Statement by FDIC Chairman Jelena McWilliams on the Final Rule on Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Global Systemically Important U.S. Bank Holding Companies, Certain Intermediate Holding Companies, and Global Systemically Important Foreign Banking Organizations; Total-Loss Absorbing Capacity Requirements

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Two important objectives of the post-crisis regulatory framework are increasing the resilience of global systemically important banks (GSIBs)[1] and improving their resolvability.[2] In furtherance of both objectives, the Federal Reserve Board finalized a new rule in 2016 that, among other things, requires the largest U.S. and foreign banking organizations to maintain minimum amounts of total loss-absorbing capacity (TLAC) and long-term debt (LTD).[3]

By requiring sufficient loss-absorbing capacity on both a going-concern and a gone-concern basis, these requirements enhance financial stability by reducing the impact on the financial system that could stem from the potential failure of a large and systemically important bank. While these requirements add to resiliency and resolvability, they could potentially increase financial system interconnectedness if one or more GSIBs held large amounts of TLAC or LTD issued by another GSIB.

Today, we consider a final rule to address concerns related to the holding of TLAC debt issued by another GSIB.

To reduce interconnectedness and limit the potential for financial sector contagion in the event of the failure of a GSIB, the FDIC, Federal Reserve Board, and OCC issued a proposal last year that generally would require advanced approaches banking organizations to deduct from regulatory capital the amount of any investment in, or exposure to, TLAC or LTD issued by a GSIB that was not already subject to deduction.[4] The proposal also included certain limited exceptions to the deduction requirement.

The final rule before us is substantially consistent with the proposal, with certain changes intended to reduce compliance burden and to support deep and liquid markets for TLAC and LTD issued by GSIBs while reducing interconnectedness.

For example, the final rule would use the Volcker Rule framework to identify covered debt instruments held for market making for purposes of qualifying for the final rule's market making exclusion for U.S. GSIBs. This change should decrease compliance burden and facilitate the ability of advanced approaches banking organizations[5] to engage in market making activities by allowing them to use a single methodology rather than two similar but non-identical standards.

The single point of entry strategy for resolving U.S. GSIBs relies on investors that hold TLAC and LTD to absorb losses at the point of resolution. By limiting the exposure of large institutions to TLAC and LTD, this rule helps reduce contagion and works with other reforms that enhance the FDIC's ability to resolve a U.S. GSIB.

I support this rule and thank the staff for the hard work and coordination with the Federal Reserve Board and OCC.

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[1]In the United States, any bank with more than $100 billion in total assets is subject to risk-based capital requirements, leverage capital requirements, capital buffers, supervisory stress testing, and liquidity requirements. These requirements increase in stringency based on an institution's size, risk profile, and systemic footprint.

[2]The largest U.S. banks and certain foreign banking operations are required to submit resolution plans that describe their strategies for orderly resolution under bankruptcy in the event of material financial distress or the failure of the company.

[3]*See* Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations, 82 Fed. Reg. 8266 (Jan. 24, 2017), available at https://www.govinfo.gov/content/pkg/FR-2017-01-24/pdf/2017-00431.pdf.

[4]*See* Regulatory Capital Treatment for Investments in Certain Unsecured Debt Instruments of Global Systemically Important U.S. Bank Holding Companies, Certain Intermediate Holding Companies, and Global Systemically Important Foreign Banking Organizations, 84 Fed. Reg.13814 (Apr. 8, 2019), available at https://www.govinfo.gov/content/pkg/FR-2019-04-08/pdf/2019-06344.pdf.

[5]Pursuant to the agencies' tailoring rule, advanced approaches banking organizations are Category I and Category II institutions. *See* Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 84 Fed. Reg. 59230 (Nov. 1, 2019), available at https://www.govinfo.gov/content/pkg/FR-2019-11-01/pdf/2019-23800.pdf.