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Opening Statement on the Large Bank Capital Requirement Proposal  
by Chair Jerome H. Powell

The U.S. banking system is sound and resilient, with strong levels of capital and liquidity. A robust and dynamic banking system, along with effective and efficient regulation and supervision, helps to ensure that banks of all sizes can meet the needs of households and businesses in every community throughout our country, in good times and in bad. We must preserve and build upon these strengths and that diversity.

Following the global financial crisis, the banking agencies implemented a series of reforms to increase the strength and resilience of the financial system. The development and implementation of the Dodd-Frank Act and the Basel III accords followed a deliberative and thoughtful process that evolved over a period of several years. I supported the outcomes of that process, which in some important ways exceeded the Basel minimum requirements. I believe that the performance of U.S. banks in times of stress has greatly benefited from those reforms. I am confident that, for the proposals before us today, the process will also be a transparent, deliberative and thoughtful one, and in that spirit I welcome the 120-day comment period.

Today, I support putting both proposals out for comment. I look forward to reviewing and assessing the comments we receive from the public. In considering potential modifications to the proposals, I will mention a few examples of areas in which I will be particularly interested in reviewing public feedback and analysis.

The first is to assess the calibration of these proposed capital increases, both overall and for specific areas such as capital markets activities and operational risk. U.S. and global

regulators raised large bank capital requirements significantly in the wake of the global financial crisis. While there could be benefits of still higher capital, as always we must also consider the potential costs. This is a difficult balance to strike, and striking it will require public input and thoughtful deliberation.

High levels of capital are essential to enable banks to continue to lend to households and businesses and conduct financial intermediation, even in times of severe stress. But raising capital requirements also increases the cost of, and reduces access to, credit. And the proposed very large increase in risk-weighted assets for market risk overall requires us to assess the risk that large U.S. banks could reduce their activities in this area, threatening a decline in liquidity in critical markets and a movement of some of these activities into the shadow banking sector.

Second, the proposal exceeds what is required by the Basel agreement, and exceeds as well what we know of plans for implementation by other large jurisdictions. For example, the proposal would require U.S. banks to cease using their own internal models for credit risk and operational risk and instead use only a standardized approach. This proposed change is intended to achieve the sensible goals of avoiding uneven implementation across similar risks at different banks, as well as gaming of the requirements. We will need to ensure that the consistency and anti-arbitrage benefits of the new standardized approaches outweigh the costs of treating the risks of some quite different business activities as identical, which could reduce risk capture and discourage less risky activities.

Third, I believe that recent events have demonstrated the need to strengthen supervision and regulation for firms with assets between \$100 billion and \$250 billion. Here too, however, we need to strike the right balance. Regulation and supervision should reflect the size and risks

of individual institutions. That approach is essential if we are to allow banks of different sizes to thrive, and preserve our diverse banking system.

As the financial system evolves, it is important that regulation evolve with it. 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 from all stakeholders on how best to strike that balance.