Statement by Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation, Notice of Proposed Rulemaking: Proposed changes to applicability thresholds for regulatory capital requirements and liquidity requirements

November 20, 2018

Strengthening capital and liquidity requirements at our nations' largest, most systemically important banks was an essential post-crisis response. Strongly capitalized banks with sufficient liquidity buffers are better able to serve their customers and withstand financial and economic headwinds. At the same time, it is essential that the agencies periodically evaluate regulations to make sure that these goals are achieved efficiently and effectively.

In May, Congress passed the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Act"). The Act raised the asset threshold for the application of enhanced prudential standards under Dodd-Frank to $250 billion, while giving the Federal Reserve Board the authority to apply enhanced standards to firms between with total consolidated assets between $100 billion and $250 billion under certain conditions.

The proposal before us today would implement the Act by more finely tailoring the application of regulatory capital and liquidity requirements based on a banking organization's size, risk profile and systemic footprint. Our largest, most systemically important banks would continue to be subject to the most rigorous standards, and their smaller, less systemically important peers would be subject to standards tailored to their risk profile.

All of these institutions would continue to be subject to robust capital requirements. Banks with total consolidated assets above $100 billion would still be subject to the total risk-based capital ratio, the tier 1 risk-based capital ratio, the common equity tier 1 risk-based capital ratio, the tier 1 leverage ratio, and the capital conservation buffer, in addition to supervisory stress testing. Banks that qualify as Category III would also be subject to the countercyclical capital buffer and the supplementary leverage ratio, and the G-SIBs would additionally remain subject to the G-SIB surcharge, the enhanced supplementary leverage ratio, and the Total Loss Absorbing Capacity rule, among other heightened standards.

The cumulative expected decrease in capital among banks with total consolidated assets above $100 billion is less than 1 percent. The proposal would exempt Category III and Category IV institutions from the complex advanced approaches capital framework. This represents meaningful compliance burden relief without sacrificing capital adequacy. Firms in Category III and Category IV would also not be required to include elements of accumulated other comprehensive income (AOCI) in their capital calculations, which will reduce capital volatility and related compliance costs. Banks that are not advanced approaches banks are already permitted to use this treatment. The agencies found that from 2001 to 2018, excluding AOCI

from capital for these institutions would have slightly raised capital requirements for some regional banks and slightly decreased for others. The NPR asks a series of questions on this aspect of the proposal.

With respect to liquidity, the existing liquidity coverage ratio (LCR) rule applies the same requirements to all banks with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure. The proposal recognizes that, while strong liquidity buffers are critical, the liquidity standards can be better tailored among institutions. Banks that qualify as Category III institutions are not G-SIBs and generally present lower risk profiles than the largest, most complex banks. These firms would still be subject to the full LCR if they overly rely on short-term wholesale funding, and would be subject to reduced LCR requirements regardless. The NPR requests comments on where the agencies should set the reduced LCR requirement. Additionally, all firms subject to the rule would still be subject to – and would still need to hold sufficient highly liquid assets to satisfy – liquidity stress-testing and liquidity risk management requirements at the holding company level.

I am pleased to support this proposal. This thoughtful approach to tailoring the application of prudential standards within the banking industry is something that we should continue to explore for banks of all sizes and risk profiles.

I would like to conclude with words of appreciation to the staffs at the OCC and Federal Reserve who worked on this proposed rule, and in particular I would like to thank the staff of the FDIC for all of their hard work.