

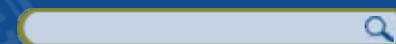


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Speeches & Testimony

Statement by Martin J. Gruenberg, Chairman, FDIC on Leverage Capital and Basel III Rulemakings; FDIC Board Meeting, Washington, DC

April 8, 2014

Today, we are considering two important leverage capital rules, and a third rulemaking to finalize the FDIC's Interim Final Rule on the Basel III Capital Accord.

The first rule is a joint interagency final rule to strengthen the supplementary leverage capital requirements for the largest and most systemically-important banking organizations. The final rule would apply to eight large organizations that have been designated as Global Systemically Important Banks—or G-SIBs.

By strengthening the leverage capital requirements for these institutions, the final rule puts in place a substantial additional buffer of capital that benefits the financial system as a whole and reduces the potential systemic risk these institutions pose. Capital shortfalls at these institutions have the potential to result in significant adverse economic effects and contribute to systemic distress on both a domestic and international scale.

Insured banks covered by the final rule would need to satisfy a six percent supplementary leverage ratio threshold to be considered well capitalized for prompt corrective action (PCA) purposes. Bank Holding Companies covered by the final rule would need to maintain a supplementary leverage ratio of more than five percent, made up of a three percent minimum ratio plus a two percent buffer. By comparison, the Basel framework requires only a three percent minimum leverage ratio at the bank and holding company level.

The banking agencies' analysis indicates that a three percent minimum supplementary leverage ratio would not have meaningfully constrained leverage during the years leading to the crisis. The final rule addresses this concern by strengthening leverage capital requirements to an extent comparable to the strengthening of risk-based capital requirements in Basel III, ensuring these two capital frameworks stay in an effective complementary relationship.

The final rule is a substantial strengthening of leverage capital requirements for these institutions that will place additional private capital at risk before the Deposit Insurance Fund, and reduce the likelihood that federal resolution mechanisms would need to be called on. Stronger capital also will increase the ability of these firms to continue to serve as a source of credit to the economy during periods of economic adversity.

In short, this is a rule of significant consequence. In my view, this final rule may be the most significant step we have taken to reduce the systemic risk posed by these large, complex banking organizations.

The second rulemaking is a joint interagency Notice of Proposed Rulemaking (NPR) to revise the denominator measure for the supplementary leverage ratio, and introduce related public disclosure requirements, consistent with changes recently announced by the Basel Committee. The changes in this NPR would apply to all advanced approaches banking organizations. This includes the eight covered

companies that would be subject to the enhanced leverage capital standards we are considering today, and the other advanced approaches organizations that are subject to the three percent minimum supplementary leverage capital ratio.

As the staff noted, this NPR is estimated to result in a modest overall strengthening of the denominator of the supplementary leverage capital ratio. The most important proposed changes would require more capital for credit derivatives, and less for traditional loan commitments.

The third rulemaking we are considering today is to finalize the Interim Final Rule that the FDIC issued last year for Basel III. The FDIC Board wanted to consider the Basel III rule in relation to the strengthening of the supplementary leverage capital ratio.

I am pleased that we are now in a position to finalize both the enhanced supplementary leverage capital ratio and the FDIC's Basel III rule, as well as issue the NPR.

I would like to thank our FDIC staff, as well as OCC and Federal Reserve Board staff, for their exceptional and tireless work on these important rulemakings. I would especially like to thank my fellow members of the FDIC Board for their strong support and advocacy for strengthening the leverage capital requirements for large, systemically important banking organizations.

Last Updated 4/8/2014

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