As prepared for delivery
For release at 1:40 p.m. EDT
May 3, 2016

Opening Statement on the Proposed Rules Implementing a Net Stable Funding Ratio and Restricting Qualified Financial Contracts
by Chair Janet L. Yellen

Good afternoon and welcome to our guests who are attending or watching our meeting. The proposed rules we are considering today are important elements of the Board's strategy to ensure our financial system remains strong and stable enough to support the economy through both good times and bad.

The first proposal we will consider today is crafted to strengthen the resiliency of large banking organizations and thereby reduce the chance that they might fail. The financial crisis proved that an overreliance on unstable funding sources, particularly short-term wholesale funding, leaves firms vulnerable to liquidity risk and poses serious threats to financial stability. This proposal would establish the Net Stable Funding Ratio--or NSFR. This ratio would require large banking organizations to maintain a minimum amount of stable funding tailored to the different risk profiles of these firms and based on a one-year time horizon. By requiring our largest institutions to maintain an amount of stable funding that is appropriate given the liquidity of their assets, the NSFR would strengthen the financial system, making it more resilient to market stress.

The second proposal supports our strategy to reduce the potential systemic impact of the failure of a large, interconnected banking organization. The crisis underscored that when a large financial institution gets into trouble, its failure can destabilize other firms. This is because large banking organizations are connected with each other by the business they do together and through the contracts that result from that business. Indeed, in the 21st century, a run on a failing banking organization may begin with the mass cancellation of the derivatives and repo contracts that govern the everyday course of financial transactions. When these contracts, known collectively as Qualified Financial Contracts or QFCs, unravel all at once at a failed large banking organization, an orderly resolution of the bank may become far more difficult, sparking asset firesales that may consume many firms.

That is why we are considering a proposal that would require very large banking organizations to use contracts that allow for a limited stay in resolution so that there is time to transfer QFCs from a failed firm to a solvent one. This stay-and-transfer requirement will help manage the risk when a very large firm fails, and will thus strengthen the resiliency of the financial system as a whole.

Let me now turn to Governor Tarullo who led the effort to develop these two proposals.