if no further questions then what I'd like to do now is turn to individual board members to get your position on each of the three proposals plus any comments you may like to offer. And again, there are three proposals. There's the tailoring final rule, there's the final resolution plan rule, and there's the assessments proposed rule. So if I— if you could state positions on those, beginning with Vice Chair Clarida, any comments you may have.

VICE CHAIR CLARIDA. Well, Chair Powell, I support the tailoring final rules as delineated here and the resolution plan final rule and the assessment proposed rule.

CHAIR POWELL. Thank you. Vice Chair for Supervision Quarles?

VICE CHAIR FOR SUPERVISION QUARLES. Yes, so I support all three tailoring, resolution, and assessments. I think, on the tailoring proposed, the tailoring final rule, I think it's very careful and how it tailors regulation to the actual risk that's posed, minimal effect on either capital or liquidity. It's less than, you know, it's a few tenths of a percentage point on capital. It's a couple of percentage points on liquidity. No reduction in either of those for the largest firms, the U.S. G-SIBs, and it treats the foreign banks in a way that's very consistent with national treatment. While we're actively pursuing international for some of the concerns we have such as branch liquidity regulation, so very, very supportive of that. On the resolution side, I think we've made enormous progress in the resolvability of these firms through simplifying their tangled structures. But once that's been done, it's just in the nature of the universe, that those structures will change in the future, only very slowly. And in those circumstances, it's a perfectly sensible allocation of our own resources to look at that evolution on a somewhat extended review cycle, and we've always retained the ability to ask for more information at any time whenever we feel that we need it. So, I'm very comfortable with that as well.

CHAIR POWELL. Thank you, Governor Brainard.

GOVERNOR BRAINARD. Thank you, Mr. Chair. I appreciate all the work that's gone into today's proposals. I have supported changes to relieve burden on community banks and I voted for changes that are mandated by S-2155. Today's actions go beyond what's required by S-2155 and weaken the safeguards at the core of the system before they've been tested through a full cycle at a time when large banks are profitable and credit is ample.

For the large domestic banks above the statutory range, with assets of 250 billion to $700 billion, today's actions would reduce the liquidity coverage ratio and remove an important capital requirement. At this point late in the cycle, we shouldn't be giving the green light to large banks to reduce the buffers they've worked so hard to build post-crisis, especially since capital is already coming down as planned payouts exceed expected earnings that many of the largest banks. So let me briefly explain my concerns.

The distress of large banking organizations often manifests first in liquidity stress and quickly transmits through the financial system. In the crisis liquidity stress at two large non-complex banks in the 100 to 250 billion size range necessitated distress acquisitions and the failure of a large bank with roughly 300 billion in assets due to insufficient liquid resources, triggered spillovers and required extraordinary measures. Today, a distressed acquisition by one of the largest banks is less likely to be an option. That's why we voted to finalize the LCR five years ago. It was intended as a baseline requirement appropriate for all large banking firms that is tailored by design to bank size and business model. Although S-2155 doesn't require us to weaken this critical post-crisis safeguard for large banks. Today's rule will reduce the LCR requirement by 15% or 34 billion for banks in the 250 to 700 billion size range who account for 1.5 trillion and assets overall. For domestic banks in the 100 to 250 billion size range who account for $1.9 trillion in assets overall. Today's rule will eliminate entirely their modified

LCR requirement a reduction of $167 billion overall in the LCR requirement. And unlike internal buffers, the LCR is simple, it's visible, and it's standardized, which is intended to increase market competence.

Turnings to foreign banks, the crisis demonstrated clearly that their combined U.S. operations can pose important risks here in the U.S. The U.S. branches of foreign banks, which often serve as important sources of dollar funding for their parents can face important run risk because they rely heavily on runnable short-term wholesale funding. During the crisis, some foreign branches were among the most active users of discount window borrowing. This risk reflects the unique role of the dollar in the global financial system. To address this risk the Board stated in our 2014 LCR rule, our intention to implement standardized LCR requirements for the combined U.S. operations at FBOs. This would reduce the incentive to shift assets to branches from IHCs. In fact, branch assets have grown as a percentage of foreign bank activities in the U.S. since those requirements were put in place. This matters because the U.S. branches and agencies the foreign banks relied roughly twice as much on short-term wholesale funding as the IHCs.

I'm disappointed today's rule doesn't apply to the combined U.S. operations and doesn't address the important liquidity risks associated with the U.S. branches and thus doesn't represent a balanced package. Today's rule would also lower capital requirements by 9 billion for domestic and foreign banking organizations above the statutory range, which collectively account for 2.7 trillion in total assets. The rule allows institutions in the range between 250 and 7 billion—700 billion in assets to opt out of the requirement to include unrealized gains and losses to accumulated other comprehensive income in the calculation of regulatory capital. It also will enable firms in that size range to take advantage of the capital simplification rule that was originally aimed at reducing burden for smaller banks.

Finally, turning to resolution we saw clearly in the crisis that the failure of one or more large banking organizations may lead to severe stress as fire sales and run dynamic spread contagion. While I support some reduction in the frequency of plan submissions, today's rule goes beyond the requirements of S-2155 on resolution planning as well. For banks above the statutory range with 250 billion to 700 billion in assets, the proposal would require a full resolution plan only once every six years, and banking organizations in the range of a 100 to 250 billion in assets will no longer be required to file resolution plans.

In combination with other changes underway, I'm concerned the rules we're voting on today go beyond the requirements of S-2155 and weaken the core safeguards against the vulnerabilities that caused so much damage in the crisis. Thank you, Mr. Chair.

CHAIR POWELL. Thank you. Governor Bowman.

GOVERNOR BOWMAN. Thank you Chair Powell. I'd also like to thank the staff for their work on these proposals and for their presentations today, a great deal of careful and thoughtful analysis has gone into developing these rules.

I'm a strong supporter of tailoring regulations for institutions of all sizes from community banks to larger banks. And I'm pleased to see that this rule completes the S-2155 burden relief for smaller institutions, by raising the asset threshold for company run stress testing and risk committee requirements. The final rules align our treatment of foreign banks with domestic banks and I think it's important that we have a level playing field at home and around the world.

In particular, I support the application of comparable levels of regulation to meet the risks posed by the institution. These rules adopt sensible standards for banks that engage in less risky, more traditional banking activities and maintain the higher standards for the largest institutions, those that pose the greatest risk to our financial system. And Chair Powell, I support moving forward with these final rules.

CHAIR POWELL. Thank you. And thanks everyone for your thoughtful comments. So, I too support all three of these rules. I think the tailoring rule and the resolution rule do strike an appropriate middle ground. We're maintaining the very strong standards on the largest, most risky firms. And we've made I think, what are sensible judgments for smaller firms that generally engage in less risky activity. Most importantly, I'm confident that we are maintaining and we'll continue to maintain the resilience of the financial system. So, again, I'll vote yes on all three.

So, we're going to begin by voting on the tailoring final rules, and I need a motion to approve a final rulemaking that would establish a revised framework of prudential standards for large domestic and foreign banking organizations. A joint final rulemaking that would establish a revised framework of capital and liquidity requirements for large domestic and foreign banking organizations, an order delegating authority to the director of Supervision and Regulation to make certain determinations under the foregoing final rulemaking, final revisions to regulatory reports and instructions consistent with the foregoing final rulemakings. And staff to make any minor or non-substantive changes to prepare the documents for publication in the Federal Register.

VICE CHAIR CLARIDA. So moved.

CHAIR POWELL. Is there are a second?

VICE CHAIR FOR SUPERVISION QUARLES. Second.

CHAIR POWELL. I will now ask each board member for your vote. Vice Chair Clarida?

VICE CHAIR CLARIDA. Yes.

CHAIR POWELL. Vice Chair Quarles?

VICE CHAIR FOR SUPERVSION QUARLES. Yes.

CHAIR POWELL. Governor Brainard?

GOVERNOR BRAINARD. No.

CHAIR POWELL. Governor Bowman?

GOVERNOR BOWMAN. Yes.

CHAIR POWELL. I vote yes as well.

Second, we'll vote on the resolution plan rule. I need a joint—I need a motion to approve a joint final rulemaking to revise resolution plan requirements for large domestic and foreign banking organizations; an order delegating authority to the director of Supervision and Regulation to make certain determinations under the foregoing final rulemaking, and staff to make minor or non-substantive changes to prepare the documents for publication in the Federal Register.

VICE CHAIR CLARIDA. So moved.

CHAIR POWELL. Is there a second?

VICE CHAIR FOR SUPERVISION QUARLES. Second.

CHAIR POWELL. I'll ask you for your votes Vice Chair Clarida?

VICE CHAIR CLARIDA. Yes.

CHAIR POWELL. Vice Chair Quarles?

VICE CHAIR FOR SUPERVISION QUARLES. Yes.

CHAIR POWELL. Governor Brainard?

GOVERNOR BRAINARD. [Inaudible][1]

CHAIR POWELL. Governor Bowman?

GOVERNOR BOWMAN. Yes.

CHAIR POWELL. And last, we will vote on the assessments propose rule. I need a motion to approve a proposed rule on modifications to the assessments imposed on large holding companies and staff to make minor or non-substantive changes to prepare the documents for publication in the Federal Register.

VICE CHAIR CLARIDA. So moved.

VICE CHAIR FOR SUPERVISION QUARLES. Second.

CHAIR POWELL. Vice Chair Clarida your vote?

VICE CHAIR CLARIDA. Yes.

VICE CHAIR FOR SUPERVISION QUARLES. Yes.

GOVERNOR BRAINARD. Yes.

GOVERNOR BOWMAN. Yes.

CHAIR POWELL. Yes.

And to make it clear, all three of those votes carried. And with that, I will again thank the staff for terrific work in a lot of it on these projects. Thank you very much and we are adjourned.

[1] Governor Brainard dissented.