TESTIMONY OF

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The views expressed herein are those of the Office of the Comptroller of the Currency and do not necessarily represent the views of the President.

Chairman Hensarling, Ranking Member Waters, and members of the Committee, thank you for the opportunity to appear before you today. The Office of the Comptroller of the Currency (OCC) supervises more than 1,700 national banks and federal savings associations (collectively, banks), constituting approximately 25 percent of all federally insured banks. These institutions range from community banks to the nation's largest and most complex financial institutions and, together, they hold more than 69 percent of all commercial bank assets. The banks we supervise have made significant strides since the financial crisis in repairing their balance sheets through stronger capital, improved liquidity, and timely recognition and resolution of problem loans. While these are positive developments, we continue to stress that institutions remain vigilant about identifying and monitoring risk.

My testimony today discusses the OCC's rulemaking, supervisory, and enforcement processes and recent actions, as well as the economic analyses we conduct with respect to our rulemakings, and our approach to banking products and services. Before turning to these matters, however, I would like to take this opportunity to review briefly the OCC's efforts to address the unique set of challenges community banks face in the current financial environment. This is a time of significant change for institutions of all sizes as they grapple with an evolving regulatory landscape and difficult business environment. Although regulations implementing the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act or Act) have focused generally on larger institutions, certain provisions of the Act affect the entire banking sector. These changes can strain the more limited resources of community banks. As I will discuss next, the OCC is committed to addressing these concerns wherever possible. We have instituted a number of initiatives to do so and will continue to reevaluate and look for additional ways to minimize burden on community banks.

I. OCC Commitment to Community Banks

The OCC supervises over 1,350 community banks with assets under $1 billion, of which 893 have less than $250 million in assets. These institutions continue to make positive strides post-financial crisis. The number of troubled institutions has declined significantly since peaking in 2010, capital is increasing, and we have recently seen an uptick in lending. Community banks provide small businesses and communities across the nation with the essential financial services and credit that are critical to economic growth and job creation.

Given the broad array of institutions we oversee, the OCC understands a one-size-fits-all-approach to supervision does not work, especially for community banks. We recognize that community banks have different business models and more limited resources than larger banks, and, to the extent underlying statutory requirements allow it, we factor these differences into the rules we write and the guidance we issue.

The OCC seeks to minimize burden on smaller institutions through various means. Explaining and organizing our rulemakings so these institutions can better understand the scope and application of our rules, providing alternatives to satisfy prescriptive requirements, and using exemptions or transition periods, are examples of ways in which we tailor our regulations to accommodate community banks while remaining faithful to statutory requirements and legislative intent.

For example, our final interagency rule to implement the domestic capital requirements illustrates how we seek to tailor our regulatory requirements to reflect the activities of individual banks. In response to community bank concerns, our final rules retained the current capital treatment for residential mortgage exposures and allowed community banks to elect to treat certain accumulated other comprehensive income (AOCI) components consistently with the

current general risk-based capital rules. Treating AOCI in this manner helps smaller institutions avoid introducing substantial volatility into their regulatory capital calculations.

In June 2013, the OCC responded to community bank concerns when finalizing our revised lending limits rule in accordance with section 610 of the Dodd-Frank Act to include counterparty credit exposures arising from derivatives and securities financing transactions. Specifically, the rule now exempts from the lending limits calculations certain securities financing transactions most commonly used by community banks. In addition, the rule permits smaller institutions to adopt compliance alternatives commensurate with their size and risk profile by providing flexible options for measuring counterparty credit exposures covered by section 610, including an easy-to-use lookup table.

Our final rule implementing the Volcker Rule provisions of the Dodd-Frank Act is another example of how we seek to adjust regulatory requirements, where consistent with the underlying statute, to reflect the nature of activities at institutions of different sizes. The statute applies to all banking entities, regardless of size; however, not all banking entities engage in activities covered by the prohibitions in the statute. One of the OCC's priorities in the interagency Volcker rulemaking was to make sure that the final regulations imposed compliance obligations on banking entities in proportion to their involvement in covered activities and investments.

The final regulations accomplish this priority and impose compliance obligations accordingly. First, banks that do not engage in covered activities or investments are not required to establish a compliance program under the final regulations. Second, the final regulations made adjustments to the proposed compliance program requirements so as to minimize burdens on banking entities with total consolidated assets of $10 billion or less that are engaged in a more

limited amount of covered activities. These banking entities are only required to update their existing policies and procedures to include references to the requirements in the final regulations, as may be appropriate given their activities and complexity. Thus, a community bank that trades only in "plain vanilla" government obligations has no compliance obligations under the regulations, and community banks that engage in other low-risk covered activities will be subject only to minimal requirements.[1]

The OCC also is providing more manageable ways for community banks to digest large amounts of information and to assist them in quickly and easily understanding whether and how this information applies to them. For example, in each bulletin transmitting a new regulation or supervisory guidance to our banks, we now include a box that allows community banks to assess quickly whether the issuance applies to them and, if so, clearly identifies the impact of the issuance. We have also identified other means to convey plain language descriptions of complex requirements, such as the two-page summary the OCC provided in connection with the final domestic capital rule highlighting aspects of the rule applicable to community banks. Likewise, we provided to community banks a quick reference guide to the mortgage rules the Consumer Financial Protection Bureau issued in January.

II. OCC Rulemaking and Economic Analyses

Agency issuances may take many forms and, accordingly, the OCC has a full range of options to communicate standards and expectations to the entities we supervise. The OCC uses informal, notice-and-comment rulemaking to establish binding norms; for example, when

[1] Shortly after the agencies issued the final rule, we began to hear concerns that certain collateralized debt obligations backed primarily by trust preferred securities (TruPS CDOs), which were originally issued as a means to facilitate capital-raising efforts of small banks and mutual holding companies, would be subject to eventual divestiture and immediate write-downs under the applicable accounting treatment and that the rule was inconsistent with another provision of the Dodd-Frank Act — the Collins Amendment. Given the importance of this issue to affected community banks and to mitigate the unintended consequences, the agencies responded promptly by adopting an interim final rule to address this concern. See 79 Fed. Reg. 5223 (Jan. 31, 2014), available at http://el.occ/news-issuances/federal-register/79fr5223.pdf.

Congress directs us to write a regulation or when standards lend themselves to bright-line requirements. The OCC uses informal guidance, such as policy statements and "Frequently Asked Questions" – an approach well recognized in administrative law[2] – when it is appropriate for standards to be flexible and able to be tailored to individual institutions.

The OCC takes seriously the effect of its issuances on the public and private sectors and the economy, and we conduct economic analyses of proposed and final rules. For rules that will have a major or economically significant impact, we prepare a qualitative and quantitative assessment of the costs and benefits, as well as a comparison to a baseline and one or more plausible alternatives, in a manner that is generally consistent with the Office of Management and Budget's (OMB) guidance including Circular A-4. To the extent that we can make accurate estimates, this analysis includes monetized costs and benefits. However, as OMB notes in its guidance, it is not always possible to express all important costs and benefits in monetary units. In all cases, we review a variety of sources to develop these estimates, including public information, supervisory data, academic literature, and information we obtain through the rulemaking notice and comment process.

Specifically, the OCC has adopted internal rulemaking procedures that call for us to undertake an analysis under the Unfunded Mandates Reform Act[3] that assesses whether a proposed or final rule includes a "Federal mandate" that may result in the expenditure by state, local, or tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year (adjusted for inflation). If this threshold is met, the OCC prepares a more detailed economic assessment of the rule's anticipated costs and benefits.

[2] 5 U.S.C. 553(b).
[3] 2 U.S.C. 1531 *et seq.*

Under the Congressional Review Act,[4] before any final rule can take effect, the OCC must inform both chambers of Congress whether the rule is "major." A major rule is one that the OMB determines will, or is likely to, result in a $100 million or more annual economic effect, among other things. Although OMB makes this determination, the OCC typically provides OMB with its assessment at the time it transmits a rule to OMB.

Under the Regulatory Flexibility Act,[5] the OCC determines if a proposed or final rule is likely to have a "significant economic impact on a substantial number of small entities." Under the Paperwork Reduction Act,[6] the OCC assesses the anticipated cost of any paperwork associated with its regulatory provisions.

In addition to these provisions that we follow on an ongoing basis, the OCC and the other federal banking agencies are currently engaged in a review of the burden imposed on insured depository institutions by existing regulations pursuant to the decennial review required by the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA). EGRPRA requires that, at least once every ten years, the Federal Financial Institutions Examination Council (FFIEC), OCC, FDIC, and Federal Reserve review their regulations to identify outdated or otherwise unnecessary regulations applicable to insured depository institutions. The EGRPRA review provides the FFIEC, the agencies, and the public with an important opportunity to consider how to reduce burden on community banks through targeted regulatory changes.

I currently serve as chair of the Legal Advisory Group of the FFIEC and, in this capacity, I have been tasked with coordinating this joint regulatory review. We expect to publish the first EGRPRA notice in the very near future, and we will specifically ask the public to consider regulatory burden on community banks.

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[4] 5 U.S.C. 801 *et seq.*
[5] 5 U.S.C. 601 *et seq.*
[6] 44 U.S.C. 3501 *et seq.*

A. Informal Rulemakings

The vast majority of the OCC's rules are required by statute and are issued in accordance with the notice and comment procedures of the Administrative Procedure Act. While many of the recent OCC rulemakings are required by the Dodd-Frank Act, others are based on different statutory authority. A status update of these rules is set forth in the attached appendix.

B. Other Rulemaking Authority

In certain circumstances, such as where we wish to afford the banks we supervise more flexibility to comply with requirements or provide options for examiners to apply those requirements, the OCC has used other regulatory tools. Section 39 of the Federal Deposit Insurance Act, which authorizes the OCC to prescribe enforceable safety and soundness standards in the form of regulations or guidelines, is one such tool. Section 39 prescribes different consequences depending on whether the standards it authorizes are issued by regulation or guideline. Pursuant to section 39, if a bank fails to meet a standard prescribed by regulation, the OCC must require it to submit a plan specifying the steps it will take to comply with the standard. If a bank fails to meet a standard prescribed by guideline, the OCC has the discretion to decide whether to require the submission of such a plan. The OCC has issued three sets of guidelines using this authority. An example of a recent proposal using this authority is described below.

Heightened Expectations

The financial crisis highlighted the importance of comprehensive and effective risk management and the need for an engaged board of directors that exercises independent judgment. In 2010, we began communicating to our largest banks our heightened expectations with regard to these areas through discussions at board meetings and in written correspondence.

We continued to refine and reinforce these expectations through ongoing supervisory activities and frequent communication with bank management and boards of directors.

The OCC recently issued a proposal that would provide additional supervisory tools to examiners aimed at strengthening risk management practices and governance of large banks. This proposal builds upon and formalizes the heightened expectations program in the form of enforceable guidelines that would generally apply to insured national banks, insured federal savings associations, and insured federal branches of foreign banks with average total consolidated assets of $50 billion or more.

The proposed guidelines set forth minimum standards for a risk governance framework. The institution's framework should address all risks to earnings, capital and liquidity, and reputation that arise from the institution's activities. The proposal also sets out roles and responsibilities for the organizational units that are fundamental to the design and implementation of the framework. The proposed guidelines contain standards for boards of directors regarding oversight of the design and implementation of a bank's risk governance framework and approval of a risk appetite statement. It is vitally important that directors understand the risks taken by their institutions and ensure there is effective, on-going risk management in place.

Issuing these heightened standards as guidelines rather than as a regulation provides the OCC with the flexibility to pursue the course of action that is most appropriate given the specific circumstances of a bank's noncompliance with one or more standards, and the bank's self-corrective and remedial responses.

III. OCC Supervision and Enforcement

The OCC is charged by statute with "assuring the safety and soundness of, and compliance with laws and regulations, fair access to financial services, and fair treatment of customers by, the institutions and other persons subject to its jurisdiction."[7] The OCC uses its supervisory and enforcement authorities to fulfill this mission. The OCC's powers include the authority to require banks to take specific actions to address and correct violations of law and unsafe or unsound practices and to provide restitution to aggrieved consumers.

The OCC's enforcement process is a direct extension of our supervision and is used where circumstances warrant. The OCC addresses violations of laws and regulations, as well as unsafe or unsound practices at banks, through the use of supervisory actions and civil enforcement powers and tools. Our policy[8] is to address problems or weaknesses before they develop into more serious issues that adversely affect the bank's financial condition, its customers and depositors, and the deposit insurance fund. Once problems or weaknesses are identified and communicated to the bank, the bank's management and board of directors are expected to correct them promptly.

Banks are subject to comprehensive, ongoing supervision that enables examiners to identify problems early and obtain corrective action quickly. Because of our regular program of examination, and at the largest institutions, our continuous, on-site presence, we often can stop and remediate unsafe or unsound practices or violations of law without having to take a formal enforcement action. This approach permits most problems to be resolved through the regular OCC supervisory process.

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[7] 12 U.S.C. 1.

[8] The OCC's Enforcement Action Policy, which was publicly released as OCC Bulletin 2011-37, provides for consistent and equitable enforcement standards for national banks and federal savings associations and describes the OCC's procedures for taking appropriate administrative enforcement actions in response to violations of laws, rules, regulations, final agency orders, and unsafe or unsound practices or conditions.

When the bank does not take appropriate corrective action in response to our supervisory process, or when problems are significant or egregious, the OCC uses its statutory enforcement authority to require corrective measures. Such actions are designed to restore the lawful operations of the bank, protect its financial stability, and serve the interests of its customers.

The OCC's enforcement actions are calibrated to reflect the seriousness of the action taken by the bank. For example, a civil money penalty is designed, in part, to deter future violations or to encourage the affected party to correct the violation or unsafe or unsound practice. In other cases, an enforcement order may require the bank to pay restitution to consumers or to cease and desist from engaging in certain activities that may be harmful to consumers or that are unsafe or unsound.

A review of the OCC's recent enforcement actions is illustrative. In the wake of the financial crisis, the vast majority of our enforcement actions were remedial, requiring banks to address and correct unsafe and unsound practices. Such actions typically included provisions tailored to the individual condition of the bank, *e.g.*, articles requiring an increase in capital, the development of a realistic strategic plan, ensuring competent management, providing for appropriate problem asset administration, and maintaining accurate books and records. The goal of such actions is to stabilize the bank, arrest its decline, and promote its timely rehabilitation. At this point, the OCC is seeing increasing numbers of banks that have stabilized or have been rehabilitated and, while some banks have failed following the financial crisis, in a significant number of such cases the OCC's enforcement actions helped limit the losses to the deposit insurance fund.

In response to serious Bank Secrecy Act (BSA) violations, the OCC has taken a number of actions to ensure that the banks have an effective BSA compliance program. The goal of such

actions is to prevent the bank from becoming a vehicle to launder the proceeds of the drug trade, terrorist financing, or other illicit activities. Such actions have required banks to adopt or enhance internal controls to assure ongoing compliance with statutory and regulatory requirements, designate a qualified officer to oversee compliance with the requirements, provide training to appropriate bank staff, and provide for independent testing of a bank's compliance with the requirements. In some instances, the actions have required review of transactions to ensure the bank has identified suspicious transactions and reported them to law enforcement by filing Suspicious Activity Reports (SARs). Following these look-backs, OCC enforcement actions have required banks to file SARs or, in some cases, amend or correct existing SARs and make other filings as required for any previously unreported activity that falls within the regulatory requirements.

The OCC has also taken a number of enforcement actions to assure fair treatment of bank customers. For example, the OCC issued an enforcement action against a bank to address unsafe and unsound practices discovered in the bank's non-home loan debt collection litigation practices and the bank's non-home loan compliance with the Servicemembers Civil Relief Act (SCRA). The order required both remediation to affected consumers and correction of deficiencies in the bank's practices and procedures in its debt collection and SCRA compliance programs. The OCC has also recently issued orders to banks to address unfair billing and deceptive marketing practices that violated section 5 of the Federal Trade Commission Act. The orders require each of the banks to take corrective measures and make restitution to consumers adversely affected by the bank's acts and practices. Finally, the orders call for the banks to pay a civil money penalty that reflects a number of factors, including the scope and duration of the violation and the financial harm to the consumers from the unfair and deceptive practices.

IV. The OCC's Approach to Bank Products and Services

The OCC generally does not determine the specific types or terms of products or services that a bank may offer its customers. We do expect banks to evaluate carefully the risks that such products or services may pose to banks and their customers. We also expect that, in offering those products and services, banks will comply with all applicable laws and regulations. Historically, when we have determined that a product's terms or structure may present substantial safety and soundness or consumer protection concerns, our approach has been to alert banks to those concerns and outline steps they should take to address them.

For example, in 2010, the OCC issued its Policy Statement on Tax Refund-Related Products,[9] which described the legal compliance, consumer protection, reputation, and safety and soundness risks associated with offering products such as tax refund anticipation loans. This guidance clearly sets forth the OCC's expectations for the measures banks should take to address these supervisory risks. In particular, the OCC was concerned about banks' ability to manage third-party risk across thousands of storefront operations. After we issued this guidance, some banks chose to no longer offer tax refund anticipation loans.

Last year, the OCC identified similar risks in deposit advance products (DAPs) offered by our supervised institutions. DAPs are small-dollar, short-term loans or lines of credit repaid from the customer's next direct deposit. DAPs pose several risks to consumers and to the institutions that offer them. They can trap consumers in a downward cycle of debt through repeated and continuous use of the product. And, they are offered to consumers without regard to the consumers' ability to repay and often with very high fees and short lump-sum repayment terms that disadvantage consumers. Further, as is often the case with these products, a bank's failure to consider the inflows and outflows in a borrower's account ignores basic tenets of sound

[9] OCC Bulletin 2010-7 (February 18, 2010).

underwriting. Banks offering these products are subject to heightened reputation, operational, and litigation risk.

To address these supervisory risks, in November of last year the OCC published "Guidance on Supervisory Concerns and Expectations Regarding Deposit Advance Products" in the *Federal Register*. This guidance addresses the elevated credit, compliance, reputation, and operational risks associated with DAPs. It also provides that a bank's underwriting and credit policies should ensure that the consumer can repay a DAP, including fees, according to its terms, while still being able to pay for typical recurring expenses for food, housing, transportation, health care, and other outstanding debts. Among other factors, a bank should reevaluate the customer's eligibility and financial capacity for a DAP at least every six months. The guidance also states that banks should maintain appropriate policies and procedures designed to prevent churning and prolonged use of these products.

While the guidance is intended to outline the supervisory risks associated with these products, the OCC continues to recognize that consumers need access to responsible small-dollar credit products. Therefore, our guidance expressly encourages banks to offer small-dollar loans with reasonable repayment terms at a reasonable cost.

Today, we are aware of several banks that offer reasonably priced small-dollar loans with reasonable terms to their customers. They are designed to meet the needs of people who have little or no credit history or blemished credit records by providing them with access to credit that can be repaid within a reasonable term, rather than merely providing access to quick cash that must be repaid within a couple of weeks. Positive repayment performance on such small-dollar loans can be useful in assisting consumers with building or reestablishing good credit ratings. Good credit ratings are vital to creating long-term access to more mainstream credit

opportunities for these consumers. Banks can also play a role in helping consumers improve their financial management skills by connecting consumers that have limited or blemished credit with effective financial counseling and by encouraging them to save.

Banks have sought our guidance about offering these types of products. We have encouraged them to be innovative when designing small-dollar loan products and have shared with them our thoughts regarding our supervisory expectations with respect to various proposals. Based on our experience, we have seen that properly structured small-dollar loans can offer borrowers a safe and affordable path to economic growth, as opposed to irresponsible, high-cost loans that frequently doom these individuals to an ongoing cycle of debt.

Conclusion

Although the institutions we supervise continue to face challenges, the state of the national bank and federal thrift system is strong. The OCC will continue to look for opportunities to minimize burden, wherever possible. Thank you for the opportunity to appear before you.

Appendix

Status Update on Recent, Key Rulemakings

The following provides an update on recent OCC rulemakings required by the Dodd-Frank Act, as well as others based on different statutory authority.

Swaps Margin. Sections 731 and 763 of the Dodd-Frank Act require the federal banking agencies, together with the Federal Housing Finance Agency (FHFA) and the Farm Credit Administration, to impose minimum margin requirements on non-cleared swaps and security-based swaps for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants. These agencies published a proposal to implement these requirements in 2011.

After issuing the U.S. proposal, the federal banking agencies participated in efforts by the Basel Committee on Banking Supervision (Basel Committee) and International Organization of Securities Commissions (IOSCO) to address coordinated implementation of margin requirements across the G-20 nations. Following extensive public comment, the Basel Committee and IOSCO finalized an international framework in September 2013. The agencies reviewed this framework and the more than 100 comments received on the proposal, and they are currently evaluating the changes indicated under the framework and suggested by commenters. A re-proposal is expected in the coming months.

Section 716 Push-Out. Banks that are registered swap dealers are subject to the derivatives push-out requirements in section 716 of the Dodd-Frank Act. This provision, which became effective on July 16, 2013, generally prohibits federal assistance to swap dealers. The statute required the OCC to grant institutions that it supervises a transition period of up to 24 months to comply. We have granted a 24-month transition period to nine national banks and

four federal branches, having concluded that the transition period is necessary to allow these entities to develop a transition plan for an orderly cessation or divestiture of certain swap activities that does not unduly disrupt lending activities and other functions that the statute required us to consider.

Appraisals. The Dodd-Frank Act contains a number of provisions relating to appraisals, and the federal banking agencies, together with the National Credit Union Administration, FHFA, and the CFPB, continue to work to implement these provisions. Specifically, the agencies issued a final rule last year requiring all creditors, subject to certain exceptions, to comply with additional appraisal requirements before advancing credit for higher-risk mortgage loans.

In addition, this past December, the agencies issued a supplemental rule to revise an exemption for manufactured housing and to add two additional exemptions for streamlined refinancing for certain higher-priced mortgage loans and for loans of $25,000 or less. Recently, the agencies adopted a proposal to implement the minimum requirements in the Dodd-Frank Act for state registration and supervision of appraisal management companies, known as AMCs, which serve as intermediaries between appraisers and lenders. This rule will ensure that appraisals coordinated by AMCs adhere to applicable quality control standards and will facilitate state oversight of AMCs. The proposal also will implement the Dodd-Frank Act requirement that the states report to the FFIEC's Appraisal Subcommittee information needed to administer a national AMC registry.

The agencies also are working collaboratively on a proposal to implement specific quality control standards for automated valuation models, which are computer models used to assess the value of real estate that serves as collateral for loans or pools of loans. Finally, the agencies are

considering rulemaking options to complement an interim final rule issued by the Federal Reserve in 2010, which implements statutory appraisal independence requirements.

Credit Risk Retention. The federal banking agencies, together with FHFA, the Securities and Exchange Commission, and the Department of Housing and Urban Development, continue to work on implementing the credit risk retention requirements for asset securitization in section 941 of the Dodd-Frank Act. In 2011, these agencies proposed a rule to implement section 941 and received over 10,000 comments, which offered many thoughtful suggestions. The agencies concluded that the rulemaking would benefit from a second round of public review and comment, and re-proposed the rule in September 2013. Although the re-proposal includes significant changes from the original proposal, its focus is the same — to ensure that sponsors are held accountable for the performance of the assets they securitize.

The comment period for the re-proposal has now closed, and we are working on a final rule. While we expect to complete this project in the near future, the interagency group is working through some significant issues. For example, the agencies received a substantial number of comments regarding the definition of "qualified residential mortgage" and the extent to which it should incorporate the CFPB's definition of "qualified mortgage." The agencies also received numerous comments, including some from members of Congress, regarding the treatment of collateralized loan obligations. We are carefully considering these and other issues, with the goal of balancing meaningful risk retention with the availability of credit to individuals and businesses.

Capital and Liquidity

i. *Capital.* Last year, the OCC, FDIC, and Federal Reserve finalized a rule that comprehensively revises U.S. capital standards. This rule strengthens the definition of

regulatory capital, increases risk-based capital requirements, and amends the methodologies for determining risk-weighted assets. It also adds a new, stricter leverage ratio requirement for large, internationally active banks. These revisions reflect enhancements to the international capital framework published by the Basel Committee and are a result of lessons learned from the financial crisis. The standards are designed to reduce systemic risk and improve the safe and sound operation of the banks we regulate.

Leverage Ratio Capital Requirements

Among the more important revisions to the domestic capital rules was the addition of stricter leverage ratio requirements applicable to the largest, internationally active banks. Regulatory capital standards in the United States have long included both risk-based capital and leverage requirements which work together, each offsetting the other's potential weaknesses while minimizing incentives for regulatory capital arbitrage. Unlike the risk-based capital requirements, which assign different weights to different exposures according to their relative risk, the leverage ratio is designed to be a relatively simple assessment of capital adequacy that measures a banking organization's total exposures relative to its tier 1 capital.

Our recent revisions to the capital rules now require certain large banking organizations also to meet a supplementary leverage ratio requirement. Unlike the more broadly applicable leverage ratio, this supplementary leverage ratio incorporates off-balance sheet exposures into the measure of leverage. It is expected to be more demanding because large banking organizations often have significant off-balance sheet exposures that arise from different types of lending commitments, derivatives, and other activities.

To further strengthen the resilience of the banking sector, the Comptroller is expected to sign, and the FDIC Board is expected to approve today, a final rule, which would increase

substantially the supplementary leverage ratio requirement for the largest and most systemically important banking organizations. Under this final rule, these banking organizations would be required to maintain even more tier 1 capital for every dollar of exposure, in order to be deemed "well capitalized."

Additionally, the Comptroller is expected to sign, and the FDIC Board is expected to approve today, a notice of proposed rulemaking, which would revise the calculation of the supplementary leverage ratio. This notice of proposed rulemaking is based, in large part, on revisions to the international leverage ratio standards published by the Basel Committee in January.

ii. *Enhanced Liquidity Standards.* Standards aimed at ensuring adequate liquidity for the banks we regulate are an important post-financial crisis tool that is central to the proper functioning of financial markets and the banking sector in general. Working together, the federal banking agencies have made significant progress in implementing the Basel Committee's Liquidity Coverage Ratio in the United States. In November of last year, the federal banking agencies issued a proposal that would require certain large financial companies, including large national banks and federal savings associations, to hold high-quality liquid assets on each business day in an amount equal to or greater than its projected cash outflows minus its projected inflows over a 30-day period of significant stress.

The comment period for the proposed rule ended on January 31, 2014. The agencies are reviewing the comments and are in the process of developing a final rule. This interagency rule, once fully implemented, will complement existing liquidity risk guidance and enhanced liquidity standards recently issued by the Federal Reserve.