Transcript of Open Board Meeting
July 27, 2023

CHAIR POWELL. Mike Gibson will introduce the staff presentation on the two proposed rules. After the staff members make their presentations, they will then respond to any questions from my fellow board members or from me on those two proposals. So, after all the questions have been answered, I will then go through and ask each board member to state his or her position, and then we will proceed to votes. So today we will consider a proposal to replace the Federal Banking Agency's risk-based capital framework for large banking firms with a new framework that will be applicable to banking firms with at least $100 billion in total assets and to firms with significant trading activities. And second, a proposal that would modify the risk-based capital surcharge for U.S. global systemically important banks. I want to thank the staff for all of your work, and I look forward to hearing your presentations. And I will now turn it over to my colleague, Vice Chair Barr.

VICE CHAIR BARR. Thank you, Mr. Chair. I'd like to thank the staff, those around the table, and countless others here at the Fed and the FDIC and the OCC for all of the work to get to this place today. In my opening remarks, I'll start by explaining the importance of this proposal, provide some more context for the proposal's requirements, and then end on the significance of the comment period as well as the comments we receive as we move forward on this rule. First, a safe and sound banking system is critical to a healthy economy, and capital is foundational to that safety and soundness. Capital is the cushion that allows a bank to absorb losses, no matter their source, and ensures that banks can continue to play their critical role serving households and businesses. The goal of our action today is simple, to increase the strength and resilience of the banking system by better aligning capital requirements with risk. As we learned earlier this year, banks with inadequate levels of capital are vulnerable, and that vulnerability can cause contagion, which threatens the stability of the banking system and hurts families and businesses. A crisis was averted through invocation of the systemic risk exception that permitted the FDIC to support uninsured depositors and the establishment of an emergency lending program for the banking system. However, one clear message was that regulatory requirements, including capital requirements, must be aligned with actual risk so that banks bear the responsibility for their own risk-taking. The proposal takes an important step forward to better aligning capital requirements with risk, both for the specific risks that were in play this spring and for a much broader set of risks that banks face. As staff will explain in more detail, there are two proposals today. The first would update our capital standards to better reflect credit, trading, operational, and derivative risk for banks with $100 billion or more in total assets. For a firm's lending activities, the proposed rules would end the practice of relying on a bank's own internal estimates of their own risk and instead use a standardized but risk-based measure of credit risk. Standardized credit risk approaches do a reasonably good job of approximating risks, while internal models are prone to underestimate such risks. Second, for a firm's trading activities, the proposed rules would adjust the way that a firm is required to measure market risk, which is the risk of loss from movements in market prices. These changes are intended to correct for gaps in the current system. For instance, the proposal would provide less credit for diversification across risk classes, since correlation across risk can change dramatically in times of stress. The proposal would require banks to use a standardized risk-based approach for hard-to-model risks. In addition, the proposal appropriately requires more capital for positions that are less liquid in order to better capture the risk of illiquid trading positions. Third, for operational losses, losses from inadequate or failed processes, such as from fraud or cyberattack, the proposed rules would replace an internal modeled operational risk requirement with a standardized measure. The proposal would approximate a firm's operational risk charge based on the firm's activities and increase the charge based on a firm's historical operational losses to add risk sensitivity and provide firms with an incentive to mitigate their operational risk. Fourth, the proposal improves the capital treatment for derivatives activities by introducing a standardized but risk-sensitive measure of valuation risk due to changes in counterparty credit. The second proposal would help to ensure that the surcharge applied to globally systemically important banks better reflect the systemic risks that each G-SIB faces. In particular, it would make adjustments to limit so-called window dressing, reduce cliff effects, and improve how we measure some systemic indicators, better align them with risk. These changes are designed to improve the risk sensitivity of the requirements. The changes are expected to increase capital requirements overall for banks with $100 billion or more in assets. But I want to emphasize that they would principally raise capital requirements for G-SIBs, the largest, most complex banks, better reflecting the risks their activities pose to financial stability. Increases would be small for large banks that are not G-SIBs. Banks under $100 billion in size without significant trading activities are not affected by these proposals. Community banks are not affected by the proposals. To put these changes in context, recall that banks are, by their nature, very leveraged and fund only a small portion of their assets with capital. The proposal would raise capital on average by 16 percent. One can think of the proposal's more accurate risk measures as equivalent to requiring the largest banks to hold about an additional two percentage points of capital or an additional $2 of capital for every $100 of risk-weighted assets. Staff has conducted extensive analysis on the economic impact of the proposal, which can be found in the preamble to the final rule. Specifically, this analysis suggests that the benefits of a robust financial system, as well as resilient financial institutions, outweigh the cost to economic activity that may result from additional capital. With respect to lending activities, staff analysis suggests that the capital impact on these activities would be modest, and the greater resilience provided by the rule would contribute positively to economic growth by enabling firms to continue to serve as intermediaries and providers of credit through a range of economic and market conditions. We also intend to collect additional data to refine our estimates of the rule's effects. These changes would be implemented with an appropriate phase-in, which will allow ample time for banks to adjust their balance sheets and activities and to build capital over time. In fact, most banks already have enough capital today to meet the new requirements. For the banks that would need to build capital to meet new requirements, assuming that they continue to earn money at the same rate as in previous years, we estimate that banks would be able to build the requisite capital through retained earnings in less than two years, even while maintaining their current dividends. Additionally, this proposal has already benefited from a robust development process, and I'd like to briefly outline some of that. Work on the market risk framework began shortly after the global financial crisis, more than a decade ago, and the international negotiations and the full set of reforms concluded in 2017. The agencies, including many of the people at the table today, began work on what would become the proposal shortly after that agreement. The pandemic delayed the proposal's launch, but work continued up to and after my arrival at the Fed. We held countless meetings with our sister agencies and briefed the Board's Committee on Supervision and Regulation. Staff have met with individual members of the Board and provided many helpful analyses and supplemental information regarding the proposal. We have heard from and engaged with banks, industry groups, public interest organizations, academics, and members of Congress. And all Fed governors have had the opportunity to review the substantive materials and get detailed briefings from staff since early June. The proposal has benefited from this robust process and culminates with what is in front of us today. And now we're finally at the stage where we can get more data and feedback and identify areas for refinement. I want to emphasize that all comments will be carefully considered. We'll be vigilant in working to avoid unintended consequences, and I encourage commenters to provide us their analyses on all of the issues presented. The extended 120-day comment period is appropriate and will allow all parties adequate time to fully analyze the issues presented in the rule. We'll be attentive to those comments and look forward, as always, to the public comment process. We welcome comments on all aspects of the proposal, but I will mention a few areas in which I would be particularly interested in reviewing public feedback and analysis. For instance, we are aware of concerns the overall increase in capital requirements would be significant, and I look forward to comments in that regard. There are, of course, both costs and benefits in this space, and I believe that we would be mindful of both and hear the views of a wide range of parties. We have heard concerns that the proposal, when combined with our stress test requirements, might overestimate market and operational risk. We want to ensure that the rule is supportive of resilient and liquid financial markets. I look forward to comments on how specific activities may or may not be affected by the proposed changes. In addition, we want to ensure that the capital rules support a vibrant, diverse banking system with banks of all sizes by applying capital requirements appropriate to the size and risks of institutions. The proposal does adjust the size threshold for capital rules, and we will benefit from additional views on whether the benefits of that increased resiliency outweigh the costs. And finally, we want to ensure that the proposal does not unduly affect mortgage lending, including mortgages to underserved borrowers. These are several areas that I will pay close attention to and encourage thoughtful comments. Any rule will only benefit from a diversity of well-reasoned and good-faith arguments. I look forward to the comments we will receive. I'd like to end with a reminder of why capital requirements are so crucial to our nation for safety and soundness and financial stability. Neither regulators nor bank managers can anticipate all risks or how risks may be amplified and propagated. Events over the past few months have only reinforced the need for humility about our understanding of the causes and consequences of financial stress and for an approach to capital regulation that makes banks resilient to both familiar and unanticipated risks. With that, I am pleased to turn to Mike Gibson for his remarks.

MICHEAL GIBSON. Thank you, Vice Chair Barr. The proposals before the Board today are intended to strengthen our capital framework for large banks. In doing so, they would help ensure that our banking system remains resilient to shocks and can continue lending to households and businesses through the economic cycle. Following the global financial crisis in 2008, the Board adopted an initial set of reforms to increase the quantity and quality of capital, run an annual supervisory stress test, and set a capital surcharge on G-SIBs to reflect the greater risk these firms pose to U.S. financial stability. These initial reforms have strengthened our banking system and have served the U.S. economy well for the past decade. To elaborate briefly on the impact of the initial reforms to bank capital requirements from the early 2010s, these reforms led large U.S. banking firms to more than double their capital since 2009. The common equity capital ratio of the largest banking organizations also more than doubled, from 5.5 percent in 2009 to 12.4 percent at the end of last year. Over that same time period, the U.S. economy has grown substantially, the U.S. banking system has grown from $12 trillion in assets to $23 trillion, and the profitability and market valuation of U.S. banks has remained strong. The initial reforms in the early 2010s were estimated at the time to triple the capital required to be held against market risk, and U.S. banks have maintained their position at the top of the lead tables of global capital markets activity. However, the initial set of reforms largely left in place the risk weights that are used to compute a bank's risk-based capital ratio. Both experienced during the global financial crisis and subsequent empirical studies have found too much variability in the risk-based standards across firms, primarily due to the use of firms' internal models. Although today's proposal is more modest than the initial reforms from the early 2010s, it would materially strengthen the risk-based capital framework for large banks by better reflecting the risks of their activities and reducing reliance on firms' internal models. The proposed revisions would be generally consistent with the final set of reforms published by the Basel Committee in 2017. Moreover, while these proposals have been under development for some time, the three large bank failures earlier this year highlight the risks to our economy when a bank does not have enough capital to retain the confidence of its customers. The recent experience further supports the need to have strong capital standards for large banks. Today's proposal will ensure that the largest firms can continue to be a source of strength for the U.S. economy and lend to credit-worthy households and businesses during times of economic stress. Let me now turn the meeting over to Cecily Boggs.

CECILY BOGGS. Thank you, Mike. As Mike noted, the two proposals are intended to strengthen the overall resilience of the U.S. banking system. They do so by improving the capital requirements applicable to large firms to better capture the risks of these firms' activities in a consistent and transparent manner. In my remarks today, I will provide some brief background on the structure of the risk-based capital framework as it applies to large firms. Then I will discuss how the proposal would improve the consistency and the transparency of the capital requirements for large firms. Finally, I will describe how the proposal would better capture the risks of large firms' activities. Regarding the structure of the capital framework for large firms, today the largest and most complex firms, otherwise known as Category 1 and 2 firms, calculate risk-based capital ratios using two methods and are subject to the structure of the resulting ratios for the risk-based capital requirements. The first method uses a standardized approach that is broadly applicable to most U.S. banking organizations. The second method, known as the advanced approaches, applies only to the largest, most complex firms, Category 1 and 2 firms. The advanced approaches methodology uses a firm's own models, known as internal models, to calculate their own risk-based capital requirements. The proposal would replace the advanced approaches with a new, more consistent approach to calculate risk-weighted assets, which would rely less on the models developed by each bank to measure their own risk. This new approach, called the expanded risk-based approach, would apply to all banking organizations with total assets of $100 billion or more. Notably, as the Vice Chair noted, the proposal would not change the risk-based capital requirements under the standardized approach. As such, banking organizations with less than $100 billion in total assets and those that do not have significant trading activities would not be affected by the proposal. To promote a strong and resilient U.S. banking system, the proposed approach would align capital requirements with risk in a manner that improves the consistency and the transparency of the risk-based capital requirements applicable to large firms. The new approach would introduce standardized requirements for all risk categories and would eliminate the use of internal models in several areas. Internal models rely substantially on a firm's choice of modeling assumptions and embed a significant degree of subjectivity. This can result in too much variability in capital requirements across large firms. The variability and complexity of these model-based requirements can reduce the transparency of capital ratios, challenge comparisons of capital adequacy across firms, and reduce confidence that firms are appropriately capitalized. The new approach would help address these concerns. By using a standardized approach, rather than relying on the models that each bank develops itself, the new approach would improve the consistency of capital requirements across large firms by limiting bank management discretion. Standardized requirements ensure that identical exposures receive the same capital treatment. Together with robust public disclosure and reporting requirements, the new approach would enhance the ability of supervisors, as well as market participants, to make independent assessments of a firm's capital adequacy. Let me now go through how the proposal will address three main risk areas, credit risk, market risk, and operational risk. I will begin with credit risk. Credit risk is the risk that a borrower does not pay back a loan or other obligation. To better capture credit risk, the new standardized measure for credit risk would incorporate additional risk drivers that can be measured in a comparable way. For example, for retail credit card exposures, the proposal would distinguish between borrowers that repay their loans in full consistently at each payment date and those that maintain outstanding balances. Second, I will discuss market risk, which is the risk of changes in the value of trading positions due to changes in market conditions and issuer events. With respect to market risk, the proposal would substantially improve the risk sensitivity of capital requirements in four key ways. First, the proposal would provide less credit for diversification across risk classes since correlations across risks can change dramatically in times of stress. Second, the proposal would restrict the use of internal models by requiring internal models to be subject to supervisory approval at the level at which a firm actively monitors and manages its market risk exposures, otherwise known as the trading desk level, as well as by introducing additional controls. Third, the proposal would introduce a new standardized approach for market risk as a fallback method for cases where the model used by a trading desk does not sufficiently capture the market risk of its exposures. Last, the proposed market risk framework would vary the capital requirements to reflect the liquidity of a trading position and would better account for losses in extreme but plausible scenarios of acute economic stress. These changes would also reduce the variation in firms' capital requirements during periods of market volatility. Thus, together, these changes would enable firms to remain viable and continue to act as market makers even during stress periods. Finally, I will discuss operational risk, which generally refers to the risk of losses due to disruptions or failures of systems and controls. The proposal would introduce a standardized measure to capture a broad range of operational risks that are present in the activities of banking organizations but are separate from credit risk and market risk, such as fraud and litigation. To ensure that operational risk is appropriately and consistently captured, the new standardized measure would be based on a firm's business volume as well as its operational loss history. Historically, large firms, regardless of their business model, have experienced substantial losses due to operational risk, and such risks continue to evolve. Accordingly, larger, more complex firms and those with a worse track record of operational risk management would be subject to higher requirements under the proposal. I will now turn to my colleague, Marco Migueis, who will complete the presentation of the proposals.

MARCO MIGUEIS. Thank you, Cecily. I will start by discussing the changes the first proposal would make to the scope of capital requirements for large firms. Then I will briefly describe the second proposal, which modifies the surcharge applicable to global systemically important banks, or G-SIBs. Lastly, I will discuss the expected impact resulting from the proposals. Turning to the scope of application of the first proposal, the new approach to set capital requirements would apply to all banking organizations with total assets of $100 billion or more and their subsidiary depository institutions. This approach would better account for the risks of these large firms. Introducing these improved requirements for a wider scope of firms is appropriate for two reasons. First, the banking turmoil in March of this year shows that banks in the lower end of the size range can cause stress that spreads to other institutions and threatens the stability of the banking system. The risk of contagion implies that a greater degree of resilience is needed for all large firms. Second, the proposed approach is less burdensome than the current advanced approaches, which require banks to develop complicated internal models to calculate capital requirements. For these reasons, we believe that it is appropriate to extend the scope of the requirements introduced by the proposal to all large firms. The proposal would also align the definition of regulatory capital across all large firms. Among other revisions, all large firms would be required to account for unrealized gains or losses from certain securities in their regulatory capital. This revision would ensure that the capital of these firms better reflects their capacity to absorb losses. Therefore, this revision would create stronger incentives for firms to manage the risks of their securities portfolios. In addition, to improve the resilience of all large firms, the proposal would subject all large firms to the countercyclical capital buffer, which requires an additional layer of capital during periods of heightened risk in the system, and to the supplementary leverage ratio requirement, which provides a leverage complement to the risk-based capital ratios that is based on both on- and off-balance sheet exposures. Under the proposal, large firms would have a three-year phase-in following the effective date of a final rule to allow for a smooth transition to the new requirements. I will now turn to the G-SIB surcharge proposal. G-SIBs must maintain an additional capital buffer to account for the risks that their failure or distress could pose to the U.S. financial system. The proposal would improve the calculation of G-SIB surcharges in several ways. First, many indicators that determine each bank's surcharge are currently measured only at their year-end value. Instead, they would be measured based on the average of a full year under the proposal. This change would improve how the indicators capture a G-SIB systemic footprint and would reduce incentives for a G-SIB to make temporary changes to their systemic indicators at the end of the year. Second, the proposal would result in each bank's META 2 surcharge being measured in 10-basis-point increments rather than the current 50-basis-point increments. This revision would allow for more gradual changes in G-SIB's capital requirements. Lastly, the proposal would make changes to the measurement of some systemic indicators to improve how the surcharge reflects risk. Taken together, these changes would ensure that the surcharge continues to reflect the systemic risk of our largest and most complex banks. Finally, let's turn to the impact of the proposals. Collectively, the proposals would improve how capital requirements reflect the risks of large firms and increase the consistency of requirements across firms. Such changes would increase the safety and soundness of individual firms and contribute to financial stability. In improving risk capture and promoting consistency, the proposals would increase overall requirements for large firms. Most of the impact would stem from the first proposal. Looking at all banks with more than $100 billion in assets, we estimate that this proposal would increase common equity tier 1 capital requirements by about 16 percent. This capital impact would primarily affect the largest and most complex banks. G-SIBs would see a 19 percent increase in their capital requirements. Banks with more than $250 billion in assets that are not G-SIBs would see a 10 percent aggregate increase. And banks with more than $100 billion but less than $250 billion in assets would see a 5 percent aggregate increase in capital requirements. These changes will have different impacts for each bank depending on its risk profile. As Vice Chair Barr has noted, the resulting impact is equivalent to, on average, large banks maintaining another $2 of capital for every $100 of risk-weighted assets. Also, as Mike Gibson noted earlier, this proposal would have a much smaller impact than the initial set of post-crisis reforms from 10 years ago, where large banks raised over $6 of capital for every $100 of risk-weighted assets. In addition, staff estimate that the changes to the definition of regulatory capital would increase capital requirements of non-G-SIB large firms by a moderate amount over the long run. Also, staff estimate that the G-SIB surcharge proposal would have a small impact on surcharges. Further, the proposals would have different impacts on different types of activities. For lending activities, staff estimate that the impact of the proposals on requirements would be modest. Impacts on lending as firms adjust to the new requirements are likely to be offset by the economic benefits of increased resilience. Meanwhile, we estimate that requirements associated with trading activities may increase meaningfully, reflecting the heightened risk associated with those activities. Still, the ultimate impact of the proposed market risk framework would depend on how firms adjust their activities and the extent to which they are approved to use internal models. The improved risk sensitivity of market risk requirements, particularly for less liquid positions, would improve the resilience of firms with significant capital markets activity. Also, the proposal is expected to reduce the variation in firms' capital requirements during periods of market volatility. Together, the higher risk sensitivity and reduced variation of market risk requirements would leave firms better positioned to provide intermediation during periods of stress. Following issuance of the proposal, staff plans to undertake a data collection. Such data collection would allow us to refine our estimates of the impact of the proposal. This information will inform finalization of the rule. When taken together, the improved capitalization of large banks resulting from the proposal will improve the safety and soundness of individual firms and contribute to overall financial stability. We expect the benefits resulting from improved firm-level and system-level resilience to outweigh the costs resulting from higher capital. For these reasons, staff recommends that the Board approve the two proposals. We thank you for the opportunity to present these proposals and we would be happy to answer any questions that you may have.

CHAIR POWELL. Thank you, Cecily, and thank you, Marco. So, we now have an opportunity for members of the Board to ask questions for staff, and we'll begin with Vice Chair Barr, please.

VICE CHAIR BARR. Thank you, Mr. Chair, and thanks again to the staff for the terrific presentations. Director Gibson, maybe I'll start with you. If you could explain the way in which the risk-based rules, the Basel III rules, interact with our stress tests, as that's one area of potential concern.

MICHAEL GIBSON. Sure, so the risk-based capital rules that are part of the proposal today form the basis of the minimum capital requirements that all banks are subject to. The stress test comes on top of that to size the capital buffer that banks are subject to. There are two ways of measuring banks' risk. They're complementary, and we benefit from having multiple views on a bank's risk, both through the risk-weighted assets and through the stress test. So overall, the combination of the two leads to a more robust capital framework.

VICE CHAIR BARR. Thank you very much.

CHAIR POWELL. Thank you. Governor Bowman, please.

GOVERNOR BOWMAN. Thank you, Mr. Chair. One of the benefits of the international capital standards is competitive equity, meaning that banks that compete internationally are held to the same standards when they engage in the same activities. How do you see this proposal furthering the objective of promoting a level international playing field?

CECILY BOGGS. Thank you, Governor Bowman. That's a very good question. So just taking a step back, the proposal would be broadly consistent with the final set of Basel III reforms. Actually, in thinking about it, that actually helps promote international consistency by ensuring that we're starting from a minimum -- there's at least a minimum level of comparability in the risk-based capital requirements across jurisdictions. That said, to your point, our proposal would differ in certain respects from implementation in other countries. For example, the proposal in front of us today would eliminate firms' ability to use internal models when determining risk-weighted assets for credit risk. We understand that consistent with the Basel III reform package, certain other jurisdictions may continue to allow more constrained use of internal models for credit risk. However, the Basel standards also incorporate something known as the output floor, which basically says you can only receive a certain amount of risk capital relief from using internal models that is limited by a certain percentage of -- you have to calculate your risk-based capital also under a standardized approach. Thus, that output floor should also help promote a certain degree of international comparability across jurisdictions in terms of risk-based capital. In general, the objective of the proposal, as Vice Chair Barr noted, is to strengthen the capital requirements for our large firms and thus enable them to continue to lend to households and businesses throughout different economic cycles. That said, it is something that we do appreciate. There's a very important trade-off between the benefit of increased resilience and the potential costs of having very strong capital requirements for all large firms. For that reason, we are going out and actively seeking comment on all aspects of the proposal, and as Marco noted, we're also doing this additional data collection, which is not always something we do with every rulemaking. It is planned to be a fairly robust data collection, and that will really help us ensure that what we have proposed, whether or not that appropriately captures the risks of large firms' activities or if recalibration may be needed.

GOVERNOR BOWMAN. One more question. Based on the scope and magnitude of the changes that are proposed today, we can reasonably foresee that there could be significant unintended consequences. Regulatory costs are passed through to consumers and businesses for banking products and services. Regulatory costs can also lead banks to discontinue or reprice certain products and services. And importantly, regulatory costs can also push activities into the shadow banking system. Have we considered how this proposal might impact the costs and availability of banking products and services, or would there be a shift of these services and activities to non-banks? And how do you plan to address these concerns during the rulemaking process?

CHRIS FINGER. So, thank you, Governor Bowman. I'll take that one. So, the potential for impacts on costs and provision of banking services was certainly a large part of the impact study that we conducted along with, you know, in collaboration with the other agencies. We looked at that in terms of differentiations and different types of banking activities. So, in the lending space, as Vice Chair Barr mentioned at the beginning, our estimates that the all-in aggregate costs or the all-in aggregate increases in capital requirements to lending products would be modest, something, but still modest. And when we looked at that and compared that to the benefits from the resilience, we saw that the benefits did outweigh those costs. We also looked at the potential that differences in costs across different credit products, credit cards versus mortgages versus commercial loans, et cetera, if those differentials were inappropriately calibrated, they could lead to banks having an incentive to reallocate across those different portfolios. And we did not see significant differentiations that would prompt that. So, in the lending space, again, the conclusions of the impact analysis were that the effects, if any, would be quite modest. Trading, as we've mentioned, is an area where the estimated impact, the estimated increases in capital requirements would be substantial. And so, again, we looked at the balance between the benefits to resilience and the bank's ability to continue to serve as intermediaries even under a stressful market situation versus the potential costs that they would bear, their clients would bear, or potentially that it would create an incentive to move out of certain businesses. Those are risks that we still acknowledge. The literature is somewhat ambiguous as to how increased capital affects those things. And I would just emphasize and go back to the data collection that we are planning. So, the idea of trying to get estimates of the increases in capital for specific trading areas and sort of views from the industry and the public for particular areas where there might be a disproportionate impact would be certainly an emphasis that we would be looking to analyze subsequent to that data collection.

CHAIR POWELL. Thanks, Chris. Appreciate it. Thanks. Governor Waller? No? Governor Cook?

GOVERNOR COOK. Thank you for that presentation. How does this proposal compare to the approaches other jurisdictions, particularly those in Europe, are taking to implement the Basel III reforms?

CECILY BOGGS. So, as I noted, Governor Cook, it is broadly consistent with the international standards. Certain other jurisdictions have deviated a bit from the international standards. I would say, in general, what the proposal would do, one of the bigger changes, is the elimination of the use of internal models for credit risk and making that a fully standardized framework. There are other differences, such as, for example, due to statutory considerations, we can't use credit ratings like other jurisdictions can do. So, we have both policy choices as well as statutory constraints within our proposals. But I don't know if -- are there other things to highlight, Mike, in terms of the international?

MICHAEL GIBSON. I guess I would say that you asked about the European proposals. Both the European Union and the U.K. have already proposed their Basel III in-game packages of reforms. The European Union proposal was estimated by the Europeans to have a 12 percent increase in risk-weighted assets across all EU banks and a 13 percent increase in risk-weighted assets across U.K. banks. So, the impacts are broadly in line with what we're expecting or what we're estimating for our proposal.

GOVERNOR COOK. Just one more question. Could you discuss in more detail how the proposal would treat residential mortgages?

CHRIS FINGER. Yeah, so I'll take that one. Thank you, Governor Cook. So as we've mentioned, the enhanced risk-based approach in establishing a risk-sensitive standardized method within credit risk relies on certain risk drivers. And in the space of residential mortgages, one of those very important risk drivers is the loan-to-value ratio. And so with mortgages, and while there are sort of other elements, but I think that's an important one to talk about, that there's a distinction in risk weights for mortgages based on that loan-to-value ratio. The motivation for that was that in general, broadly, that is a good indicator of credit risk on a loan. Now, that said, we're cognizant that there are other indicators of credit risk on a loan, and certainly when banks underwrite mortgages, they factor in a lot more factors about their borrower and about the product than just the loan-to-value ratio. And so there's a simplification there. And so as we look at that, we do want to investigate whether the loan-to-value ratio is in all cases appropriate, and in particular would emphasize that it's not our intent that this proposal would impair homeownership opportunities, including for low- and moderate-income homebuyers, where there might be other factors that are important in describing the credit risk of those products, and loan-to-value might not be completely appropriate. And so that is a question that we're seeking specific comment as to whether it might be appropriate to adjust the residential mortgage treatment in a way in order to better still reflect credit risk appropriately, but without leading to these unintended consequences that could be a case relying just on that one indicator.

CHAIR POWELL. Thank you. Thank you. Governor Jefferson.

GOVERNOR JEFFERSON. I have two questions, Chair Powell, if you grant me that leeway. Thank you all very much for your presentation today. My first question is, can you give me a sense of how and to what degree these higher capital requirements could constrain a bank's ability to lend to businesses and individuals? I'm very concerned about these impacts.

CHRIS FINGER. Yeah, so I'll take that one as well on the impact. The first thing I would emphasize is that at the top of the house, at an aggregate level, our estimates are that most of the banks in scope would still meet with a buffer the requirements. Those that do have a shortfall would be able to make that up in a short amount of time. And so banks would be operating without the constraints of being extremely close to their capital requirements. Specific with credit, as I said before, the aggregate impact we see is modest. I think in the proposal, in the preamble, in the impact section, we do talk about sort of an aggregate capital raise due to sort of the elements on lending activities of about 30 basis points. And again, when we've looked at that, it hasn't been enough where it would suggest to us a meaningful incentive for banks to reallocate across different portfolios or otherwise cut back credit.

GOVERNOR JEFFERSON. Okay, my second question. Do any of these regulatory changes address some of the problems that came up, that became apparent during the recent banking stress events? If so, what are those specific changes and how would they help with our supervision of banking organizations?

CECILY BOGGS. Governor Jefferson, I'll take that one. So the recent banking turmoil last March really highlighted how vulnerabilities at large firms and not just the largest and most complex firms can very quickly spread to other institutions and ultimately potentially threaten the ultimate stability of the U.S. financial system. For that reason, what the proposal would do would take the more robust set of capital requirements that currently apply to the largest and most complex firms and also apply those to all firms with $100 billion or more in total assets. This would include, for example, the requirement that they reflect unrealized losses and gains on available-for-sale securities within regulatory capital. In terms of that change, what that would do would make sure that regulatory capital better reflects those firms' ability to absorb losses and still remain viable. And it also helps promote consistency in the capital requirements across all large firms. In addition, it would also subject, in addition to also having two risk-based capital requirements or risk-based capital ratios, it would also require these firms to comply with the countercyclical capital buffer as well as the supplementary leverage ratio. And in essence, what those requirements would do would be to overall promote the strength and resilience of large firms across the board and thus the overall strength of the U.S. banking system so that firms can continue to lend even during periods of economic stress.

GOVERNOR JEFFERSON. Thank you.

CHAIR POWELL. Thank you. If there are no further questions, then we will proceed to stating our positions on the proposals, and I'll begin. 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 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, and I supported the outcomes of that process, which, in some important ways, did exceed the Basel minimum requirements. I believe that the performance of U.S. banks in times of stress has greatly benefited from those reforms, and I'm 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 increases, both overall and for specific areas, such as capital markets, activities, and operational risk. U.S. and global regulators raised large capital requirements significantly in the wake of the global financial crisis. While there could be benefits of still higher capital, as always, we must 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 system. 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, though, we need to strike the right balance. Regulation and supervision should reflect the size and risk 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 necessary. I look forward to hearing from all stakeholders on how best to strike that balance. Thank you. Vice Chair Barr, please.

VICE CHAIR FOR SUPERVISION BARR. Thank you, Mr. Chair. Let me begin by thanking again the staff for all the hard work that has gone into this project over the last many years. I support this proposal because I think it is critical that capital requirements are aligned with risk, and this proposal helps advance that goal. Issuing the proposal is an important milestone in this process, and there are important steps remaining. Our public comment process will be deliberative and open to public participation with an extended 120-day comment period to allow adequate time for banks and the public to analyze this significant rule. And we'll take these comments seriously as we move forward to a final rule. With this process and attended transition periods, implementation of any changes agreed to will take at least several years, which is why it is so important to begin now. Every household and business in America depends on a safe and stable financial system. By strengthening capital standards, we're ensuring that businesses have credit to grow and hire workers and deal with the ups and downs in the economy. Stronger capital standards means workers can depend on getting their paychecks and families can save and borrow to plan for the future. Our goal is a financial system that works for everyone, and having strong capital rules is essential for that. Thank you, Mr. Chair.

CHAIR POWELL. Thank you. Governor Bowman, please.

GOVERNOR BOWMAN. Thank you, Mr. Chair. I'd like to start by echoing the praise and appreciation for our staff and all of the hard work that's gone into developing these proposals and for your presentation to the Board today. I really appreciate the opportunity to discuss these matters and consider these matters in an open Board meeting. It's been a long time since we've had one of these meetings, and I welcome the opportunity to resume having these meetings to discuss important matters. This format supports transparency and accountability to the public, and it provides greater context for these policy proposals. So I'm going to start by talking about the risk-based capital standards. The first proposal under consideration would substantially increase risk-based capital requirements for banks with more than $100 billion in assets. In my view, there is insufficient evidence that the benefits produced by this proposal can justify the costs. The proposed revisions under consideration have not been directed by Congress and are not compelled by a new evolution of identified weaknesses in the U.S. banking system. Although this proposal is intended to implement the Basel III agreement, in light of the many deviations from internationally agreed standards, it's not clear that today's proposal would improve international consistency in capital requirements for large, internationally active banks. Today, the U.S. banking system remains strong and resilient. The system is much better capitalized than after the 2008 financial crisis, with substantially more liquidity. And U.S. banks are subject to a range of new supervisory tools that didn't exist prior to 2008. The current framework represents a risk-based, tailored approach with the goal of aligning regulation with risk. To be very clear, I am open to considering proposals to improve capital regulation, particularly evidence-based proposals that would address known deficiencies and shortcomings. When the Board is considering changes to the capital framework, particularly significant increases in capital, we must carefully weigh the tradeoffs of increased safety from higher capital levels and the cost to banks, consumers, businesses, and the broader economy. We must also factor in the broader regulatory landscape and how changes to capital regulations may complement, overlap, or conflict with other regulatory requirements. A core strength of our current bank regulatory framework is risk-based, tailored regulation. Today's proposal represents a reversal of this longstanding approach. In my view, the proposal fails to sufficiently take into account differences in capital structure and riskiness, complexity, financial activities, size, and other risk-related factors among firms with more than $100 billion in assets, and instead reverts to a one-size-fits-all approach. Although it is currently unclear and unsettled what other changes may be proposed to the regulatory capital framework or, more broadly, to other prudential regulations, I'm concerned that pushing down capital and other standards designed for larger banks to those that are significantly smaller and less complex could lead to harmful, unintended consequences. I'm also concerned that today's proposal moves one step closer to eliminating the tailoring required by S2155 from the prudential capital framework. The consequences of increasing capital requirements for all firms above $100 billion in assets may be to force smaller firms to merge or to consolidate to achieve the necessary economies of scale to comply with higher capital requirements. Ultimately, this may have harmful effects on competition, and it may reduce banking options in some geographic or product markets. Today's capital proposal could give the impression that undercapitalization of large banks is a major vulnerability in the U.S. banking system, or that higher capital levels would have addressed the management and supervisory shortcomings that contributed to the recent bank failures earlier this year. I do not see evidence that supports these views. The current level of capital in the U.S. banking system is a strength, not a weakness, and it's complemented by liquidity regulations and other prudential requirements that have contributed to the resilience of U.S. banks. While there's more to learn about the recent bank failures, it seems apparent that these failures were caused primarily by poor risk management and deficient supervision, not by a lack of capital. I'm concerned that today's proposed rule and other yet-to-be-proposed regulatory changes will add to the challenges facing the U.S. banking system and impose real costs on banks, their customers, and the economy without commensurate benefits to safety and soundness or to financial stability. The cost of this proposal, if implemented in its current form, would be substantial. As the proposal describes, these changes are estimated to result in an aggregate 20 percent increase in total risk-weighted assets across bank holding companies subject to the rule. While the actual impact on binding capital requirements will vary by firm, it is apparent, even with the incomplete information available today, that this will represent a large increase in capital requirements. These increases will have a tangible effect on banking activities and may have a detrimental impact on U.S. market liquidity and lending. Today's proposal argues that the increase in capital requirements for trading activities could enhance market liquidity, especially during times of stress. I would be interested to hear from the public whether this would be the case. I'm concerned that claims of this nature fail to appreciate the predictable effects of this proposal. Higher costs, less availability, and increased concentration as firms without sufficient scale exit certain markets. Increased capital requirements for certain types of loans may also lead to a reduction in credit availability or increased prices, which could disproportionately harm underserved markets, businesses, and communities. Ultimately, bank customers will bear the cost of these capital increases. Today's proposal also adopts a punitive treatment for non-interest and fee-based income through the proposed operational risk requirements, exacerbated by the use of an internal loss multiplier that may result in an excessive overall capital charge for operational risk. Diversification in revenue streams can enhance stability and resilience for a bank. And excessive capital charges for these revenue-generating activities could create incentives for banks to roll back the progress they've made to diversify their revenues. The treatment of operational risk also seems like an inefficient tool to address a broad supervisory concern. The proposal suggests that calibrating operational risk requirements based on historical losses creates incentives for bank management to mitigate operational risk. However, capital charges are an indirect and an inefficient tool to encourage strong risk management, particularly in the area of operational risk. I'd appreciate hearing from the public on this issue, but in my mind, it would be preferable to address risk management concerns through improved supervision. Demanding prompt remediation of risk management shortcomings and taking enforcement actions when firms fail to remediate known issues. Rather than considering piecemeal changes to risk-based capital rules, in my view, regulators should review the entirety of these rules and, where possible, find ways to rationalize the requirements. This is also an area that would be helpful to solicit comments from the public. Today's proposal is intended to improve risk capture, but in some circumstances, it leaves in place and even introduces new regulatory redundancies, as with changes to the market risk capital rule, credit valuation adjustments, and operational risk that overlap with stress testing requirements and the stress capital buffer. It's not clear whether or when we will revisit the broader set of capital rules to address redundancy and overlap, but doing so could significantly improve the efficiency of the capital framework. So I'd like to turn to the changes to the G-SIB surcharge. The second proposal under consideration today would revise the G-SIB surcharge, proposing changes that are informed by our experience with the operation of the rule. Some of the proposed changes, like measuring G-SIB surcharges in a 10-basis-point increment as opposed to 50 basis points, could helpfully reduce cliff effects within the current rule. And in some instances, such as the daily measurement of certain systemic indicators, it may be that there are less burdensome alternatives, like weekly or monthly measurement, that we should explore. I think it's important that we understand how the G-SIB surcharge may overlap with other capital requirements and evaluate whether the end state aggregate capital level for G-SIBs is appropriate. This review should also consider the impact of the G-SIB surcharge method to calculation and whether it may discourage low-risk activities or result in other unintended consequences, or whether the calculation methodology should be updated periodically to reflect economic growth and inflation. In my view, the only way to address this question is through a more comprehensive and granular understanding of all of the proposed capital changes. I support publishing the proposed revisions to the G-SIB surcharge for comment, and I believe that we should be receptive to making improvements in response to public feedback. We should also consider how the implementation of the U.S. G-SIB surcharge aligns with other jurisdictions. So, in conclusion, we should continue to pursue the goal of creating a level international playing field. Many of the largest and most systemic banks operate internationally, and promoting international parity in capital standards applicable to global banks with international operations could help make the global financial system more resilient and competitive. Today's proposal deviates significantly from international standards and perpetuates differences in implementation across international jurisdictions. Ultimately, these differences call into question whether the international standards are appropriate. I look forward to reviewing public feedback on both proposals, and I would again like to thank the staff for their hard work on all of these proposals and for your presentation today and answering our questions. My remarks today and an addendum requesting comment from the public on specific provisions from the Basel III proposal are included as a public statement for the record for today's board meeting. Thank you, Mr. Chair.

CHAIR POWELL. Thank you. Governor Waller.

GOVERNOR WALLER. I want to thank the staff who worked on the proposals and made the presentation today. I agree that a well-capitalized banking system is critical to the resilience of our financial system, but increases in capital requirements are not free. As such, we must ensure the resiliency benefits from increases in capital requirements outweigh the cost to bank customers and to the real economy. And we must recognize that at some point, well-intended actions to improve financial resiliency can undermine the indispensable role banks play in providing financial intermediation. I believe that today's Basel III proposal will increase the cost of credit and impede market functioning without clear benefits to the resiliency of the financial system. As an economic policymaker, I always ask, what problem is solved from this proposal? What are the benefits of the proposal? If the answer is improved resiliency, then I want to know why the current capital framework does not provide an adequate level of resiliency. What empirical evidence shows that the current level of resiliency is insufficient, particularly for the U.S. G-SIBs? Will increasing requirements for those banks indeed improve the resiliency of the entire financial system? Or will it just narrow the banking system and push more activities into the unregulated banking sector? We have put in place what is often referred to as a gold-plated capital structure for the largest banks, and more than a decade of stress tests and real-world events have shown that these banks are resilient to very large macroeconomic shocks. Over the past decade, we have both increased the quality of regulatory capital to make it more loss-absorbing, and increased the quantity required to be held to the adoption of the G-SIB surcharge stress capital buffer and supplementary leverage ratio. These reforms have resulted in a doubling of loss-absorbing capital at the largest banks, which has significantly bolstered their ability to weather financial stresses. For example, U.S. G-SIBs, which are subject to the most rigorous parts of our current regulatory capital framework, were a source of strength during the pandemic. More recently, during the regional banking stresses early this year when depositor confidence was fractured, these banks actually experienced deposit inflows. As a result, I am led to ask, what are the glaring failures in the current capital framework for U.S. G-SIBs that require the proposed changes? The proposal would materially increase the requirements for the largest banks. In the total staff estimate, the proposal would require all large banks to increase capital by 16 percent. That would be in large part driven by an increase in the capital required for operational and market risk, risk that we have already been capturing in our stress testing for the past decade. Just to put some numbers on it, consider operational risk. Operational risk expense projections in the stress test have been just under $200 billion over the past few years. The impact analysis in the proposal suggests the enhanced standard capital stack will have operational risk-weighted assets that are nearly $2 trillion higher than in the current U.S. standardized stack, which could lead to a more than doubling of the operational risk capital required relative to just the stress-based requirement. More importantly, there is no discussion on why operational risk capital needs to be an additional charge as opposed to just using the existing capital stack to absorb operational losses. Having an additional layer of operational risk capital would make sense if large operational risk losses tend to occur contemporaneously with credit and market losses. But there is little evidence of that. For example, some of the largest operational risk expenses U.S. banks have incurred were those owing to fines and lawsuits associated with mortgage underwriting and securitization leading up to the 2008-2009 financial crisis. But banks didn't incur those losses until years after the financial crisis because it takes time to recognize fiduciary failings, bring forward legal claims, and adjudicate those claims. That is typical for why these sorts of losses often stem from litigation. An important question, therefore, is why do banks need to sideline separate buckets of operational risk, credit risk, and market risk capital when those risks are unlikely to manifest at the same time? It is similar to asking individual households to establish separate emergency funds for shocks to their income, one for losing their job, one for shock to their expenses, like a fire at their house or their car breaking down. Households understand it is exceedingly unlikely that all of those things will happen in the same month. So their emergency funds are less than the sum of all these expected losses. Though the changes to the market risk weight framework affect fewer banks, they will likely be material for those banks and capture certain risks already accounted for in the stress test. For example, the proposal would replace the existing market risk measure with a new one that is intended to better account for extreme losses. Similarly, the market shock component of the stress test is designed in part to mimic the effects of a sudden market dislocation. And the market shock in the stress test is meaningful in terms of requirements. For example, in the 2023 stress test, it contributed to $94 billion in losses for the largest firms, and those losses result in higher stress capital buffers. It is not clear to me why our large banks should face a further roughly 70 percent hike in market risk capital requirements on top of the existing post-crisis requirements to address risk in the trading book, including market risk capital requirements plus the stress test. And I worry that doing so could discourage those banks from engaging in certain market-making activities which could impede market functioning. So what else might we be trying to achieve with this proposal? One goal of the Basel III endgame agreement was to standardize risk assessment and not rely on internal bank models in the regulatory capital framework. But that goal had already been largely achieved in the United States through enhancements to the standardized approach, including the addition of the stress capital buffer, which resulted in an existing standardized capital requirement that is generally more binding than the requirement determined by the firm's own models. Another goal of Basel agreements generally is to harmonize requirements around the world. Unfortunately, this proposal does the opposite. In the United States, we have already gold-plated our regulatory capital regime relative to other parts of the world with the stress capital buffer and a more stringent G-SIB surcharge. If the Basel standards are implemented in other parts of the world in a less standardized -- or less stringent, excuse me, way than envisioned in this proposal, U.S. banks would be put at a disadvantage relative to international banks. For all the talk of harmonizing regulations, I'm afraid this proposal may do the opposite. Now, up to this point, we focused on how the proposal would affect the resiliency of U.S. banks. But there is not a one-to-one relationship between bank resiliency and financial system resiliency. Even if we were to further increase our requirements, are we sure it would actually improve the resiliency of the financial system and health of the U.S. economy? There is an upper limit, of course, where costs outweigh the benefits. An increase in capital requirements forces banks to hold more capital against the services they provide to families and businesses, which is equivalent to imposing a tax on those services. Someone must bear the cost of that tax. The only question is who bears it. One possibility is that banks will absorb the costs themselves. Another possibility is that banks will attempt to mitigate those profit reductions by passing the cost of higher capital requirements along to their customers. This will raise costs for American families and businesses, which could harm many of them and hinder economic growth. Banks may also simply stop providing more capital-intensive services, which could impede market function. It is possible that some of those services could migrate outside of the banking system to less regulated entities that could provide them. But as we saw during the pandemic, a lot of problems can emerge from non-banks that operate outside of our view. That is why I believe a safe but needlessly narrow banking system doesn't necessarily result in a safe financial system and vibrant economy. Finally, as this proposal applies to all firms with more than $100 billion in assets, I am concerned that we are headed down a road where we would no longer be in compliance with Section 165 of the Dodd-Frank Act as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act, which mandates tailoring for firms above $100 billion in asset and provides that firms with between $100 billion and $200 billion in assets are not subject to the enhanced prudential standards unless a standard is affirmatively applied to such firms based on specific factors set out by Congress. It is unclear to me whether this proposal meets that statutory bar. Again, I appreciate the work that staff has done on this Basel III proposal, but I am not convinced that it improves the resiliency of the financial system. At the same time, it will increase costs for families and businesses and impede market functioning. I don't think those costs are worth bearing without clear benefits to the resiliency of the financial system. For that reason, I cannot vote for it. I am in favor of the proposed calculation changes to make the G-SIB surcharge more risk-sensitive and reduce cliff effects. I note, however, that there has not been a broader comprehensive assessment of the calibration of the G-SIB surcharge since it was established in 2015, and I believe we should undertake such an assessment with changes as appropriate. Thank you.

CHAIR POWELL. Thank you. Governor Cook, please.

GOVERNOR COOK. Thank you, Chair Powell. I would like to recognize and thank staff for their hard work on these rulemaking proposals. The proposals themselves are thoughtful, considered, and sensibly focused on larger firms with more than $100 billion in assets. In addition to the dual mandate of stable prices and maximum employment, Congress has imbued the Federal Reserve with a responsibility to maintain the safety and soundness of the financial system. Our efforts in supervision and regulation center on this responsibility, as well as maintaining a diverse and resilient banking system. The strength and efficacy of regulation depends on the public trust. As such, these proposals are part of an open and transparent process that invites public comment. I look forward to seeing that feedback on all aspects of these proposals. I believe the best and most appropriate rules will come with feedback from a broad range of organizations, and I encourage the broader public and all those with a stake to offer their insights. Given our job to maintain a safe, sound, diverse, and resilient banking system, these proposals are a step toward greater consistency that will, in turn, bolster systemic resilience. I appreciate the time and consideration that has gone into these proposals, and I support their issuance. Thank you.

CHAIR POWELL. Thank you. Governor Jefferson, please.

GOVERNOR JEFFERSON. I am thankful for the staff's work on the proposals before us today. I am attentive to the proposals' potential impact on resiliency, unwarranted variation in capital requirements across firms, and financial stability. I am also mindful of the proposals' potential impact on the availability of credit to households and businesses and the ability of banking organizations to continue to provide liquidity in certain markets throughout the full course of the economic cycle. To understand fully the potential net impact of these proposals, I think the step of publishing them for public comment is constructive. Therefore, I support the staff's recommendation to do that. I will evaluate any future proposed final rules on their merits. My views on any proposed final Basel III endgame requirements for U.S. banking organizations will be informed by the potential impact on banking sector resiliency, financial stability, and the broader economy stemming from their implementation. I look forward to reading and digesting the comments we receive from the public, which will inform my future decision on any eventual proposed final rules. Thank you.

CHAIR POWELL. Thank you. And we will now proceed to a vote on the first proposal. I need a motion to approve a notice of proposed rulemaking seeking comment on revisions to the Board's capital rule for large banking organizations and banking organizations with significant trading activities and authorize staff to make any minor or nonsubstantive changes to prepare the documents for publication in the Federal Register.

VICE CHAIR FOR SUPERVISION BARR. So moved.

CHAIR POWELL. I need a second.

GOVERNOR WALLER. Second.

CHAIR POWELL. I will now ask for votes. Vice Chair Barr?

VICE CHAIR FOR SUPERVISION BARR. Yes.

CHAIR POWELL. Governor Bowman?

GOVERNOR BOWMAN. No.

CHAIR POWELL. Governor Waller?

GOVERNOR WALLER. No.

CHAIR POWELL. Governor Cook?

GOVERNOR COOK. Yes.

CHAIR POWELL. Governor Jefferson?

GOVERNOR JEFFERSON. Yes.

CHAIR POWELL. And I will vote yes. The motion has carried, and this proposal is approved. We'll now proceed to vote on the second proposal. I need a motion to approve a notice of proposed rulemaking seeking comment on revisions of the capital surcharge requirement for U.S. Global Systemically Important Bank holding companies under the Board's capital rule and authorize staff to make any minor or nonsubstantive changes to prepare the documents for publication in the Federal Register.

VICE CHAIR FOR SUPERVISION BARR. So moved.

CHAIR POWELL. I need a second.

GOVERNOR BOWMAN. Second.

CHAIR POWELL. I will now ask for votes. Vice Chair for Supervision Barr?

VICE CHAIR FOR SUPERIVISON BARR. Yes.

CHAIR POWELL. Governor Bowman?

GOVERNOR BOWMAN. Yes.

CHAIR POWELL. Governor Waller?

GOVERNOR WALLER. Yes.

CHAIR POWELL. Governor Cook?

GOVERNOR COOK. Yes.

CHAIR POWELL. Governor Jefferson?

GOVERNOR JEFFERSON. Yes.

CHAIR POWELL. And I vote yes as well. This motion has carried, and this proposal is also approved. I want to again thank staff for your great work on these proposals, and we all look forward to receiving comments on the two proposals and encourage all stakeholders to share their views with us during the comment period. Thanks again. This meeting is now adjourned.