Opening Statement
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Acting Chairman, FDIC;
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I am pleased we are in a position today to consider four important capital rulemakings: the Market Risk Final Rule; two notices of proposed rulemaking implementing Basel III reforms; and a notice of proposed rulemaking for the so-called Standardized Approach.

Before commenting on the specifics of the cases, I would like to note that we divided these proposals into three separate NPRs to reflect the distinct objectives of each proposal, to allow interested parties to better understand the various aspects of the overall capital framework, and to help them focus their comments on areas of particular interest.

Market Risk Final Rule

The Market Risk Final Rule will address important weaknesses of the current Market Risk Rule to reflect lessons learned in the financial crisis. Leading up to the crisis, low capital requirements under the current Market Risk Rule encouraged institutions to place illiquid, high-risk assets in their trading books. Large mark-to-market losses on these assets played an important role in the early stages of the crisis. The final rule will require an appropriate increase in the stringency of the Market Risk rule that will better address such risks.

The final rule applies to about 25 institutions with significant trading activities. It is based on reforms that were agreed internationally with the Basel Committee's 2009 paper Revisions to the Basel II market risk framework. These revisions are part of what is generally referred to as the Basel II.5 reforms.

There has been concern expressed that the Market Risk Rule, while improved, is still too reliant on internal models. The idea of establishing a simple, non-modeled backstop for all trading book capital requirements is worthy of further study, and is in fact being considered as part of a fundamental review of trading book capital requirements being conducted by the Basel Committee.

Basel III NPRs

As previously noted, we are also considering two NPRs aimed at implementing the Basel III international capital agreement -- one that would apply to all banks and a separate NPR for the large, internationally-active banks that use the advanced approaches. Fundamentally, Basel III aims to improve the quality of regulatory capital and increase the level of capital requirements.

General Basel III NPR

The General Basel III NPR would strengthen the definition of capital by requiring Tier I capital to be composed principally of tangible common equity. For example, the proposal establishes a minimum common equity tier 1 risk-based capital requirement of 4.5 percent. To avoid restrictions on capital distributions, banks would need to maintain their risk-based capital ratios at least 2.5 percent above these minimums. Together, this would establish an expectation that banks maintain loss-absorbing capital of at least 7% of risk-weighted assets. The NPR also would amend the Prompt Corrective Action thresholds to reflect these proposed new requirements. In short, the proposals will significantly strengthen minimum requirements for loss-absorbing equity capital in our banking system.

This NPR also contains proposals that only would apply to banking organizations that use the advanced approaches rule. One such requirement is that advanced approach banks must maintain a three percent Basel III leverage ratio as a supplement to the existing U.S. leverage ratio. This would meaningfully incorporate the new international leverage ratio into the U.S. regulatory capital regulations. In this regard, I would note that the NPR maintains the existing leverage requirements for all banks, updated to reflect the new definition of capital.

Our analysis suggests that most banks have ample capital to meet the proposed requirements. For example, we estimate that approximately 96 percent of all depository institutions currently hold capital that meets or exceeds the proposed requirements.

Basel III NPR for Advanced Approaches Banks

The Basel III NPR for Advanced Approaches contains a number of enhancements to the calculation of risk-weighted assets for advanced approaches banks. The proposal is consistent with the Basel III international capital agreement, but also contains alternatives to credit ratings consistent with Section 939A of the Dodd Frank Act. The proposals in this NPR would strengthen the existing advanced approaches capital rules, particularly related to capital requirements for derivatives.

The FDIC has had a longstanding concern about the reliance in the advanced approaches rule on a bank's own models and risk estimates. Section 171 of the Dodd Frank Act, the so-called Collins amendment, addresses this concern by placing a floor under advanced approaches capital requirements that serves to both prevent the level of capital requirements from declining below the levels prevailing when the law was enacted, and to ensure that advanced approaches capital requirements are not less than the requirements applying to other banks.

Standardized Approach NPR

The Standardized Approach NPR proposes a number of enhancements to the calculation of risk-weighted assets in the agencies' general risk-based capital rules, including alternatives to credit ratings consistent with Section 939A of the Dodd Frank Act. The capital requirements proposed in this NPR are separate and distinct from the internationally agreed Basel III framework. Staff will describe this NPR at greater length.

Conclusion

The rules under consideration by the Board today are an important step in the direction of strengthening the capital requirements for banks in the United States. While two of the rules apply only to large, internationally active institutions, the General Basel III NPR and the Standardized Approach NPR would be generally applicable to all institutions. For that reason, each of those NPRs includes an addendum. The goal of these addenda is to aid smaller banks in identifying and understanding the aspects of the proposals that would apply to them. We are planning additional outreach as well, including a national call-in and a series of informational sessions in our six FDIC regions. We anticipate working cooperatively with the OCC and the Federal Reserve on these outreach efforts.

I would like to conclude by thanking the staff of the FDIC, as well as the OCC and Federal Reserve, for their extraordinary efforts on these rulemakings. It has been a major challenge to prepare these rules for today's Board meeting, and the staff deserves great credit for the work that has been done.

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