Press Release

June 14, 2018

Opening Statement on the Single-counterparty Credit Limit Final Rule by Vice Chairman for Supervision Randal K. Quarles

The final rule that we are considering today addresses an important contributing factor to the financial crisis: contagion caused by interconnectivity among large banks. It was, in part, because of large exposures among large firms that the original shocks from the financial crisis spread so quickly across the entire financial system. This final rule, which limits the exposures that large firms can have to each other from a wide range of activity, is intended to reduce the threat of contagion to financial stability.

I view this final rule as a useful complement to the *principal* protections against contagion: the robust capital and liquidity positions of the financial system today. This resilience decreases the likelihood and severity of stress so that contagion should occur less often and with less potency. In addition, the financial system more broadly has adjusted in the period since the crisis to reduce potential contagion by shrinking harmful transmission channels among banks. Central clearing of derivatives is an example of such a reduction in interconnectedness.

The final rule adds to these protections by setting out clear limits on credit exposures among the largest banking firms. I am pleased by the final rule's efficient approach to setting limits that are appropriately adjusted for firms of lesser systemic importance. The final rule also reflects the principles of simplicity and transparency by defining the firms and counterparties that are scoped into the rule based on clear and well understood accounting standards. The final rule also adjusts the exposure measurement methodology for securities financing transactions to be more risk-sensitive and consistent with the methods used in our risk-based capital rules. I would expect that, as we implement the revisions to the Basel III reform package agreed to at the end of last year, additional improvements to the securities financing transaction methodology will be reflected in this rule as well. Adjustments such as these to the proposal make meaningful compliance with the rule more likely, and I applaud staff's responsiveness to that and other feedback in the final rule.

I will close by noting that the final rule applies only to firms with greater than $250 billion in assets, which is consistent with the recently passed Economic Growth, Regulatory Reform, and Consumer Protection Act. Board staff is working on a comprehensive proposal for determining which enhanced prudential standards might continue to apply to firms with $100 billion to $250 billion in assets. I look forward to considering that proposal in due course.

I'll turn now to the Director of Supervision and Regulation, Mike Gibson.

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