**Transcript of the Open Board Meeting**

**July 2, 2013**

CHAIRMAN BEN S. BERNANKE. Good morning. I'd like to begin by welcoming our guest to the Federal Reserve.

Today's meeting marks an important step in the Board's efforts to enhance the resilience of the U.S. banking system and to promote broader financial stability. The final rule that we're considering today puts in place a comprehensive regulatory capital framework that the Board has been developing for some time in consultation with our domestic and international colleagues in central banks and regulatory agencies.

Critically, this framework requires our banking organizations to hold more and higher quality capital, capital that will act as a financial cushion to absorb future losses while reducing the incentives for firms to take excessive risks. Strong capital requirements are essential if we hope to have safe and sound banks that can weather economic and financial stress while continuing to meet the credit needs of our economy. This final rule fulfills the U.S. commitment to implement the revised international regulatory capital framework known Basel III for the largest, most internationally active banking organizations. The rule also incorporates macroprudential aspects that complement the Board's broader financial stability agenda.

Today, we will also be considering proposed technical changes to the market risk capital rule that became effective in January of this year to conform with the final rule. We have with us today many of the staff who have spent long hours working on this rulemaking. They should be commended for their conscientious efforts. I look forward to today's discussion of this important initiative.

And I take note that Vice Chair Yellen and Governor Stein are joining us by conference call. So let me now turn to Governor Tarullo, who has played a key leadership role throughout this rulemaking process. Governor Tarullo.

GOVERNOR DANIEL K. TARULLO. Thank you, Mr. Chairman. Adoption of the capital rules before us today would be a milestone in our post-crisis efforts to make the financial system safer. While strong capital requirements alone cannot ensure the safety and soundness of our financial system, they are central to good financial regulation precisely because they're available to absorb all kinds of losses, no matter how unanticipated. Along with the stress testing and capital review measures we have already implemented and the additional rules for large institutions that are on the way, these new rules will be an essential component of a set of mutually reinforcing capital requirements.

The rules will have several important consequences. First, they will consolidate the progress that has been made by banks and regulators over the last four years in improving the quality and quantity of capital held by banking organizations. Adoption of these rules assures that as memories of the crisis fade, efforts to build and maintain higher capital levels will not be allowed to wane.

Second, they would remedy shortcomings in our existing generally applicable risk-weighted assets calculations that became apparent during the financial crisis. In so doing, they would also enhance the effectiveness of the Collins Amendment, which we have strengthened in this final rule by making it applicable to capital buffer as well as minimum requirements.

Third, adoption of these rules means that we will have met international expectations for U.S. implementation of the Basel III capital framework. This gives us a firm position from which to press our expectations that other countries implement Basel III fully and faithfully, thereby promoting global financial stability.

In characterizing this rule as a milestone in financial regulatory reform, I should note that this marker has quite different meanings for banking organizations of systemic importance on the one hand and the thousands of smaller banks on the other. For the vast majority of banks, the rule we adopt today will mark the end of major modifications we plan to capital rules. In fact, as Governor Duke will explain in a moment, most of the significant changes from the proposed rules we issued last year that were made in this final rule are intended to reduce and simplify the number of those modifications from current standards that will be applicable to smaller banks. With respect to larger banking organizations, we have a number of capital-related initiatives remain.

Before turning to those initiatives, I note that work continues in the Basel Committee on simplifying some of the more complex provisions and capital requirements applicable to larger institutions. Of particular interest is work on standardized capital requirements for market risk that would provide a sound backup for model-derived risk weights. As to what remains, beginning in the fall, we will extend full stress testing requirements and capital plan reviews to the dozen or so banking organizations with greater than $50 billion in assets that have not been fully covered in the exercises we have undertaken since 2009.

We also have in various stages of development four rulemakings that will enhance capital requirements for the eight banking organizations already identified as of systemic importance. First, we are very close to completion of a notice of proposed rulemaking that will establish a leverage ratio threshold for these firms above the Basel III required minimum. Despite its innovativeness in taking account of off-balance sheet assets, the Basel III leverage ratio seems to have been set too low to be an effective counterpart to the combination of risk-weighted capital measures that have been agreed internationally.

Second, we should be ready in the next few months to issue a notice of proposed rulemaking concerning the combined amount of equity and long-term debt these firms should maintain in order to facilitate orderly resolution in appropriate circumstances.

Third, after the Basel Committee has completed final methodological refinements to its framework for capital surcharges on banking organizations of global systemic importance, we will issue a notice of proposed rulemaking to implement this framework in the United States. Given the current state of Basel Committee work, we may be looking at such a notice late this year.

Fourth, and finally, staff is currently working on a recommendation for an advanced notice of proposed rulemaking to seek comment on possible approaches to requiring additional measures that would directly address risks related to short-term wholesale funding, including a requirement that large firms substantially dependent on such funding hold additional capital.

Once final, these measures would round out a capital regime of complimentary requirements that focus on different vulnerabilities and together compensate for the inevitable shortcomings in any single capital measure. This regime would conform to the mandate given us by Congress to apply to large banking organizations more exacting regulatory and supervisory requirements that become progressively stricter as the systemic importance of a firm increases. The capital rule we consider today is a key element of this broader regime; in itself, as a foundation for the forward looking requirements embedded in stress testing, and as a base on which to add additional requirements such as capital surcharges for banks of global systemic importance.

With that, I turn to Governor Duke, chairman of our subcommittee on smaller banks, for her introductory comments.

GOVERNOR ELIZABETH A. DUKE. Thank you. I'll focus my remarks on those elements of the rule that are most pertinent to community banks.

I want to begin by emphasizing that having adequate levels of high quality capital is just as crucial for smaller banks as it is for the largest institutions. The recent financial crisis demonstrated that community banks can still be devastated by economic turbulence, even when they did nothing to cause the problem. Banks that were able to withstand the adverse economic conditions and continue to serve their communities were those that started with solid capital positions.

As proposed last year, the capital rule would have achieved the objective of increasing the quantity and quality of capital in banks of all sizes. But it also would have created substantial additional regulatory burden on community banks. In the final rule, I believe that we have maintained the objective of strengthening capital requirements but without the more onerous regulatory burden.

The Board received more than 2,600 comments on the proposal, with the majority of the comment letters coming from community banking organizations. In addition, the Federal Reserve sought input from community bankers through in-person meetings. Board staff held several large outreach sessions around the country geared toward community bankers, fielding hundreds of questions. I met personally with representatives from banking organizations of various sizes with different legal structures and business models, and several members of the Board did the same.

This outreach was critical to understanding how different elements of the proposal would affect individual banking organizations. After hearing their concerns, numerous changes have been made to the proposal to reduce its complexity and to minimize the potential burden that would be placed on smaller and community banking organizations.

While staff will discuss these changes in detail, I want to briefly comment on three changes in particular. First, in light of comment or concerns about the burden of calculating the proposed risk weights for banking organizations' existing residential mortgage portfolios and the potential reduction in credit availability due to the interaction of the proposal with other mortgage-related rulemakings, the final rule would retain the current risk weights for residential mortgage loans.

Second, the final rule would allow non-advanced approaches banking organizations to make a one-time election to opt out of the requirement to include most elements of AOCI in regulatory capital. While these banks would not be required to recognize unrealized gains and losses in their regulatory capital, they would not be permitted to switch back and forth to take advantage of unrealized gains and ignore unrealized losses.

Third, community banks subjected to the phaseout of trust-preferred securities as part of their Tier 1 capital. In recognition of community banking organizations' limited access to capital markets, the final rule would effectively grandfather certain existing trust-preferred securities, as permitted by the Dodd-Frank Act. Ultimately, the relevant measure of the final rule is not to compare it to the proposal, but to evaluate it against existing regulatory capital requirements.

In this regard, I believe the final rule would strengthen the quality and quantity of bank capital without introducing unnecessary complexity or capital volatility for community banks, if you have few of the changes from the current requirements. First, the new Common Equity Tier

1 Capital requirement would require all banks to hold more common stock and retained earnings than is the case under current requirements.

Because most community banks are already capitalized primarily with common stock and because retained earnings of their primary source of additional capital, I view this new standard as a validation of the community guide capital model rather than an additional burden. The minimum requirement for Tier 1 capital would be increased from four to six percent. Trust-preferred securities have become an important element in Tier 1 capital for community banks. But the grandfathering of those instruments, the new Tier 1 capital standard, should impose only a minimal burden on most community banks. The rule would also create a capital conservation buffer that would work to limit capital distributions as capital levels approach regulatory minimums.

In their comments, community banks stress their limited access to capital markets and resulting dependence on retained earnings. Capital buffer concept is especially appropriate for community banks because it does not, on its own, require a bank to raise outside capital. Rather, it simply mandates earnings retention until capital is comfortably above regulatory minimums. The numerator used for calculating various capital ratios would have more stringent limits on the inclusion of mortgage servicing assets and deferred tax assets, and the risk weights would also increase. Admittedly, this provision increases capital requirements for institutions with high concentrations of either of these types of assets. But in the crisis, these assets proved less effective than expected for absorbing losses.

Lastly, risk weights would increase for loans that are past due or are nonaccrual as well as high volatility commercial real estate loans called HVCRE loans. I want to emphasize that the higher risk weight for HVCRE loans applies only to a small subset of commercial real estate loans, that a certain higher risk acquisition development or construction loans of the type that resulted in large losses during both the recent crisis and the savings and loan crisis. All other commercial real estate loans would retain their current risk weight.

In a continuing effort to improve communication with community banks about regulatory changes, staff has prepared a one-page summary designed specifically for community banks that describes the key changes discussed today. I'm hopeful that this summary will allow community bankers to quickly zero in on the changes that affect them. I'd like to thanks our staff for their strong and tireless efforts in finalizing these new capital requirements. I'm confident that their work will greatly contribute to a stronger and more resilient banking industry that will benefit the overall economy. I will now turn it over to Mike Gibson.

MICHAEL GIBSON. Thank you.

In our staff remarks today, I will briefly discuss how the final rule fits into the larger package of reforms that have been undertaken in response to the financial crisis. And I will turn it over to Anna Lee Hewko to describe the final rule in more detail.

The stronger capital standards that will be put in place by the final rule are a key part of our regulatory reform program. A hallmark of the reform program is the principle that regulatory measures should increase in stringency for the larger, more systemically important banking organizations as Governor Tarullo mentioned. Today's rule certainly meets the principle of increase stringency since, as Governor Tarullo -- [Inaudible] Many changes have been made to the proposed rule to reduce burden on community banks and many provisions of the rule do not apply to medium-sized banks either.

Other areas of our reform program build on these stronger capital standards and also reflect the principle of increase stringency. I'll briefly mention three of these other areas: Stress testing and capital planning, the capital surcharge for SIFIs, and resolution.

The Federal Reserve stress testing and capital plan rules will incorporate the stronger minimum capital ratios and stronger definition of capital in today's final rule as these changes come into effect. Our supervisory stress testing satisfies the principle of increase stringency because bank holding companies below $50 billion in total assets are not covered at all by our supervisory stress testing or by our capital plan rule, while the very largest bank holding companies are subject to a tougher stress test that includes a global shock to financial markets.

Second, as Governor Tarullo mentioned, we are working on a notice of proposed rulemaking to implement the Basel Committee's SIFI capital surcharge, an amount that were arranged from one to two and a half percent of additional Tier 1 Common Equity for global systematically important banking organizations. The SIFI surcharge will build upon the Basel III framework in today's final rule. Obviously, the SIFI surcharge meets the principle of increasing stringency, since only eight large U.S. bank holding companies are currently on the list of global systematically important banks.

Third, we have made the largest bank holding companies subject to regulatory and supervisory measures that will make them more resolvable in the event of failure. These bank holding companies are beginning to submit resolution plans, or living wills, to the FDIC and Federal Reserve, which will improve their prospects for orderly resolution. In our supervision of these firms, we have designated resolvability as a core expectation of our supervisory program. Again, all of our work on resolution meets the principle of increasing stringency because it only affects large bank holding companies. All elements of this reform program taken together are intended to increase the resilience of the financial system and ensure that the banking sector can support strong and stable growth in the U.S. economy.

Let me now turn the meeting over to Anna Lee Hewko.

ANNA LEE HEWKO. Thank you.

The final rule before the Board today is the result of an extraordinary team effort across divisions here at the Board as well as across the federal banking agencies. It represents a major step in addressing weaknesses in the regulatory capital framework highlighted by the financial crisis. The final rule enhances the agency's capital regulations to help ensure that banking organizations maintain strong capital positions that will enable them to continue lending to credit-worthy borrowers in their communities even in times of financial stress. This will, in turn, improve the overall resilience of the U.S. banking system.

Quantitative analysis by the Basel Committee found that stronger capital requirements would lower the probability of banking crises under associated output losses while having only a modest impact on gross domestic product and lending cost. Moreover, transition provisions would help mitigate these negative impacts.

This morning, I will highlight some of the main provisions of the final rule that would achieve this goal as well as key revisions that were made to the proposal, in large part to address burden concerns raised by community banks. My colleagues, including Connie Horsley, Art Lindo, Ben McDonough, April Snyder, and Skander Van den Heuvel, will help answer questions about the details of the rule following my remarks.

The final rule restructures the agency's current regulatory capital rules into a harmonized comprehensive framework. The rule incorporates requirements consistent with the Basel III capital standards established by the Basel Committee on banking supervision and to a certain provisions of the Dodd-Frank Act, including minimum capital requirements for depository institution holding companies and the requirement that all federal agencies remove references to credit ratings from their regulations. The NPR the Board is considering today reflects refinements to alternative standards of--alternative standards of credit worthiness to credit ratings contained in the final rule.

The agency's final rule applies to all banks, savings associations, bank holding companies that are not subject to the Board's small bank holding company policy statement, and certain savings and loan holding companies. Savings and loan holding companies with substantial insurance activities raise significant concerns about the appropriateness of the proposed regulatory capital framework for their business model.

In order to provide the Board more time to consider issues raised by commenters, the final rule does not apply to savings and loan holding companies with more than 25 percent of their total assets held in regulated insurance underwriting companies. In addition, the final rule does not apply to grandfather unitary savings and loan holding companies that are largely commercial companies until such time as the Board promulgates a rule governing the establishment of intermediate holding companies pursuant to Section 626 of the Dodd-Frank Act.

The final rule increases the quantity and quality of regulatory capital for all subject banking organizations by establishing, among other standards, a new minimum Common Equity Tier 1 Capital ratio, a higher Tier 1 minimum capital ratio, and a stricter set of eligibility for regulatory capital instruments. Most banking organizations already meet the higher capital standards and the rule will help preserve the benefits of banking organizations' stronger capital accumulated since the financial crisis. The final rule also revises the prompt corrected action framework for insured depository institutions to incorporate the revised capital standards.

The final rule establishes limitations on capital distributions and certain discretionary bonus payments if the banking organization does not hold sufficient amounts of Common Equity Tier 1 Capital in addition to the minimum risk-based capital requirements. This capital conservation buffer is designed to provide incentives for banking organizations to conserve capital during benign economic periods, so that they are prepared to withstand severe stress events and still remain above the minimum capital levels. The final rule emphasizes Common Equity Tier 1 Capital because it is the highest quality, most loss-absorbing form of capital.

The final rule also revises the agency's rules for calculating risk-weighted assets by introducing a standardized approach that addresses weaknesses identified over recent years and enhances risk sensitivity.

It is important to note that certain provisions of the final rule apply only to large internationally active banking organizations consistent with their risk profile, complexity, and level of sophistication. The final rule layers on a number of macroprudential features for these firms. For example, they are subject to a countercyclical capital buffer that allows regulators to increase the capital conservation buffer and, thus, less absorption capacity in the system in times of excessive credit growth. In addition, these firms are subject to additional counterparty credit risk capital requirements as well as an additional leverage requirement that takes into account off-balance sheet exposures. Moreover, internationally active firms must calculate their risk-based capital ratios under both the standardized and the advanced approaches, and use the more conservative ratios when determining compliance with both the minimum capital requirements and the capital conservation buffer.

As noted, the final rule establishes a robust and comprehensive capital requirement or framework for banking organizations of all sizes. At the same time, in response to public comment, it reduces complexity and regulatory burden for non-internationally active banking organizations relative to the proposal. Since the comment period closed at the end of October, Board staff has reviewed over 2,600 comment letters. While most commenters supported a more robust capital standards, many commenters expressed concern regarding the burden imposed by the proposal, and a number of smaller banking organizations and savings and loan holding companies with substantial insurance activities requested exemption from the proposals.

As Governor Duke highlighted, the most notable concerns raised by commenters relate to the proposed treatment of accumulated other comprehensive income or AOCI, the proposed risk weights for residential mortgages, the regulatory capital treatment of trust-preferred securities that currently count as Tier 1 capital, and the timeline for compliance with the requirements.

Under our current capital rules, most components of AOCI, for example, unrealized gains and losses unavailable through sales debt securities, are not included in regulatory capital. The proposed rule would have required institutions to include most AOCI components in their Common Equity Tier 1 Capital. Many commenters asserted that this aspect of the proposal would cause significant volatility in capital ratios, due in large part to fluctuations and benchmark interest rates leading to difficulties particularly for smaller banking organizations and their capital planning and ability to manage and hedge interest risk.

Recognizing that the tools used by larger, more complex banking organizations for managing interest rate risk are not readily available for all banking organizations, the final rule addresses these concerns by allowing non-internationally active banking organizations a one-time option to continue excluding most AOCI components from regulatory capital.

Most commenters raised concerns about the proposed treatment of residential mortgages. The proposal would have introduced a more granular risk-weighting framework for residential mortgages by dividing exposures into two categories based on their underwriting and product characteristics and then assigning risk weights based on loan-to-value ratios. Commenters indicated that the proposed treatment would inhibit lending to credit-worthy borrowers and could jeopardize recovery of a still fragile housing market. They highlighted concerns regarding compliance burden and asserted that the proposed risk weights were not appropriate for certain products.

Commenters also noted that the potential cumulative burden and impact on the mortgage industry when considering regulatory initiatives related to other aspects of the Dodd-Frank Act such as the qualified mortgage and qualified--qualifying residential mortgage standards. In view of all of these comments, the final rule contains the current treatment for residential mortgages.

Another significant change from the proposal is related to the treatment of trust-preferred securities and other capital instruments that will no longer meet the criteria for Tier 1 capital under the final rule. The proposal would have required all banking organizations to phase out such non-qualifying capital instruments from Tier 1 capital over a transition period. Many commenters encouraged the agencies to grandfather non-qualifying capital instruments for banking organizations with less than $15 billion in total assets, asserting that their exclusion would unduly burden these banking organizations and potentially impair their lending capacity.

In light of the smallest firms' limited access to capital markets, the final rule allows banking organizations with less than $15 billion in total assets to grandfather trust-preferred securities and other than non-qualifying capital instruments in Tier 1 capital subject to limits consistent with our current rules. Larger banking organizations would be subject to the proposed phaseout consistent with Dodd-Frank Act requirements.

Turning to the timing for banking organizations to come into compliance with the final rules, a number of smaller banking organizations and savings and loan holding companies requested more time to comply with the requirements of the final rule. In response, the final rule requires large internationally active banking organizations to comply with the final rule including its transition provisions beginning in January 2014. Other banking organizations, including all savings and loan holding companies subject to the rule, would have until January 2015 to begin compliance. This simplifies transition provisions for smaller banking organizations and allows them more time to meet--make the requisite systems changes and, if necessary, retain earnings to meet the new regulatory capital thresholds.

Staff's June 2012 analysis of the proposal indicated that the overwhelming majority of banking organizations already had sufficient capital to comply with the proposed rule. Our updated analysis for the final rule indicates that an even greater number of banking organizations would meet the new requirements if they were imposed without transitions today. More than 95 percent of bank holding companies with assets under $10 billion that meet our current regulatory capital requirements would meet the four and a half percent minimum Comment Equity Tier 1 ratio and nearly 90 percent would meet the seven percent common equity plus buffer level.

The aggregate shortfall for institutions not meeting the seven percent buffer is about $2 billion. This shortfall has decreased by $1.5 billion since our analysis of the proposal, which we attribute to increases and retained earnings as well as modifications from the proposal I've described.

All larger bank holding companies that meet our current regulatory capital requirements meet the minimum Common Equity Tier 1 ratio, and almost 95 percent meet the minimum plus buffer with an aggregate shortfall of approximately $2.5 billion.

In closing, the final rule improves the quality, increases the level of regulatory capital across banking organizations of all sizes and risk profiles, leading to a more stable and resilient banking system. The final rule meaningfully addresses commenters' concerns regarding potential implementation burden of the proposal, yet maintains progress towards the Board's goal of a more robust U.S. banking system. This concludes my prepared remarks and my colleagues', and I would be pleased to answer your questions.

CHAIRMAN BEN S. BERNANKE. Thank you very much. Thank you for the presentation. Thank you again for all your hard work.

For the Board, we technically have two votes. One is on the capital proposal; the second is on amendments to the market risk capital rule. What I proposed, though, is we have a single round of questioning by the governors followed by positions and the two votes. So let me begin the question.

One of the criticisms and one of the difficult issues related to Basel III, particularly the advanced approaches, is the idea that banks, in some sense, calculate their own risk weights using internal models. Some people have called that the banks grading their own exams. This is related also to the issue of comparability across countries, the question of whether or not banks in different countries are assigning approximately comparable risk weights to similar assets.

Can you comment on the protections, validations, what we do to ensure that the risk weights being assigned by advanced approaches banks are in fact reasonable, and how does this relate in particular also to our stress testing and what we've learned from that process?

ANNA LEE HEWKO. So, what we do to--for risk weights for the advanced approaches, the Federal Reserve System has implemented a Basel Coordination Committee that is used to basically vet in comparing established standards for exiting banks from parallel run. There's a supervisory requirement that banks have to meet the standards in the Basel II or the advanced approaches rule in order to exit parallel run and use their model capital requirements as part of their minimum capital requirements. To date, no banking organization has received that approval to exit parallel run, but we've taken a number of steps to make sure they're well on their way towards achieving that point. Some of the exercises include having specialized teams of examiners that go around to advanced approaches organizations and are able to take a consistent approach across banks and understand what they're doing, kind of what the best practices are and what the outlier practices are, and use the supervisory process to help move them to where we think they need to be. Looking at banks, validation of models is a very important component of the final rule as well as we--the Fed has and the OCC have issued guidance on model validation that we use as part of our examination and determination whether banks are getting ready to exit parallel run. There is in the United States as part of the Collins Amendment a standardized floor for risk-weighted assets. So whether there may be some variability and there will be some variability in the modeled risk-weighted assets by design, banking organizations under our current rules and under the new final rule, once they've exited parallel run, would have to calculate two sets of risk-based capital requirements, one using the advanced approaches, one using the standardized approach. And they are bound for both their minimum capital purposes and determining where they are in the capital conservation buffer based on the lower or the more conservative of those two measures. So that provides some baseline level of comparability.

MICHAEL GIBSON. So I would just add, within the Basel Committee, we've been spending a lot of time recently focusing on the point you make about comparability of risk-weighted assets across the banks or lack thereof. The Basel Committee published a paper that reported on a horizontal exercise that was done across bank's trading book capital models and there's a paper forthcoming looking at banking book capital models for credit risk capital requirements. And both of those papers found a lot of variability of risk-weighted asset calculations as of other analysis by industry analysts. So, the Basel Committee is definitely focused on the issue of how to address concerns. And as Anna Lee mentioned, you know, in the US, we have a capital floor thanks to the Collins Amendment and we've also been putting banks through a very stringent model approval process. Other countries have done different things. Some countries have imposed floors in different areas or imposed high risk weights on certain portfolios where they've observed models giving results that they don't have confidence in. So there's been a range of different approaches by different countries. But it's definitely an issue that we're paying a lot of attention to and working on.

CHAIRMAN BEN S. BERNANKE. Thanks very much. Vice Chair Yellen, can you hear us?

VICE CHAIR JANET L. YELLEN. Yes, thank you very much. I just have one question I want to ask. The proposed rule that we put out a year ago suggested raising the risk weights on both high loan-to-value ratio residential loans and also high volatility CRE loans. As Governor Duke mentioned, the final proposal has kept the proposed higher weight on CRE loans but has abandoned the proposed higher weight on high LTV residential loans. My understanding is that community banks expressed concern about both proposals. And I wonder if you would explain to me why it was decided to alter proposal in one area but essentially leave it alone in another--the other.

So with respect to high volatility commercial real estate--

CHAIRMAN BEN S. BERNANKE. You had to come--

I'm sorry, go ahead.

Didn't hear you.

Go ahead.

APRIL SNYDER. With respect to high volatility commercial real estate loans as Governor Duke mentioned, these are loans that have been associated with higher risk--much higher risk both in the recent crisis and in past financial crisis. And staff would recommend the higher risk weight to reflect that fact. However, in response to comments, we did make some changes to the definition of high volatile commercial real estate loans to clarify that they would only apply to a subset of acquisition development and construction loans. Those ADC loans actually are safer because they have a lot of borrower equity commitment and lower LTV, actually would not be subject to the higher risk weight. Also, we clarify--we suggest to clarify in that definition that agricultural loans would not be covered and that certain community development loans would not be covered in response to comments. So we actually did make some changes there in response to comments that were particularly targeting the concerns that were raised.

With respect to residential mortgages, we think there are some advantages to going with the current risk weights at least for now, for several reasons raised by commenters. One is, as mentioned before, a lot of commenters were concerned about the burden of calculating the LTV ratios, as well as differentiating mortgages based on product categories. And keeping the current treatment at this time would not place additional burdens on smaller banks in particular. The other aspect of comments that come which was really focused on was that the proposed--the proposed risk weights could interact with other residential mortgage-related regulations that are either coming into effect or that will be coming into effect and exactly how that regulatory landscape will affect the mortgage market at this time may not be known and then it would be prudent to wait and see how those recommendations all affect each other and affect mortgage lending before adding additional regulations. So not changing the risk weights at this time, we'll give the agencies and the Board--including the Board time to see how all the regulations interact with each other and affect mortgage lending prior to adjusting risk weights. That does mean that there's less risk sensitivity as compared to the proposal in assigning risk weights to mortgage but the agencies always have the opportunity in the future if it--if they deem appropriate to change the risk weights. And so that's for the major reasons for the differences in approach.

VICE CHAIR JANET L. YELLEN. Thanks very much.

CHAIRMAN BEN S. BERNANKE. OK. I'll turn to Governor Duke.

GOVERNOR ELIZABETH A. DUKE. Thanks Mr. Chairman. Actually, I have two questions. The first one, I've talked a lot about the comments that we got from community banks but we also heard from savings and loan holding companies, particularly things about the exemption for--we have an exemption for small bank holding companies but not an exemption for small SLHCs. We heard a lot from insurance companies which is just a different model from the banking model and then there are number of SLHCs whose activities are predominantly non-financial in nature. So if you could talk just briefly about how we address those comments for those institutions?

CONNIE HORSLEY. So with respect to those smaller savings and loan-holding companies in the Dodd-Frank Act, there's a provision that provides an exemption from the consolidated capital requirements for small bank-holding companies, generally those with 500 million dollars or less in total assets that are subject to the Board's small bank holding company policy statement. There's not a similar provision in the act for small savings loan and holding companies so we don't feel that we have the latitude to provide an exemption for those firms. As Anna Lee mentioned in her remarks, we are providing a temporary exemption from the rules for insurance savings and loan holding companies. Part of the--the comments that they raise on the proposal or was that the requirements are very bank-centric, they don't take into account the business model, particularly, the asset liability matching practices of insurance companies. They also raised concerns about--for certain firms, that only prepare their financial statements according to statutory accounting principles in that gap but there was a burden of concern there. They also raised concerns about the interactions of the consolidated capital requirements that we have proposed and how that interacts with the state regulatory--the regulatory requirement required by the state insurance regulator. So we thought that it was appropriate to take a bit more time to look at what adjustments, if any, should be made to address some sort of specific insurance company business model concerns with respect to the commercial savings loan holding companies. Given the activities that they're primarily engaged in, we thought it would be worthwhile to wait until the board proposes some kind of a regime for intermediate holding companies largely to allow that regime to come into play until we establish consolidated capital requirements for those firms so we don't have sort of things moving out of locks that was one another. So you would put into place the intermediate holding company framework first and then apply the requirements after that.

GOVERNOR ELIZABETH A. DUKE. Thank you. And then the second question. We've talked a lot about the parts of the Basel agreement that are included in this rule. But could you tell me what are the main differences if any between what was agreed to in Basel and the United States final rule and also how do we differ from the implementation in Europe?

ANNA LEE HEWKO. I'll take the first part of your question and turn to Mike to address the second part. The primary difference in the US implementation is that the Basel Accord uses credit ratings to risk weight certain exposures and in United States, we're not able to do that, do the Dodd-Frank Act. So we have proposed and are asking to finalize alternative standards to creditworthiness that don't involve credit ratings in the final rule.

There are a couple areas where the final rule is super equivalent or most astringent than Basel and two, that I would highlight are one is in the phase out of non-qualifying capital instruments. Again, this has a statutory aspect we're required do phase out certain instruments over a three-year period whereas Basel Accord would allow much lengthier time periods so we're doing, as required by statute, the shorter phase out period. And that the third and I might highlight is for Tier 1 capital instruments. The final rule requires that they be gap equity whereas the Accord is more flexible and certain debt instruments could potentially qualify as Tier 1 capital under the Accords, over a little tighter on that thing.

MICHAEL GIBSON. So with respect to Basel III rules in Europe and other jurisdictions, with the US now finalizing our Basel III rule, Europe just finalized their final text within last week or two that will nearly complete the Basel III implementation in the rule-making sense across the major Basel committee member countries because other jurisdictions such as Switzerland and Japan have already implemented their rules. Both are and the European Basel III rules will take effect for the largest internationally active firms on January 1st, 2014, so we'll both be moving to get started with the phase-in periods of Basel III. There's a couple areas where the European final rules don't appear to be exactly in line with the Basel standards. A couple that we've heard about from commenters are treatment of credit risk on OTC derivatives and treatment risk weights on sovereign debt. The Basel committee has a process now that involves regulatory capital--regulatory comparability assessment across countries. So both the US and European Union will be going through that process now that our final rules are headed to be final. So we'll look forward to seeing what the Basel committee reviews says, both by our final rules and the European rules and some of the other countries that I mentioned have already gone through this process. So eventually, every Basel committee jurisdiction will be reviewed for the comparability of their rules against the Basel standard.

GOVERNOR ELIZABETH A. DUKE. Thank you.

CHAIRMAN BEN S. BERNANKE. Governor Tarullo?

GOVERNOR DANIEL K. TARULLO. Thank you Mr. Chairman. I just want to follow up a moment on the Vice Chair's question and April's answer to it, particularly with respect to the residential mortgages. So as you explained, the final rule is not making any change in current residential mortgage risk weights. But is this the scenario in which the complementarity of our capital measures is actually going to make a difference at least for stress test banks? Well the adverse scenario and the portfolio specific stress testing that we require mean that in fact they'll be a higher capital expectation with respect to higher risk mortgages for those 50 billion dollar and above banks?

MICHAEL GIBSON. Yeah. The stress testing of residential mortgage exposures is very risk sensitive and does it--they gather a lot of data on the loan level that will capture things like loan-to-value and other characteristics of the mortgages, then it will be a risk-sensitive calculation. So you're right that we're giving up a little risk sensitivity in the changes we're making to the final rule but at least for the large bank-holding companies, we retain a lot or risk sensitivity through the supervisory stress testing.

GOVERNOR DANIEL K. TARULLO. Thank you.

CHAIRMAN BEN S. BERNANKE. Governor Raskin?

GOVENOR SARAH BLOOM RASKIN. Thank you Mr. Chairman. And I, too, would like to commend the Board staff for its intensive work on this final regulatory capital rule. I'd also like to thank the FDIC and the OCC for their efforts and participation in what has been a long and challenging process. I'm pleased to say that I think the interagency efforts have culminated in a set of decisions which are now reflected in this final rule. This final rule appears to me to be an improvement over the proposed final rule and reflects many of the comments that were provided during the public comment period since the time the proposed rule was issued.

Well while I applaud the work reflected in these final capital rules, we shouldn't pretend that these capital rules are a panacea to the development and mitigation of all financial crises. Capital is a very important indicator of a bank's ability to turn to its shareholders and creditors for significant losses before bank losses implicate the insurance fund or taxpayer resources. Capital is one measure of a bank's resilience to losses, to the value of financial assets. But as was experienced during the financial crises capital can be quickly eroded, and risk weights are imperfect. A bank can quickly descend into a failing mode. Before capital is eroded, before capital plans are triggered, and before orderly liquidation authority is implicated, supervisory safeguards play an early and necessary role in slowing a bank's descent into failure. Such supervisory safeguards are meant to assure that banks are able to identify and correct their own emerging risks through good governance and appropriate risk management. Capital requirements don't compensate for good governance and appropriate risks management. And as we know, the Federal Reserve and the prudential banking regulators don't regulate the entire financial system. These regulatory capital rules do not apply to the entire financial system. This is all to say that strong levels of capital are necessary but are not sufficient as a feature of an overall regime of prudential supervision.

So my questions to you this morning are all really about how these final capital rules have been tailored to fit within the broader framework of prudential supervision. An optimal framework of prudential supervision must have requirements that are first of all capable of being understood by the banks, who have to comply with them. By the examiners, who have to examine for them, and by the public which ultimately must trust them. Balance against these features is the simultaneous need to not unduly constrain a bank's ability to engage in financial intermediation, particularly, in communities that are distressed and credit-starved, or in communities with weak competitive alternatives. So my first question is, you know, it looks as if the complexities of the proposed capital rules have been reduced for community banks as compared to what was proposed. So I'd like to hear you explain whether it would be possible for banks to implement these rules without requiring them to engage in time-consuming extra research.

ANNA LEE HEWKO. So yes, I think we as Governor Duke mentioned, we are engaging in several different means of outreach to help particularly community banks understand the rules and what is changing for them. We were putting out today a one-page guide that--that really fits the basics for the most standard community banks that don't engage in foreign transactions, securitizations, more exotic exposures. On one page, what are the most important changes? I would then anticipate going forward some other outreach documents like that, that are a little more detailed that again, help how the bank understand what is changing. We're going to be proposing regulatory reports for the capital rules and that's what many banks used to kind of walk through the steps and the calculations and so, those will be becoming out for public comments soon as well. And in addition, we're going to be doing outreach to our examiners, and anti-banking organizations again with the educational focus as well as standing ready to answer their questions.

GOVERNOR SARAH BLOOM RASKIN. Great. Well, examiners themselves they're going to have to be able to first check the capital calculations of the banks. And then the examiners are going to have to figure out what lies behind the ratios that resulted from the capital calculations and then determine what condition the bank maybe in by virtue of the ratios. So the ratios might bear really no resemblance to what appears to be occurring in the bank or the ratios could be masking emerging problems. And the examiners are going to need to understand what the emerging problems might be.

In short, examiners need to be able to synthesize the capital calculations into their determinations of safety and soundness and financial stability. For this reason, bank examiners have to figure out how to pierce the complexity that is more suited to economist and modelers. However, much risk weights and capital ratios can add the information that they yield will never be perfect. And as precise as these capital weights become, examiners will still have to make decisions with limited certainty about the outcomes.

At the end of the day, there will still be rouge traders, there will still be viruses that infect software. There will still be sad to say, sloppy bank management practices. So my questions are about this, or these. How do we ensure that the final capital framework preserves the ability for examiners to make these determinations? In particular, does the final rule abandoned protocols for using prompt corrective action, if not? What efforts were made to align the prompt corrective action designations with the capital requirements and clarify that the implications associated with the various PCA thresholds need to address?

ANNA LEE HEWKO. OK. Here so, I'll answer your question in two parts. First, that the changes to that the prompt corrective action framework have been made to align the framework with the new minimum capital thresholds. And so, the penalties as a bank moves through the PCA capital categories remain the same. But the thresholds for what constitute say, a well-capitalized versus an adequately-capitalized and less than that, banking organization have been raised so that the triggers come earlier. And there hasn't been a change to the ability to designate a bank less than well capitalize based on supervisory evaluation.

I think the factors you described are very consistent with how bank examiners think about capital and with the way it's rated for supervisory purposes, both at the holding company and the depository institution level. Their regulatory capital ratios are one aspect, but I'd say that's probably not even the most important aspect, once you determine a bank actually meets the minimums than there are a series of other things that examiners consider, what is the risk profile with the bank on more qualitative basis or using additional information? What are its asset quality trends? What is, what kinds of concentrations and other exposures does it have, and how did those factors feature into evaluating its capital adequacy?

For the larger bank holding companies and banks, we also have the additional tool stress testing which again provides another piece of information to think about beyond the regulatory capital minimums. What is the overall capital adequacy of the bank and how might that evolve over a stressful period? And one thing I'd also highlight is consistent with our current capital rules, there is a provision in the rule that requires a bank to do its own analysis of how much capital does it need regardless of the regulatory ratios. You know, what are its risks ad how does it make sure that it has enough capital to continue as an ongoing concern in this financial intermediary?

GOVERNOR SARAH BLOOM RASKIN. Thank you. I just wanted now to just turn to the public trust. Now managers of some large financial institutions know how to hide lost exposures that passed through to the safety net by transacting in ever more complicated and opaque financial instruments. You know, if a regulatory system tolerates methods of arbitraging away the weights of capital requirements then such a system itself will encourage, I would argue, an underpricing of risk. We learned from the financial crisis that this underpricing of risk punished investors who accepted more risk than they thought they had bargained for, it punished borrowers who were over leveraged, and it hurt citizens who lost their jobs and their homes. So as regulators, we have a duty to see that the risks can be fully understood and fairly priced.

I'd like to see regulators across the entire financial system including those that regulate money market funds, exchanges, and derivative clearing organizations to make more transparent the risks that they imposed not only on investors, creditors and counterparties but also those that passed through to the public. So in this regard, I note that the draft final rule includes qualitative and quantitative disclosure requirements for banking organizations. With 50-billion dollars or more in total consolidated assets for those that are not subject to the advanced approaches, disclosure requirements. And then there are the advanced approaches banks which are required to increase the amount of publicly-available information about their banks. So can you describe these disclosure requirements in a little more detail?

ANNA LEE HEWKO. Sure. As you mentioned that they have both qualitative and quantitative aspects, and they go through basic, different categories of exposures, the credit book, any equity exposures, trading exposures, securitization exposures. And they ask banks both to describe their risk profile and their risk characteristics as well as their policies for taking on risk and managing that risk. And these disclosure requirements can be met in a number of different ways, since U.S. banking organizations are subject to pretty extensive disclosure regime through the SEC and our regulatory reports and the way the disclosure regime is set up is a bank can point to and draw together all of the disclosures it makes to meet various requirements and bring them together to the extent they're relevant to meet the disclosure requirements in the rule. And then I would expect particularly for some of the more qualitative things, there would be new disclosure requirements for the bank to be explaining to the public, its--its risk profile, and its view of itself.

MICHAEL GIBSON. I would just add that the largest banking organizations are the ones where the disclosure issues are really the most pressing because of the complexity and the size of those institutions. And we've been working internationally to improve disclosure expectations for those companies. So the Financial Stability Board had a project, a task force called the Enhanced Disclosure Task Force, that came out with recommendations on enhanced disclosures, which include things like tracking how risk-weighted assets are changing from one reporting period to the next. And giving some more granular breakdown about how risk-weighted asset calculations are done across the different asset classes within the companies. So we've urged U.S. banking organizations to look at those disclosure recommendations. And there will be an international process of following up to see how different banking organizations are improving their disclosures. And we anticipate that we ought to be able to sustain some of this momentum to have some meaningful improvements in disclosure over the next couple of years.

GOVERNOR SARAH BLOOM RASKIN. O.K, one final question which--just want it raised--having to do with the fact that I think prudential supervision also needs to preserve prudent lending particularly in our--in our nation's most distressed and credit-starved communities and in communities where there are weak competitive alternatives. We want to ensure that there is--there is not an unnecessary reduction in credit and economic activity among people and places that have historically had tenuous access to mainstream financial services. Now I noticed in the proposal in April you raised this as well that that acquisition development and construction loans are given a heavy risk weight, but that certain ADC lending that is done in pursuit of community development is excluded. So my question is: Was that-- what was the rationale for that exclusion? I'm--I'm thinking that this is for the institutions that are community development financial institutions--that those institutions should be able to continue to engage in community development lending under--under that exclusion. Is that--was that the intent?

APRIL SNYDER. So the actual community development loans that are excluded from that definition, I believe, are community development loans that also get other preferential treatment under either regulations and under the National Banking Act. So the rationale was just to line up regulatory treatment for those type of loans across the rules including the cabinet rules.

GOVERNOR SARAH BLOOM RASKIN. Thank you.

CHAIRMAN BEN S. BERNANKE. Thank you. Governor Stein.

GOVERNOR JEREMY C. STEIN. Chairman. Can you hear me OK?

CHAIRMAN BEN S. BERNANKE. Yes, we can.

GOVERNOR JEREMY C. STEIN. So let me--let me start by just adding my thanks to the many staff who put so much thought, care, and effort into bringing this rule to completion. Your work has made a really significant contribution to strengthening the financial system. For all the complexities of the rule itself and the financial regulation more generally, there’s really a very simple idea at the heart of it: that more capital and higher quality capital, common equity in particular, is perhaps the single best tool we have to insulate for the taxpayers and the broader economy from shocks to the financial intermediaries. There are a lot of moving parts to the rule, and I'm sure each of us can think of specific things we might have done differently. But the very substantial increase in common equity that entails for the banking system represents truly a major step forward. So again thanks--thanks to all of you.

I have just--just one specific question, and it relates to something that Governor Duke and others have alluded to, which is the treatment of accumulated other comprehensive income, or AOCI. So, as has been mentioned, the prior draft version of the rule removed the so-called AOCI filter that prevents gains and losses on available, for-sale AFS securities from flowing through to regulatory capital. You know this removal of the filter would have resulted in--in this AFS gains and losses hitting regulatory capital. Now in the final version of the rule, there's a provision that allows the smaller, non-advanced approaches banks to opt out and to retain the filter that is to say to keep their capital ratios insulated from AFS gains and losses. So I think I understand the logic behind the provision, particularly if it bears on interest rate risk. Banks face interest rate risk or duration risk on both sides of their balance sheet. When--when rates rise, it reduces the value of the securities holdings that they have on the asset side. But of course at the same time, it increases the value of stabled--of a stable deposit franchise on the liability side. So if you were to flow through gains--securities gains and losses to capital, but you were to ignore changes in the value of the liability side, you'd arguably be painting a misleading picture, and you would introduce what would be essentially spurious volatility into measures of regulatory capital. So that's as I understand as motivation for offering will lead especially to smaller banks for whom this sort of capital volatility would be particularly burdensome. So again I think all of that makes sense. And I--I think I understand the logic.

The question I have is, however, if we leave this AOCI filter in place, we're left in a situation where there's really no regulatory capital device in place that attempts to capture interest rate risk. And as we’ve seen now the last few weeks are sort of a good reminder of the fact that interest rates can move around sometimes pretty sharply. So the question I have is: What other mechanisms aside from capital regulation, presumably either on the supervisory or on the stress testing side, do we have or can we use to reassure ourselves that banks are not getting themselves overly exposed to interest rate risk?

ARTHUR LINDO. I'll take it. You pointed out wisely that the--or accurately that the mixed attribute accounting model--we don't have a full fair value balance sheet; therefore, we don't calculate changes in interest rate as they affect the deposit side. So you're accurate in your assessment there. The overall comment though about capital not capturing or measuring interest rate risk changes is--is only partially correct in that we don't have a standardized way of doing it. But our rules as far back as 15 years ago actually contemplate that that should be measured in the assessment of a bank's capital adequacy. So for some time we've had some emphasis on that.

But more recently around 2010, we, because of the low interest rate environment--we being the financial regulatory agencies--issued an interest rate advisory to tell firms what our expectations were in this very realm, namely how they should be adjusting and managing in the relatively low interest rate risk environment with the understanding that rates would rise. It's important in the future, and we wanted our firms to not be caught off-guard. So we issued that guidance in 2010 outlining some of the basic expectations we have around changes in interest rates and how they could affect the organization's capital, its income projections, as well as things like its internal controls and corporate governance around that. In 2010, that was received relatively well but as always there are questions that result when we issue our guidance. And so in 2012, we put out a series FAQs to address what were the principle concerns raised by banking organizations in this area. And in that guidance, we went into a bit more detail on the use of internal models to adjust interest rate risk management, the appropriate methodologies that one should consider in assessing the impact on capital, as well as some of the basic things around the assumptions, namely around net interest use and net interest margin projections, as well as multiples and the like of net interest income.

So, from the overall standpoint what we are advising firms and have instructed our supervisory staff to do is to continue to be vigilant in their pursuit of interest rate risk management, but not come up with these quantitative adjustments as much. We are incorporating in our queue--we have incorporated in our Q&As, excuse me, some basic assumptions around the way of stress testing or scenario analysis. The typical plus or minus 300 basis point shock in rates, what would that do to your portfolio? So I believe we have the basis for which we can move forward on this. And I think our firms are integrating that into their risk management practices. It just remains as a task for us as supervisors to be vigilant as rates increase or change in this environment, to follow up with firms as they implement appropriate changes to their strategies so we don't invariably fall behind. But the idea that interest rate risk management has been dormant or not given as much attention actually on this one I think we're a little bit ahead of the curve in anticipating some of that. So our guidance in my opinion does address some of the concerns that you're highlighting.

GOVERNOR JEREMY C. STEIN. Great, thank you. Thank you very much

CHAIRMAN BEN S. BERNANKE. OK, thank you. Governor Powell.

GOVERNOR JEROME H. POWELL. Thank you Mr. Chairman. I start by joining others in complementing the staff on bringing this forward for a final consideration. I have witnessed the process of careful consideration of comments and--and lots of thought, very thoughtful approach to the whole project. And I would say that the final product seems to me to be an improved balance between implementing models through improving and raising capital standards, but doing so in a way that avoids unnecessary regulatory burden, and I applaud that. In particular, it seems to me, this time, the process of reviewing comments and reacting to public thought has resulted in a better balance for smaller institutions that have less capital access and different business models, and we've appropriately reflected their concerns in the final product. An area in which we've received a good deal of comment but have gone ahead, I believe, as proposed is mortgage servicing assets. And I guess I would ask one question, Mr. Chairman, which is: For mortgage servicing assets, could you comment on the questions that we had and the comments and concerns that were expressed in our own analysis of them and our decision to proceed?

CONNIE HORSLEY. So on the mortgage servicing asset under the proposal and under the final rule, we are maintaining the deductions of this asset from capital. I think the rationale behind it is basically similar to in our current rules we have limitations on how much mortgage servicing assets can be included in capital. And because of the intangible nature of these assets, there is concern over the ability for a bank to realize the value of these, and particularly in times of stress. So we did preserve the proposal, and we do still have strict limitations on the inclusion of mortgage servicing assets in the final rule. The idea though is that firms will have a fair--fairer transition period to--in which to adjust for this. There a handful of firms that would have concentrations in this, and they will likely have to adjust their business models to address it. But the overall thought is that there is difficulty in sort of realizing the value of these.

CHAIRMAN BEN S. BERNANKE. O.K., thank you very much. What I like to do now is ask for positions. We do have two issues. One is the broad capital proposal. The other is the technical amendments to the market risk capital rule. And after we hear positions, we'll take two votes. Let me start. Vice Chair, are you--can you hear us?

VICE CHAIR JANET L. YELLEN. Yes, can you hear me?

CHAIRMAN BEN S. BERNANKE. Yes.

VICE CHAIR JANET L. YELLEN. Yeah, thank you. I support approval of the proposed final rule on regulatory capital standards and also the notice of proposed rulemaking on market risk. I want to join others in thanking the staff, Governor Tarullo, and the Committee on Banking Supervision for bringing this very important joint rulemaking to fruition. Putting in place the U.S. regulations to implement Basel III is a major accomplishment. And I saw that with the thousands of comments on the proposed rule, I understand certainly the community banks around the country made clear they were concerned about complexity, regulatory burden, and the potential impact on the cost and availability of credit resulting from some of the proposed changes. I think the rules that we're looking at today shows appropriate sensitivity to these concerns. Most important, this proposal raises the quantity and quality of capital that will be required of banking organizations, large and small, and create the capital conservation buffer so that supervisors can act to restrict capital depleting distributions by firms undergoing stress before capital levels have declined toward minimum levels. Of course, as Governor Tarullo noted in his opening remarks, there does remain an agenda of work to ensure the safety, soundness, and resolvability of the largest financial institutions. The crisis showed the need for robust capital requirements to improve the safety and soundness of the financial system, and these rules contribute importantly to this goal. For the last several years, banking organizations have told us that uncertainty about the rules of the road that would govern their businesses has inhibited their planning and lending. And I hope that the publication of this rule will serve to mitigate this uncertainty.

CHAIRMAN BEN S. BERNANKE. Thank you. Governor Duke.

GOVERNOR ELIZABETH A. DUKE. Thank you, Mr. Chairman. I support approval of both of the items on our agenda. I believe in strengthening capital requirements, including the addition on of a capital equity requirement, is an important element of a stable, resilient financial system. The capital conservation buffer with its graduated limits on capital payouts is a prudent safeguard for banks approaching regulatory minimums. The standardized approach and advanced approach included in this rule will combine with our annual CCAR exercise and the additional prudential requirements for systematically important institutions mandated by the Dodd-Frank Act to create a multidimensional approach to assessing the capital adequacy of our largest institutions. At the same time, as I discussed in my opening remarks, I think this capital rule will prove to be quite workable for maintaining the capital strength of community banks without unnecessary operational complexity or capital volatility. The time we took to review the comments we received and assess potential changes to the proposal--it would be responsive to the concerns that were raised--resulted in a rule that is much improved from the one that was proposed. Now it is time to provide clarity so that financial institutions can confidently proceed with their capital plans and business strategies. As I read through the lengthy Federal Register notice, I realized that it's all too easy to discount the countless hours of hard work that it took to reach this final outcome. And so, I want to again recognize the staff work that went into achieving such a balanced result. I would also like to thank Governor Tarullo for his leadership in this effort. Since the very first day he walked through those doors and joined this Board, he has been relentlessly determined to create a strong capital regime with appropriate incentives for responsible risk management and sturdy safeguards against regulatory arbitrage. Getting to this point has required him to spend endless hours of lively discussion and negotiation with his counterparts in the international community, with other regulators here in the U.S., within this Board, and I will admit, occasionally, with me. But the product of all these negotiations is a strong, balanced capital rule that will promote resilience in our financial system for decades to come, and it's a rule that I'm proud to support. Thank you, Mr. Chairman.

CHAIRMAN BEN S. BERNANKE. Thank you. Governor Tarullo.

GOVERNOR DANIEL K. TARULLO. Thank you, Mr. Chairman. I'd just say that among the more productive hours I spent in this pursuit were the ones in Governor Duke's office. I support both of these--both of the rules. Thank you.

CHAIRMAN BEN S. BERNANKE. Thank you. Governor Raskin.

GOVERNOR SARAH BLOOM RASKIN. Thank you, Mr. Chairman. I too want to voice my support for both rules. I'm pleased to have them forward. I want to again commend the staff for their tireless work in bringing this to fruition as well as the--as well as the work of Governor Tarullo in the bank--in the Committee on Bank Supervision. Thank you.

CHAIRMAN BEN S. BERNANKE. Thank you. Governor Stein.

GOVERNOR JEREMY C. STEIN. Yeah, thank you, Mr. Chairman. I support both items. I just wanted to add my thanks once again not only to the staff, but to Governor Tarullo who's really been just a force of vision and implementation on all of this. So again, just to offer my support. Thank you.

CHAIRMAN BEN S. BERNANKE. Governor Powell.

GOVERNOR JEROME H. POWELL. Thank you, Mr. Chairman. I support both items. Thank you again to staff and to Governor Tarullo, thank you.

CHAIRMAN BEN S. BERNANKE. Thank you. I support both items. I think these are very important steps towards making our banks safer through a more and higher quality capital. Again, I would like to thank the staff for their hard work. I thank Governor Tarullo as well. But I think this really was a Board effort. We had a lot of participation by Board members in various aspects of this rulemaking, and I think it shows in the final product. This will represent an important international commitment that we are fulfilling, which will trigger international monitoring and comparisons of the different regimes, which I think will strengthen the global financial system. At the same time, we have been, I think, responsive to domestic concerns including concerns of small banks and that was a delicate balance that we have, I think, managed recently well here. This is, as Governor Tarullo initially pointed out, this is really the beginning or the framework in which more will be done to strengthen our largest and most internationally active banks, including looking at the leverage ratio, capital surcharges, senior debt in holding companies, liquidity, our stress test, so many different components which together will work together to ensure stronger banks. I guess my final comment is that it's very good to have rules out there in black and white, but ultimately, the implementation by the banks, by the examiners, and by us here at the Board will be critical. We'll need to make sure the risk models are safe and well-developed, and that there are adequate safeguards to make sure that they are adequately capturing risk. We'll need to develop further our independent capability to assess risk as we are doing in the context of the stress tests. We'll need to strengthen our supervision and our examination to adequately make use of this new framework. And as Governor Raskin mentioned, disclosures will be important so that the public can understand what the capital standards are and how they are applying to individual institutions. I think we've learned through our stress testing that effect of disclosures is a very important mechanism for improving market discipline and increasing confidence in our banking systems. So, I'm pleased also to support these measures. Could I have a motion for--to pass the final regulatory capital proposal?

GOVERNOR ELIZABETH A. DUKE. So moved.

VICE CHAIR JANET L. YELLEN. So moved.

CHAIRMAN BEN S. BERNANKE. Thank you. I'll take voice vote here. All in favor, please say aye.

MULTIPLE SPEAKERS. Aye.

CHAIRMAN BEN S. BERNANKE. Are there any no's? Any abstentions? Thank you. I need a motion for the proposed market risk capital rule. Vice Chair?

VICE CHAIR JANET L. YELLEN. So moved.

CHAIRMAN BEN S. BERNANKE. All in favor?

MULTIPLE SPEAKERS. Aye.

CHAIRMAN BEN S. BERNANKE. Any opposed? Any abstentions? O.K., both measures are passed unanimously. I thank the staff again. I thank the Board for their work and participation. Meeting is adjourned.