Press Release

June 14, 2018

Statement on the Single-counterparty Credit Limit Final Rule by Governor Lael Brainard

Eight years after the passage of Dodd-Frank, it is vital that we finalize the rules of the post-crisis regulatory framework that are still outstanding. Today, I am pleased we are finalizing the single-counterparty credit limit rule. This is overdue.

As the crisis illustrated starkly, limiting the interconnectedness of large bank holding companies is vital to ensure that distress at one of these large, complex institutions does not ricochet around the global financial system, leading to cascading failures and widespread distress. The limits on counterparty credit exposures that we are finalizing today will reduce the chances that outsized exposures between large financial institutions could spread financial distress and undermine financial stability, as we witnessed during the financial crisis. The single-counterparty credit limit rule implements common sense guardrails: the large exposure limits effectively build on the traditional bank lending limits that have proved useful for well over 100 years, by updating them for today's challenges, recognizing the many ways in which banks and their affiliates take on credit exposure beyond directly extending loans.

The rule places guardrails on an expanded class of credit exposures between large banking institutions and appropriately assesses them against Tier 1 capital. Tier 1 capital is a more reliable measure of a firm's ability to withstand losses than the previous more expansive benchmark of capital and surplus. This was evident during the financial crisis when Tier 1 capital was the prime focus of investors and analysts.

It is also important that we have tailored the rule to adopt more stringent credit limits on the very largest firms. Because these large, complex institutions are typically engaged in common business lines and have common funding sources and counterparties, there is an elevated correlation of distress and default. Our analysis indicates that the higher correlations warrant a more restrictive 15 percent limit on credit exposures to other very large, complex firms, compared with 25 percent on large, less complex firms.

We are still not done with the necessary work to safeguard the resilience of our financial system through the cycle. In particular, it will be important to finalize the second rule that has been outstanding since 2016, the net stable funding ratio.

I appreciate the extensive efforts undertaken by the staff, and I support the final rule.

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