Press Release

March 04, 2020

Statement by Governor Brainard

As an early proponent of the stress capital buffer (SCB), I support integrating the non-stress capital rules and the stress-test based capital requirements into a single framework that preserves capital neutrality. Unfortunately, today's rule gives a green light for large banks to reduce their capital buffers materially, at a time when payouts have already exceeded earnings for several years on average.

The SCB rule will reduce current required tier 1 capital by roughly $100 billion or 7 percent for large banks overall.[1] The SCB rule will reduce current *required* common equity tier 1 (CET1) capital by $60 billion or 5 percent, and the rule could be expected to reduce current *actual* CET1 capital by $120 billion or 10 percent overall.[2]

The declines in required tier 1 and CET1 capital reflect the rule's substantial reduction in the requirement to prefund distributions and, to a lesser extent, the elimination of any stress leverage requirement (for tier 1) and the assumption of a flat balance sheet.

The additional declines in actual levels of CET1 capital reflect the reduction in tier 1 requirements in conjunction with announced changes to management buffers. Large banks satisfy nearly 90 percent of their tier 1 requirements with CET1, some of which serves as a management buffer against uncertainty in firm performance and capital requirements. Because the SCB rule changes how stress tests factor into capital requirements and significantly reduces tier 1 requirements, many large banks have announced to shareholders lower target CET1 ratios that imply declines in management buffers from nearly 2½ percent of risk-weighted assets to just above 1 percent.

Banks worked hard to build their capital buffers following the crisis. It is imprudent to reduce the loss absorbing capital at the core of the system at this point in the cycle, when large banks are internationally competitive, and payouts have been exceeding earnings

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1. The rule will reduce current tier 1 capital requirements by nearly $40 billion or 4 percent for the global systemically important banks (GSIBs), nearly $30 billion or 11 percent for other large banks with assets above $250 billion, and nearly $35 billion or 16 percent for banks with assets between $100 and $250 billon. Return to text

2. Current levels of CET1 capital could decline by nearly $40 billion or 5 percent for the GSIBs, $50 billion or 21 percent for banks with $250 billion or more in assets, and roughly $30 billion or 16 percent for banks with $100 to $250 billion in assets. Return to text

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