Statement of

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Comptroller of the Currency

On

Final Capital Rules and
Notice of Proposed Rulemaking on Leverage Ratio

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Thank you Chairman Gruenberg.

I'd like to start by thanking the staff of all three agencies for the work they've done on these capital rules. These are complex issues, and it took everyone's best efforts – and a willingness to work together—to develop the rules that we are voting on today. This morning, I signed a final domestic capital rule on behalf of the Office of the Comptroller of the Currency, and I will support the FDIC's interim final rule, which contains identical text. I also signed the notice of proposed rulemaking on the supplemental leverage ratio for large interconnected banks, and so I'm pleased to vote on the proposal here in my capacity as an FDIC director.

The capital rule not only raises capital ratios, but it emphasizes common equity, the form of capital that the crisis showed was best at absorbing losses. However, the financial crisis also showed that there are important differences between our largest banks and the rest of the industry. It's clear that the very largest banks can have an outsized impact on the entire system, so it makes sense to require that they calibrate their capital requirements more precisely and also hold higher levels of capital.

It also makes sense to propose increasing the supplemental leverage ratio so that leverage and risk based capital ratios can more effectively support one another for large institutions. The NPR would double the leverage ratio for covered depository institutions, to a total of six percent, and it would raise the leverage ratio for covered holding companies by two percentage points, to five percent. A higher leverage ratio, along with enhanced standards for risk-based capital, will improve the resilience of our largest financial institutions and help maintain public confidence in their ability to weather future financial shocks. Importantly, it also places an additional buffer between those banks and both the FDIC insurance fund and the resolution mechanisms of the federal government.

On the other hand, community banks were not the cause of the financial crisis, and one of my goals through the process has been to avoid adding unnecessary burden to smaller institutions. I think we have been successful in this. The rules we are voting on today take an important step to strengthen the banking system and protect it from future financial crises. I'm pleased that the new capital rule not only improves the quantity and quality of capital, but does so in a way that minimizes the burden on community banks and savings associations.

You can see that in three major areas. First, the new capital rule maintains the current treatment of residential mortgage exposures. This was an important issue for many community banking organizations seeking to continue to meet the credit needs of their customers.

Second, banking organizations that are not subject to the advanced approaches rules can opt not to incorporate most amounts reported as Accumulated Other Comprehensive Income, or AOCI, in the calculation of their regulatory capital. This option is consistent with the treatment of AOCI under the current rules, and should help smaller banking organizations avoid volatility in their regulatory capital requirements.

Finally, depository institution holding companies with assets less than $15 billion plus certain mutual holding companies will be allowed to continue to count as Tier 1 capital most existing Trust Preferred Securities that were issued prior to May 19, 2010. This treatment will provide greater consistency with related provisions of the Dodd-Frank Act that limit inclusion of such securities in regulatory capital.

The last point I want to make is that, while we have done our best to minimize burden on community banks and thrifts, we are mindful that the sheer size of these rulemakings can present difficulties for smaller institutions. To help, we have produced an 11-page interagency guide that includes summary tables clarifying many of the new requirements. The OCC also developed a concise, two-page summary that I hope community institutions will find helpful in understanding how the domestic capital rule will affect them.

We can't eliminate burden entirely, but working together, I think we have made a good effort to minimize it while at the same time putting in place standards that will make the banking industry and the financial sector stronger and help protect against future financial crises.