THE NEW ENGLAND COUNCIL

Committee Update

September 12, 2014

**Hearing Summary**

**Wall Street Reform: Assessing and Enhancing the Financial Regulatory System**

**Senate Committee on Banking, Housing and Urban Affairs**

**Tuesday, September 9, 2014 at 10:00 a.m.**

## Witness List

- **The Honorable Daniel K. Tarullo**
  Governor
  Board of Governors of the Federal Reserve System
- **The Honorable Martin J. Gruenberg**
  Chairman
  Federal Deposit Insurance Corporation (FDIC)
- **The Honorable Thomas J. Curry**
  Comptroller of the Currency
  Office of the Comptroller of the Currency (OCC)
- **The Honorable Richard Cordray**
  Director
  Consumer Financial Protection Bureau (CFPB)
- **The Honorable Mary Jo White**
  Chair
  Securities and Exchange Commission (SEC)
- **The Honorable Timothy G. Massad**
  Chairman
  U.S. Commodity Futures Trading Commission (CFTC)

## Key Topics Discussed

- **SIFI Designation Process**. Senate Banking Committee Ranking Member Michael Crapo (R-ID) called on regulators to cease further designation of nonbank firms as systemically important financial institutions (SIFI) until the Financial Stability Oversight Council (FSOC) employs public, indicator-based criteria for such designations. Additionally, in his opening remarks, Governor Tarullo said that it may be time to consider raising the $50 billion threshold for SIFI designation.

- **Insurance Industry**. Senate Banking Committee Chairman Tim Johnson (D-SD) and Senator Mike Johanns (R-NE) both noted the importance of the so-called Collins Amendment fix for the Federal Reserve, which claims it needs a statutory change to Section 171 of the Dodd-Frank Act in order to tailor rules specifically for insurance companies. The Senate unanimously passed S. 2270, the *Capital Standards Clarification Act of 2014*, which now awaits consideration by the House. Chairman Johnson noted that, without the Collins Amendment fix, the Fed has engaged in a two-track approach on capital rules for designated insurance companies. Governor Tarullo said that there are insurance products that do not resemble existing bank products and that those are being assigned different risk weights now. He said the Fed is hoping to find a few more areas where it can act through its ongoing quantitative impact study, which is designed to develop further information on the insurance industry.

  In response to a question from Senator Johanns regarding how the FSOC has been able to designate insurance companies as SIFIs when it admitted that additional information regarding insurance companies is still needed, Governor Tarullo noted the distinction between the creation of capital standards and the assessment of systemic risk. He said that there is not a lot of concern about core insurance activities; however, there has been concern about "runnability" in some non-traditional insurance activities and other non-insurance activity undertaken by these companies.

- **Living Wills**. Chairman Johnson asked about the actions the FDIC would undertake to monitor systemic banks as they work to develop new living wills by the July 2015 deadline. Chairman Gruenberg explains that each of the 11 firms whose bankruptcy plans were previously rejected had received a detailed roadmap of changes that needed to occur, and that his agency would provide guidance and direction throughout the process. Senator Elizabeth Warren (D-MA) expressed concern regarding the joint Fed-FDIC statement saying that the agencies expected the banks to make "significant progress" on the predetermined changes before next summer, asking Governor Tarullo and Chairman Gruenberg what they meant by "significant" and what the consequences of failing to meet that goal would be. Chairman Gruenberg noted that the agencies will be working closely with the banks to ensure they meet the expectations laid out, while Governor Tarullo added that supervisors are already working with the banks to address each problem and will give indications of success or failure to the firms throughout the process. Governor Tarullo also confirmed to Senator Warren that the agencies would use the tools at their disposal to take those measurable steps for the banks should they fall short next year.

- **Capital Surcharge**. Governor Tarullo made clear that big banks will face capital surcharges that are much higher than Basel rules prescribe. Senator Sherrod Brown (D-OH), a possible successor to Johnson as Chairman, noted that an unnamed senior Fed official suggested to the *Wall Street Journal* that some U.S. banks might face a surcharge as high as 4.5% of risk-weighted assets.

- **Risk Retention Rule**. Chairman Johnson asked about the progress of a risk retention rule. Governor Tarullo said that it is "in the home stretch" at the Fed, though it may not be completed by the end of this year; Chairman Gruenberg and Comptroller Curry were more optimistic that the FDIC and OCC would be able to finish their work on the rule by the close of 2014.

- **Regulatory Review**. Ranking Member Crapo spoke about the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA), and asked the Federal Reserve, FDIC, and OCC to provide a list of regulations that the agencies find are unnecessary or overly burdensome. Comptroller Curry said that the Federal Financial Institutions Examination Council (FFIEC) is overseeing the EGRPRA process and has already engaged in reviewing regulations, with a particular focus on how regulations impact community banks. He said they will be holding a number of outreach sessions across the country, and will later report to Congress recommendations that require any statutory changes. Senator Heidi Heitkamp (D-ND) was also vocal about calling for a timetable for the process because community banks are making decisions based on their perception of the regulatory burden they face. In his opening remarks, Governor Tarullo said that it may be time to eliminate some Dodd-Frank provisions for community banks entirely, including the incentive compensation and Volcker rules.

- **Municipal Bonds**. Senator Chuck Schumer (D-NY) urged regulators to reconsider the decision to exclude municipal bonds from being considered as high-quality liquid assets (HQLA) in the recently approved Liquidity Coverage Ratio (LCR) rule.  Schumer argued that municipal securities are critical for cities and states looking to take on infrastructure improvement projects, and "adequately cover liquidity outflows in periods of stress."  Governor Tarullo, Chairman Gruenberg, and Comptroller Curry all said they would be willing to revise the rule if necessary after monitoring how it impacts the market.

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