Opening Statement on the Consideration of a Final Rule Restricting Qualified Financial Contracts by Chair Janet L. Yellen

Good morning and welcome to our guests who are attending or watching our meeting. The final rule we are considering today was proposed in May 2016 and continues the Board's work to ensure our financial system remains strong and stable and supports the economy through both good times and bad.

The final rule we are about to consider supports our strategy to reduce the potential systemic effect of the failure of a global systemically important bank—a GSIB. As I noted when this rule was proposed, the financial crisis showed that when a large financial institution gets into trouble, its failure can destabilize other firms and the broader financial system. One reason this might happen is that the very largest banks are interconnected through substantial volumes of financial contracts. Should these contracts, known collectively as Qualified Financial Contracts, or QFCs, unravel all at once at a failed GSIB, an orderly resolution of that firm can become far more difficult, sparking asset fire sales that can consume many firms.

That is why we are considering a final rule that will require GSIBs to use QFCs that limit termination rights that arise from the failure of a GSIB or its affiliates, so that there is time to transfer QFCs from a failed firm to a solvent one. This requirement will help manage the risk to the financial system when a GSIB fails, and will thus strengthen the resiliency of the financial system as a whole.

Let me now turn to Governor Powell who led the effort to complete this vital rule.