Transcript of Open Board Meeting

CHAIR YELLEN. Good afternoon. I'd like to welcome our guests to the Federal Reserve.

This meeting marks an important moment, because today we are putting into place one of the last critical safeguards that make up the core of our post-financial crisis reform efforts.

These reforms have been guided by common sense principles: bank shareholders and debt investors place their own money at risk so depositors and taxpayers are well protected, and the biggest banks must bear the costs that come with their size. Specifically, these banks must bear the costs their failure would impose on the financial system and the economy.

The final rule we are about to consider advances both principles, because it requires systemically important domestic bank holding companies and the U.S. operations of systemically important foreign banks to issue a minimum amount of long-term debt that could be converted into equity to recapitalize a failed institution. Simply put, this requirement means taxpayers will be better protected because the largest banks will be required to pre-fund the costs of their own failure.

We can already see how post-crisis reforms have led to many changes. U.S. banks are far stronger than they were a decade ago, with more capital and more stable funding. Our banking supervision is strong. And our economy has benefited: growth in bank lending is now back to pre-crisis, pre-bubble levels.

Today's rule and the many other reforms we have put in place help keep our financial system strong and stable--not for its own sake--but for the sake of the workers, families and businesses who determine the long-run success of our economy.

I will now turn to Governor Tarullo, who will provide more background on how today's final rule will achieve these key aims.

GOVERNOR TARULLO. Thank you, Madam Chair. As everyone knows, a key aim of post-crisis regulatory reform has been to address the too-big-to-fail problem. An effective response requires both substantially increased resiliency of the largest, most systemically important banking organizations and a viable path to an orderly resolution should one of these firms nonetheless fail. As the Chair indicated, perhaps the most widely shared view in the aftermath of the crisis--in government and around the country--was that we must avoid having to inject taxpayer capital into a failing bank out of fear that its insolvency would bring down the whole financial system.

A great deal has been done to enhance the resiliency of these firms, but as critical as enhanced resiliency is to a safer and more stable financial system, it cannot be the only regulatory goal. No matter how much more resilient firms have become, we cannot exclude the possibility of an idiosyncratic or systemic problem that threatens the solvency of a very large financial firm. If government authorities lack confidence in the prospects for an orderly resolution, they will be tempted to look for direct or indirect ways to bail that firm out. And if counterparties and investors believe this will happen, then no market discipline will be brought to bear on those firms.

In its post-crisis legislative and oversight responses, Congress has rightly placed great emphasis on resolvability. The Federal Deposit Insurance Corporation (FDIC) has been developing strategies for the exercise of its statutory orderly liquidation authority. Jointly with our colleagues at the FDIC, the Federal Reserve has used the resolution planning process established in the Dodd-Frank Act to require large banks to modify their organizational structures and day-to-day practices, such as liquidity management, so as to facilitate orderly resolution. All major firms have made significant changes during this process and, as demonstrated in our joint deficiency findings earlier this week, our two agencies are prepared to use the tools Congress gave us to achieve that goal.

The proposal before us today is another core component of a program to establish a viable resolution option. The TLAC requirement will ensure that the parent holding companies of each systemically important U.S. banking firm hold loss absorbing capital in sufficient amounts that the firm could be successfully recapitalized in bankruptcy, or in an orderly liquidation proceeding, with capital from private investors--that is, without needing to repeat the experience of 2008, when the government had to provide funds for the recapitalization of some firms.

As staff will explain, the proposal includes a requirement for each firm to maintain a minimum amount of long-term unsecured debt issued to unrelated investors. This feature of the proposal is essential to establishing a credible resolution program. While equity is far and away the best form of capital to ensure the resilience of a firm, the whole point of resolution planning is to prepare for the eventuality, no matter how unlikely, that the firm might become insolvent in some circumstances. By definition, at that point equity capital will either be totally lost, or at least below the levels markets have historically required for a financial intermediary to be viable.

The long-term debt required by this proposal would survive the disappearance of a bank's equity and resultant failure, and would be available for conversion into new equity. These identified debt instruments would allow the absorption of losses that the firm might continue to suffer after it fails and thus give assurance that an orderly resolution would be possible. Counterparties, customers, and depositors would have more confidence that they would not bear losses if they continued dealing with the bank.

Other benefits would come along with this proposal. One is increased market discipline of the largest banking firms. Scholars and policy analysts concerned with the too-big-to-fail problem have long called for a debt instrument of this sort. Investors holding this debt will be motivated to monitor the bank more closely precisely because they would stand to be converted into equity holders if the firm failed. The price of that debt could be both a direct source of market discipline and an indirect aid to supervisors in assessing the condition of the firm.

An additional benefit of the rule would be to help reduce run risk associated with short-term wholesale funding--whether through repos, uninsured deposits, or other forms--by mandating that firms have a more substantial base of stable funding that is structurally subordinated to funding at operating subsidiaries. Though the rule is not intended to be a liquidity regulation as such, it does complement and reinforce requirements such as the liquidity coverage ratio.

The proposal also applies to the U.S. intermediate holding companies (IHCs) of foreign global systemically important banks. By ensuring that U.S. subsidiaries of foreign banks will have their appropriate share of the loss-absorbing capacity of the foreign consolidated firm, the proposal will enhance prospects for orderly resolution of the foreign banks by their home jurisdiction authorities, or if necessary and appropriate, for the separate orderly resolution of an

IHC by U.S. authorities. Now let me turn to -- Mike will introduce the staff presentation to the Board.

MICHAEL GIBSON. Thank you, Governor Tarullo. The long-term debt and total loss absorbing capacity or TLAC requirements of the draft final rule that are being presented today will improve financial stability and help to address the two-big-to-fail problem. A key aspect of the too-big-to-fail problem is that systemically important banks are viewed as being difficult to resolve. The requirements of the draft final rule will help ensure that a systemically important bank can be resolved without needing taxpayer support and without creating significant spillover costs to the rest of the financial system and the broader economy. In particular, the draft requirements will help ensure that systemically important banks fund themselves with enough long-term debt so that investors, and not tax payers, can bear losses if the bank fails and has to be resolved. Investors can have their debt claims converted to equity to recapitalize the firm as part of the bankruptcy or resolution process. Long-term debt can serve as a pre-position source of new capital that will allow the firm to continue operating in order to limit the contagion-fueled spillovers that give rise to systemic risks. I'll turn the presentation over to my colleagues who will describe the key features of the draft final rule. Anna Harrington will begin the staff presentation.

ANNA HARRINGTON. The final rule being considered today finalizes the proposal that was issued by the Board last year. Roughly 50 comments were received on the proposal and the draft final rule has been modified to address these comments. In the remarks that follow, staff will discuss some of the most significant comments and changes relative to the 2015 proposal. The draft rule contains three sets of requirements. First, the draft rule establishes minimum long-term debt and total loss-absorbing capacity or TLAC requirements for systemically important

U.S. banks, the U.S. G-SIBs. Second, the draft rule establishes minimum long-term debt and TLAC requirements for the U.S. intermediate holding companies of systemically important foreign banks, the foreign G-SIBs. Third and finally, the draft rule provides certain activity restrictions or clean holding company requirements that apply to these companies to reduce their complexity and help ensure a successful resolution. I will begin the presentation by discussing the first set of requirements, the long-term debt and TLAC requirements applicable to the U.S. G-SIBs. Before describing the draft minimum long-term debt requirements, it is important to describe the criteria that debt must satisfy to be considered eligible long-term debt. The draft final rule would retain the same general eligibility criteria as the proposal for debt to qualify as eligible long-term debt. Specifically, under the draft final rule, eligible long-term debt must be issued directly by a bank holding company, be unsecured, be governed by U.S. law, and be plain vanilla. In this context, plain vanilla means that the debt generally excludes exotic features such as containing imbedded derivatives or being structured notes. Finally, debt must be long-term to count as eligible, which means that it must have the maturity of longer than one year. Debt with a shorter maturity runs the risk of being unavailable to bear losses between the time that a firm enters a period of financial stress and the resolution of the firm begins. These requirements help ensure that the eligible long-term debt is truly loss absorbing and capable of being quickly and easily valued in a resolution. Under the proposal, eligible long-term debt generally was prohibited from containing acceleration clauses that would give the holder the right to accelerate payment before the debt's stated maturity. This requirement is designed to ensure that debt holders will not exercise their acceleration rights in the lead-up to a resolution, thereby reducing the amount of debt available to absorb losses. A range of commenters expressed concern with this requirement since the vast majority of outstanding debt contains such impermissible acceleration clauses. To address these concerns and to mitigate the cost of compliance with the final rule, staff is recommending that debt with impermissible acceleration clauses that is issued on or before December 31, 2016, be grandfathered as eligible long-term debt. New debt, however, will be required to conform to the general prohibition on acceleration clauses. Given that a significant amount of existing long-term debt contains such clauses, staff believes that this grandfathering provision will reduce the costs of complying with the requirements but will not materially weaken the requirements as debt that matures over coming years will be replaced with new debt that does not contain impermissible acceleration clauses. For similar reasons, staff proposes to grandfather debt governed under foreign law issued on or before December 31st, 2016. The draft final rule, like the proposal, includes a long-term debt requirement that is separate from the TLAC requirement. Unlike equity which is typically fully depleted at the point of failure, long-term debt can be used as a potential new source of capital in resolution. The calibration of the minimum long-term debt requirements was derived by a capital refill framework in which a bank holding company must have enough long-term debt available such that if the BHC's equity capital is depleted and it enters resolution the firm's existing long-term debt would sufficient to fully recapitalize the BHC's equity capital. Imposing a long-term debt requirement helps to ensure that a BHC would have a known and observable quantity of loss-absorbing capacity at the point of failure. Following from the Board's regulatory capital rules, the final rule contains two measures of long-term debt adequacy. A risk-based measure and a leverage-based measure. In terms of the required minimum amount of long-term debt, the draft final rules requires BHCs to maintain long-term debt, an amount not less than the greater of 6 percent of risk-weighted assets plus the surcharge applicable under the G-SIB surcharge rule, and 4.5 percent of total leverage exposure. In addition to long-term debt, the draft final rule would also establish total loss absorbing capacity or TLAC requirements that require BHCs to maintain minimum amounts of total loss absorbing capacity. While the capital rules establish a fixed amount of equity capital that a covered institution must maintain, the Board’s TLAC requirement would impose an additional requirement on U.S. G-SIBs. Total loss-absorbing capacity is equal to the BHC's tier-one equity capital plus its long-term debt. Together, equity and long-term debt provide loss absorbing capacity that helps ensure a bank holding company can operate as a going concern and be successfully resolved in the event that losses deplete all of the firm's capital. In this way, the draft final rule's TLAC requirements buttress existing capital requirements and more strongly address the too-big-to-fail problem. The draft final rule's TLAC calibration was informed by the historical loss experience of major financial institutions during the financial crisis. The draft rule would require BHCs to maintain outstanding TLAC equal to the greater of 18 percent of risk-weighted assets and 7.5 percent of total leverage exposure. As in the proposal, the draft final rule includes a TLAC buffer composed entirely of common equity tier-one capital on top of the risk-based TLAC requirement. This buffer is similar to the capital conservation buffer in the Board's regulatory capital rules for BHCs. Relative to the proposal, the leverage-based TLAC requirement has been reduced by two percentage points, from 9.5 percent to 7.5 percent. Instead the draft final rule includes a two percentage point buffer on top of the minimum leverage component of the TLAC requirement. This buffer is analogous to the enhanced supplementary leverage ratio buffer in the Board's regulatory capital rules for bank holding companies. This modification of the proposal improves the consistency of the leverage capital rules and the leverage TLAC rules for BHCs and creates better parallelism with the risk-based TLAC buffer. As in the case of the risk-based TLAC buffer, any breach of the leverage related buffer would result in restrictions on capital distributions and discretionary bonus payments. The

TLAC buffers are intended to encourage U.S. G-SIBs to practice sound capital conservation and thus to enhance the resilience of these firms and of the financial system as a whole. Board staff estimates that as of the end of the third quarter of 2016, the aggregate shortfall for the U.S. G-SIBs would be significantly less than the $120-billion shortfall that was estimated at the time of the proposal. Under the final rule, the expected aggregate shortfall would be approximately $70-billion. The observed reduction in the shortfall since the proposal suggests that firms are already making good progress toward meeting the requirements and that the associated costs of complying with the final rule are manageable. I now turn to my colleague, Sean Campbell, who will describe the draft rules requirements for U.S. intermediate holding companies or IHC's of systemically important foreign banks as well as the draft rules clean-holding company requirements and the transition period for compliance.

SEAN CAMPBELL. For all of the reasons discussed by Anna and Mike, the IHC's systemically important foreign banks would also be required to maintain minimum amounts of long-term debt and TLAC. The requirements for IHCs are broadly similar to those of bank holding companies, though there are a few important differences which I will discuss in more detail. Before describing the requirement for IHCs, it is important to clarify that the specific requirements depend on the resolution strategy of the foreign G-SIB. Some foreign G-SIBs have adopted a single point of entry or SPOE resolution strategy whereby the top-tier foreign bank parent supports the IHC in losses that the IHC or its subsidiaries would be passed up to the foreign parent in resolution. Other foreign G-SIBs have adopted a multiple point of entry or MPOE resolution strategy whereby the U.S. IHC would enter a resolution proceeding in the U.S. without any support from the parent. In terms of eligible long-term debt requirements, the core requirements of the debt instruments to qualify as eligible long-term debt are similar to those for

BHCs with a few key exceptions. In the case of SPOE firms, all eligible long-term debt must be issued internally to the foreign parent. Since it is expected that the foreign parent G-SIB will bear all losses and support the U.S. IHC. In addition, all internal debt must also contain a contractual conversion trigger that would give the Board the right to convert the debt to equity if the firm approaches failure. Foreign G-SIBs commented that this provision was unnecessary, costly, and could result in the debt being viewed as equity for tax purposes. Staff believes that the benefits of such a conversion trigger outweigh its cost and suggest retaining the contractual trigger in the final rule though the draft rule contains a number of targeted changes that will help ensure that the internal long-term debt is viewed as debt rather than equity while preserving the loss-absorbing capacity of these instruments. In the case of MPOE firms, the proposal also required these IHCs to issue long-term debt internally to the foreign parent. MPOE foreign G-SIBs commented that their U.S. IHCs should be allowed to issue debt to external third parties on the same terms as U.S. bank holding companies since they are expected to enter resolution in the same manner as a U.S. bank holding company. Staff has considered this comment and has modified the draft final rule to allow the IHCs of MPOE foreign G-SIBs to issue long-term debt externally to third parties. This change should make the requirements less costly for these firms and aligns with their resolution strategy. In terms of the minimum required amounts of long-term debt for IHCs, several commenters claimed that the requirements were too high, and in particular, did not reflect the balance sheet depletion that was afforded to U.S. bank holding companies. Balance sheet depletion reflects the fact that losses that result in a resolution will also reduce the size of a firm's balance sheet so that a smaller dollar amount of capital is required to restore the firm's equity capital. Staff has considered this comment and has modified the Draft final rule to reflect the same balance sheet depletion effect that is afforded to bank holding companies. Doing so would result in a long-term debt requirement that is 6% of risk-weighted assets rather than the original 7% that was required under the proposal. This change will reduce the cost of the long-term debt requirement for IHCs and will better align with the treatment of U.S. bank holding companies. The minimum TLAC requirements under the draft final rule are unchanged from those of the proposal. As in the proposal, TLAC requirements for SPOE firms are somewhat lower than those for MPOE firms, reflecting the fact that SPOE firms anticipate receiving support from their foreign parents in a resolution while MPOE firms do not. As in the case of U.S. bank holding companies, these TLAC requirements will help ensure that IHCs have sufficient loss-absorbing capacity to operate as a going concern and to be successfully resolved without generating large negative spillovers in the event that the firm's equity capital is depleted. Having now described the long-term debt and TLAC requirements that apply to bank holding companies and IHCs, I now turn to the final set of requirements in the draft final rule. The clean holding company requirements that apply to both BHCs and IHCs. To further improve the resolvability and resiliency of the largest financial firms, the clean holding company requirements would establish restrictions on the ability of bank holding companies and IHCs to enter into certain financial arrangements that could create obstacles to an orderly and successful resolution. For example, under the draft final rule as under the proposal, firms would be prohibited from engaging in short-term borrowings from third parties, and entering into qualified financial contracts or QFCs with external counter-parties. In light of comments received on the proposal, the draft final rule makes clear, however, that firms would be permitted to guarantee certain QFCs of their subsidiaries provided such guarantees would be permitted by regulations governing stays on QFCs issued by the Board or other federal banking agencies. These activity restrictions limit the complexity of bank holding companies and IHCs to help ensure that a resolution can be successfully conducted in an orderly manner without resulting in investor runs or asset fire sales that could give rise to systemic risks and threaten financial stability. With respect to the capital deductions for bank holdings of long-term debt instruments that were required under the proposal, the draft final rule does not include any of these proposed regulatory capital deductions, rather staff expects to address the capital deduction issue jointly with the OCC and FDIC at a later time which would allow for consistent application to all entities subject to the regulatory capital requirements of the federal banking agencies. Under the draft final rule, firms would be required to comply with the long-term debt TLAC include holding company requirements described above by January 1st of 2019. The draft final rule does not adopt the extended phase in period of the proposal because the draft final rule grandfathers most outstanding long-term debt and this grandfathering mitigates the compliance cost of the draft final rule. Moreover, the draft final rule includes a number of changes that should mitigate the burden of complying with the requirements. This concludes staff's prepared remarks. We would be pleased to answer any questions.

CHAIR YELLEN. Thank you very much. I have just a couple of questions. First, and in your remarks you mentioned that the estimated shortfall with respect to meeting these requirements for the G-SIBs have declined, I think you said from $120 to $70-billion. I wonder if you could talk a little bit more about how that's happened. Has there been additional issuance of debt or how has that come about?

ANNA HARRINGTON. Thank you Chair Yellen. Yes, so you have it exactly right. We estimate that the shortfall has declined since the time of the proposal from $120-billion to $70-billion, and I believe there are three main drivers of the decline in the shortfall. One is declines in risk-weighted assets. And the second one is issuance of long-term debt. And the third is raising capital.

CHAIR YELLEN. And just one other question. I wonder if you could talk a little bit about how the TLAC standard that we're adopting here today compares with what other countries are putting in place, particularly the U.K. and the E.U.

ANNA HARRINGTON. Sure. So I think one good point to note in response to your question is that last year in November 2015, the FSB put out a standard on TLAC and we believe that standard makes it more likely that jurisdictions around the world will adopt comparable TLAC standards to what we're adopting here today. But the E.U. and the U.K. have recently put out the case of the EEU, a proposal in the case of the U.K, a standard. And those standards we believe align largely with the FSB standard and our standard. I think the key point to make in the draft final rule is that we have a separate minimum draft long-term debt requirement that is not present in the FSB standard.

CHAIR YELLEN. Thank you very much. Vice Chair?

VICE CHAIR FISCHER. Thank you, Madam Chair. There's a whole lot of regulations associated with the Dodd-Frank resolution planning requirements. How does this fit in?

JAY SCHWARZ. Yes, Vice Chair Fischer. Pursuant to Dodd-Frank the Board and FDIC require firms to prepare for orderly resolution in bankruptcy and the final rule relates to those requirements by helping to ensure that the large financial firms have sufficient loss-absorbing capacity to be resolved in an orderly manner. For example, the resolution plain guidance was issued by the Board and FDIC in April 2016 includes expectations for the U.S. G-SIBs to hold the minimum amount of TLAC, including long-term debt, to ensure that the firm may be sufficiently recapitalized in resolution.

VICE CHAIR FISCHER. Thanks. The -- what you said makes it clear how this rule supports a Title 2 orderly resolution process, but of course there are two resolution processes, the other one being a standard bankruptcy process. Would this set of regulations be as useful in the case of a standard bankruptcy? I mean, not that there is a standard bankruptcy but the law.

WILL GILES. Yes, Vice Chair Fischer. The draft final rule is intended to facilitate an orderly resolution under both Title 2 as well as bankruptcy. Long-term debt can absorb losses both in Title 2 and ordinary bankruptcy proceedings, moreover the clean holding company requirements are intended to make a simpler, a more easily to resolve, more-quicker-to-resolve holding company under both thoroughly liquidation authority in Title 2 as well as bankruptcy.

VICE CHAIR FISCHER. One more question. There's a discussion between -- on the two sides of the Atlantic as to whether the -- whether it had to be debt or it could be debt and equity. What drove us to insist on debt when equity looks like a reasonable alternative?

ANNA HARRINGTON. So, thank you Vice-Chair Fischer. I think you're exactly right. That's kind of the key question coming out of today is why have a long-term debt minimum requirement. I think the answer is that we have witnessed enough bank failures to know that when banks fail it's almost always with zero or negative equity, so the idea here is that if the G-SIB fails that there is a long-term debt from which can serve as the raw material to manufacture a new source of equity, a new source of capital. And so, basically, the idea here is ensuring that there's a known an observable quantity of debt that can convert to equity in a resolution scenario.

SEAN CAMPBELL. I think just one point that I would add to Anna's point is, though, of course you're exactly right that the European rules in FSB standard don't contemplate a specific long-term debt requirement per se, in practice the expectation is that they're going to be meeting that standard with significant amounts of debt anyway. So it's not a specific, you know, legal standard that they have to meet that you have to have so much long-term debt, but in practice the way they're going to be meeting those TLAC requirements is by issuing significant amounts of long-term debt. So, in practice, the distinction may not be all that important. Thank you.

VICE CHAIR FISCHER. Thank you, Madam Chair.

CHAIR YELLEN. Thank you. Governor Tarullo?

GOVERNOR TARULLO. Thank you, Madam Chair. So through the course of all the discussions about TLAC and resolvability, there have been a couple of themes or issues that keep cropping up, and although you have addressed them sort of in passing in your staff presentation I thought it might be useful to just get them out on the table and talk about them directly. One, and this kind of picks up on where the Vice Chair just was, is that I think some people hear about our proposal and say it seems counter-intuitive that a route to financial stability is to ask banks to increase leverage. That is they have to issue more debt. And so I -- maybe you-all could sort of walk through both the facts and the reasoning that are responsive to that concern.

MARK VAN DER WEIDE. So I'll start. So we don't think this proposal will result in the U.S. G-SIBs issuing more debt increasing the size of their balance sheet, increasing their leverage. The shortfall numbers are pretty manageable at this point, at the $70-billion level. The firms have a substantial amount of long-term debt that they're currently issuing out of subsidiaries that they can move up to the parent holding company. They also have a substantial amount of long-term debt that is in its final two remaining years of maturity, which can be termed out to reduce the shortfall. We think all or nearly all of the shortfall can be met by simply that kind of rearrangement of the liabilities on their balance sheet. Those relatively cheap paths to compliance don't involve increasing the balance sheet at all, don't involve increasing the leverage at all. Obviously firms may increase their balance sheets but we also have a set of capital requirements that do constrain leverage, and those are going to stay as they are today and they're a pretty strong set of constraints on leverage. And we now have a U.S. G-SIB surcharge that actually puts special additional capital charges on firms that do grow their balance sheet. So I think we're protected in the unlikely event that we do see balance sheet growth by our capital rules and the G-SIB surcharge in particular.

GOVERNOR TARULLO. One of the other issues that has been bouncing around is the question of what's the market for this kind of debt, and who would be holding it. And that's the question of whether you may be increasing interconnections that might be troublesome because you get to a point of insolvency and they -- the entities holding the debt that would be converted turnout to themselves be vulnerable under the same set of financial stress conditions.

MARK VAN DER WEIDE. Right. So, we do -- the reality today, I think it's a relatively benign structural reality is the bulk of the long-term debt of the U.S. G-SIBs is held by non-bank institutional investors such as pension funds, insurance companies, and bond mutual funds. Very little of the debt of the G-SIBs today, long-term debt, is held by say other banks. We do recognize that this new framework around resolution is only going to work if the government, the resolution authorities when there is a failure have the ability and will to impose losses on the long-term debt holders of these firms. So we are attentive to that potential risk. The proposal that we issued last year did contain a particular capital charge that would disincent quite strongly, banks owning significant amounts of long-term debt of G-SIBs -- although we're not finalizing that today we are going to work with the OCC and the FDIC actively in 2017 to get that rule finalized, and that is an important part of the program to make sure that although there isn't a lot of inter-bank holdings of this instrument today that it doesn't develop in the future.

CHAIR YELLEN. Thank you. Governor Powell.

GOVERNOR POWELL. Thank you, Madam Chair. So several of my questions are asked and answered by now, but let me ask this, Governor Tarullo mentioned in his remarks and I think you touched on the fact that this new finalized rule will help both in bankruptcy resolution and in an orderly liquidation authority Title 2 Dodd-Frank resolution, I wonder if you can expand upon that a bit?

WILL GILES. Sure. I'm sure I can, Governor Powell. Under both, both FDIC and orderly liquidation authority in the bankruptcy court have the ability to impose losses on long-term debt holders as just a part of the nature of both bankruptcy restructuring of debt as well as the FDIC's authority in the orderly liquidation authority. Moreover, the clean bank holding requirements allow this imposition of losses on long-term debt holders to be done quickly – should, are intended to allow that imposition to be done quickly because they essentially distinguish long-term debt holders which should have losses imposed on them in an orderly liquidation from depositor's short-term debt holders that the imposition of losses which should be avoided for systemic, you know, contagion reasons.

MICHAEL GIBSON. I was just going to add that whether you're in a bankruptcy resolution or a Title 2 orderly liquidation authority resolution, the reason the firm is in resolution is because it has taken significant losses and has a capital hole that needs to be filled. And so the long-term debt investors are the logical ones to fill that hole without having to resort to taxpayer support, and both in bank -- as Will said, both in a bankruptcy resolution or in Title 2 the authority would exist to take the long-term debt and convert it into equity, recapitalize the firm that's necessary to get the firm back into -- eventually back into private market hands it needs to have strong capital to do that and the long-term debt could be the source of capital through a bail-in process whether it's in a bankruptcy process or Title 2.

CHAIR YELLEN. Governor Brainard? Okay. What I would like to do is go around and ask each of my colleagues for their positions or any comments they may have, and then hearing those we'll go to the motions. Vice Chair?

VICE CHAIR FISCHER. I have no reservations, Madam Chairman. I support and understand what is being presented here.

CHAIR YELLEN. Thank you. Govenor Tarullo?

GOVERNOR TARULLO. And I also support the rule and think it's an important component of our overall reform package, and look forward to the continuation and finalization of a rule with the banking agencies on this cross holdings issue.

CHAIR YELLEN. Governor Powell?

GOVERNOR POWELL. Thank you, Madam Chair. So the effect of this rule is to help assure that if one of these firms largest systemic firms does fail it needs to be resolved either in bankruptcy or in orderly liquidation authority. That firm will have enough gone-concern capital remaining to allow an orderly resolution and keep the tax payers out of it. So I'm pleased to support the finalization of this rule today.

CHAIR YELLEN. Thank you. Governor Brainard?

GOVERNOR BRAINARD. Yeah, I too see this rule that we're finalizing today as critical to ensuring that the largest and most complex banking institutions in America can be resolved without posing unacceptable risks to financial stability. The long-term debt requirement contained in today's rule is a necessary counterpart to the Dodd-Frank Act requirement that firms construct credible plans to resolve themselves without endangering the stability of the financial system. For all these reasons, I support today's rule which I believe moves us closer to our goal of a safer more responsible and more resilient financial system. Thank you.

CHAIR YELLEN. Thank you. And I also support the rule and want to thank the staff for all of their hard work in bringing this to fruition, and to my colleagues. Now we will vote separately on two separate motions. The first I need a motion to approve final rule establishing total loss absorbing capacity and related buffer requirements, long-term debt requirements, and clean holding company requirements that restrict certain financial arrangements with external counterparties for U.S. globally systemically important bank holding companies and U.S. intermediate holding companies of foreign global systemically important banks. Do I have a motion?

VICE CHAIR FISCHER. So moved.

CHAIR YELLEN. Thank you.

CHAIR YELLEN. Without objection? And second, I need a motion to authorize staff to make technical changes and minor changes to prepare to related federal registered documents for publication.

VICE CHAIR FISCHER. So moved.

GOVERNOR TARULLO. Second.

CHAIR YELLEN. Thank you. Second. And without objection. And thanks again to the staff for terrific work on this and that concludes our work. Concludes the meeting. Thank you.

VICE CHAIR FISCHER. Thank you, Madam.