TESTIMONY OF KEITH A. NOREIKA
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U.S. HOUSE OF REPRESENTATIVES
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The Need For Reasoned, Transparent Tailoring of Enhanced Prudential Requirements and Supervision

Chairman Luetkemeyer, Ranking Member Clay, and members of the subcommittee, my name is Keith Noreika and I am a Partner in the Financial Institutions Practice at Simpson, Thacher & Bartlett LLP. During 2017, I had the honor to serve as the Acting Comptroller of the Currency.

Thank you for the opportunity to speak today before the Subcommittee on Financial Institutions and Consumer Credit of the House Financial Services Committee about the current state of capital requirements and other enhanced prudential requirements that apply to the U.S. banking sector. The U.S. banking sector is an important segment of the economy that serves as the primary provider of credit to our communities, to consumers and small- and large- businesses alike, and is a vital engine of growth and innovation in our economy. As a former Acting Comptroller of the Currency, I have spent a significant amount of time and effort working to apply the appropriate level of regulation to financial institutions in the United States in a manner that balances the safety, soundness and stability of the financial system, while preserving room in the system for innovators to continue to efficiently allocate capital. Today, I hope to give you my perspective as someone recently familiar with the concerns of both the public and private sectors.

In my testimony, I will focus on two distinct and enduring tensions in the bank regulatory space. The first is the tension between the mandate to regulate both safety *and*

soundness of the banking sector. The second is the tension between the democratic need for transparency in the creation and implementation of regulatory requirements, and the bases for any requirements, balanced against the need to preserve appropriate agency discretion to act as a day-to-day supervisor without having to go through administrative processes.

During my time leading the primary regulator of U.S. national banks, I kept front and center in my mind the principle that financial regulators are mandated to protect both the safety *and* the *soundness* of the banking sector. Soundness requires that banks are not so overburdened with regulations that they are unable to turn a profit. Soundness requires that bank management have sufficient freedom and discretion to run their own businesses. When drafting regulations to increase safety in the banking sector, it is important for regulators to consider the economic consequences of their regulations, including how their regulations may adversely impact firms' abilities to operate effectively and the price and availability of credit offered to the public, including to poor families and to our nation's underserved communities. This need for appropriate balance drives my approach to financial regulation generally and informs my comments today about the need for tailoring of enhanced prudential requirements.

The other key principle that guided me during my time leading the Office of the Comptroller of the Currency was the importance of transparency and public input into the regulatory process. The Federal Reserve, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (the "Federal Banking Agencies") have been delegated authority by the democratically elected Congress to regulate and supervise the U.S. banking system. The Federal Banking Agencies, in turn, are required by democratic principles, as well as the Administrative Procedures Act ("APA"), to publish for notice and comment any rule, which is broadly understood to include any rule, policy, or interpretation that has binding effect on the

rights or obligations of affected parties, and to incorporate a statement of the basis and purpose for adopting such rule after consideration of the data, views and arguments presented by the public. During my time running the OCC, I was mindful that when focusing on the goal of increasing the safety of banking organizations, one must remain transparent in the rulemaking and supervisory process and not become overly reliant on "unofficial rulemaking" through guidance. In the banking sector, which is perhaps the most highly regulated industry in the country, there is a risk that rules will beget more rules, and for every rule published in the Code of Federal Regulations, there may be dozens of unofficial rules, often termed non-binding "guidance" or supervisory action, that could potentially have a practical binding effect on subject institutions. Such rules are suspect under the APA, and certain of these rules must also be submitted to Congress for review pursuant to the Congressional Review Act.

By the end of this afternoon's hearing, I expect that we will have heard proposals for specific changes to capital and stress testing requirements that are applied to U.S. financial institutions; this may include changes to calculations and calibrations underlying the capital surcharge applicable to the eight U.S. global systemically important banks, known as "G-SIBs," and changes to the processes and assumptions underlying the Federal Reserve's Dodd-Frank Act Stress Testing regime and its Comprehensive Capital Analysis and Review, known as "DFAST" and "CCAR" respectively, which together are capital stress tests and reviews designed to evaluate both capital adequacy in severe conditions and the quality of the internal processes that firms use to assess their own capital needs. While I strongly support many of the recommendations for tailoring of these requirements and processes that have been advanced by industry participants, academics, and others, I will focus my remarks today on the need for tailoring for two important segments of the U.S. financial system: (1) U.S. regional banks with

between $100 billion and $250 billion in total consolidated assets, and (2) international banking organizations organized outside of the U.S. that have a banking and capital markets presence in the United States.

Tailoring Enhanced Prudential Requirements for Regional Banks

Before I get into specific proposals, I would like to take a step back and discuss more broadly the application of the Federal Reserve's enhanced prudential requirements to U.S. financial institutions, including stress testing and other prudential requirements, and discuss the need for the Federal Reserve to introduce further tailoring into its enhanced prudential requirements for regional banks, as has been advocated by the current Federal Reserve Vice Chairman for Supervision, Governor Randal Quarles.[1]

As we all know, if you have a requirement that is insufficiently calibrated and tailored to a known risk, the risk will continue unabated. On the other hand, if you apply an overly broad and punitive requirement, it will unnecessarily limit lending activity, inhibit economic growth, and in many cases, create artificial incentives that cause firms to take unnatural actions and behaviors that can often be more risky than the previously unregulated behavior. As we have seen time and again, whether it is poorly calibrated capital requirements that incentivize firms to hold risky assets, or liquidity requirements that incentive firms to hoard cash during a crisis rather than spend it in a way that would increase market liquidity, poorly tailored regulations can make the financial system more dangerous, not less so.

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[1] *See, e.g.*, Randal K. Quarles, Speech at the Utah Bankers Association 110th Annual Convention, Sun Valley, Idaho (June 27, 2018) ("A common theme in the legislation and the Fed's steps to improve our regulation and supervision is tailoring. As the Fed continues to evaluate the effectiveness and efficiency of regulations, I expect tailoring will be a guiding principle."); *see also* Jerome H. Powell, Testimony before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Washington, D.C. (June 22, 2017) ("As we near completion of the major post-crisis regulatory reforms…we should continue to tailor our requirements to the size, risk, and complexity of the firms subject to those requirements…[and] we should assess whether we can adjust regulation in common-sense ways that will simplify rules and reduce unnecessary regulatory burden without compromising safety and soundness.").

Congress knew this following the financial crisis when it enacted section 165 of the Dodd-Frank Wall Street Reform and Consumer Protect Act ("Dodd-Frank Act"), which tasked the Federal Reserve, in order to mitigate financial stability risks, with establishing enhanced prudential requirements for bank holding companies with $50 billion or more in total consolidated assets, including requirements relating to capital, leverage, liquidity, risk management, governance, resolution planning, concentration limits, and stress testing, among others.

Congress invited the Federal Reserve to tailor these requirements to the risk profile of the companies subject to the enhanced prudential requirements appropriately so that these requirements would be precisely and specifically applied to firms that presented precise and specific harms that needed to be addressed. Specifically, Congress stated in section 165 that the Federal Reserve "*may*, on its own or pursuant to a recommendation by [the FSOC], differentiate among companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that [it] deems appropriate" (emphasis added).

Notwithstanding this Dodd-Frank provision, the vast majority of the Federal Reserve's enhanced prudential requirements were applied to all firms based on simple asset measures or measures of on-balance sheet foreign exposures that did not specifically differentiate between the characteristics identified by Congress as the potential basis for tailoring.

For instance, if a bank holding company crossed $50 billion in total consolidated assets, it would suddenly become subject to: supervisory DFAST stress testing by the Federal Reserve and more frequent company-run stress testing (as well as the Federal Reserve's CCAR

capital plan requirements, which are imposed outside of the Dodd-Frank Act framework), enhanced risk management and risk committee requirements, prescriptive liquidity risk management and stress testing requirements, standardized liquidity requirements (one currently effective and another the Federal Reserve is still working on), and resolution plan requirements. International banking organizations with more than $50 billion in U.S. non-branch assets would also become subject to the Federal Reserve's intermediate holding company requirement, a ring-fencing requirement that, as I will discuss later, has the potential to make the international banking system less safe.

By and large, a single measure meant a firm was covered by all of those requirements. To be fair, there were some other instances of tailoring. Firms with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure are, for instance, subject to slightly higher liquidity requirements. More recently, the Federal Reserve exempted from the CCAR qualitative review firms with less than $250 billion in total consolidated assets and less than $75 billion in total non-bank assets, an exemption that I applaud and hope to see applied to other CCAR firms in the future. The Federal Reserve has also adopted an additional set of requirements for the largest 6 U.S. bank holding companies, and the two largest U.S. processing banks, the so-called G-SIBs. However, for the dozens of other banking organizations with more than $50 billion in total consolidated assets, to date, tailoring has been limited to simple dollar thresholds and a foreign exposure threshold that nearly everyone agrees do not accurately capture risk.[2]

[2] As part of any tailoring proposal to make the enhanced prudential requirements apply to banking organizations based on more risk-sensitive measures, as I discuss further below, the Federal Banking Agencies should consider eliminating the foreign exposure threshold entirely, given that this metric is not risk-based and impacts international banks in a disparate manner.

As a result, today, moderately-sized regional banking organizations with traditional and straight-forward business models that provide communities with their traditional banking needs, such as getting loans and having a place to make deposits, have been generally subject to the same stress testing, risk management, capital, and liquidity requirements that are applied to firms that are materially larger and more complex. These requirements have adversely impacted the lending activities of regional and community banks, and have increased the price of, and reduced the access to, credit for families, small businesses, and other job creators in our economy.[3]

With the recent enactment of the Economic Growth, Regulatory Relief, and Consumer Protection Act, which I will refer to as "the Act," Congress recognized these concerns and directed the Federal Reserve to tailor its requirements to the riskiness of the institutions that it supervises. The Act did two important things for tailoring enhanced prudential requirements. First, it raised the threshold for the applicability of enhanced prudential requirements from $50 billion to $250 billion. Second, the Act provided that the Federal Reserve may, by order or rule, apply any enhanced prudential requirement to firms with at least $100 billion in total consolidated assets, so long as the Federal Reserve *both* determines that application of the specific prudential requirement is appropriate (either to prevent or mitigate risks to U.S. financial stability or to promote the safety and soundness of the firms in question), *and* takes into consideration the firms' capital structure, riskiness, complexity, financial activities (including

[3] *See* Michael D. Bordo, John v. Duca, "The Impact of the Dodd-Frank Act on Small Business," NBER Working Paper No. 24501 (April 2018); The Effects of Increased Post-Crisis Regulation and Supervision on Regional Banks and the Economy They Serve, Regional Bank Coalition (July 15, 2018), available at regionalbanks.org/the-data; Marshall Lux and Robert Greene, "The State and Fate of Community Banking," M-RCBG Associate Working Paper No. 37, Harvard University Kennedy School (February 2015).

financial activities of subsidiaries), size, *and* any other risk-related factors that the Federal Reserve deems appropriate.

These two tailoring-related changes reflect careful drafting and policy choices by Congress. First, under the Act, the presumption is that all firms with less than $250 billion in total consolidated assets are no longer covered by enhanced prudential requirements. To apply enhanced prudential requirements to such firms, the Federal Reserve must affirmatively demonstrate that the requirements are appropriate to prevent risks to financial stability or to promote safety and soundness and are appropriately tailored to the organizations in question. That means that the Federal Reserve should provide a bottom-up review and analysis of the impact of the enhanced prudential requirements that it intends to apply to regional banks.

Prior to proposing any new thresholds, the Federal Reserve should perform and publish a comprehensive empirical analysis of the cumulative effect of all of its enhanced prudential requirements on U.S. financial stability and the safety and soundness of the regional banking sector that justifies any enhanced prudential requirements that apply going forward. Any retention of enhanced prudential requirements should reasonably be based on economic analysis that demonstrates how the benefits that such rules provide for the mitigation of systemic risk and the promotion of safety and *soundness* of the banking sector outweighs the costs of these requirements. This recommendation is consistent with the U.S. Treasury Department's conclusions in its June 2017 Report to President Trump pursuant to Executive Order 13772, in which Treasury concluded that Federal Banking Agencies should "follow the principles of transparency and public accountability by conducting rigorous cost-benefit analyses and making greater use of notices of proposed rulemakings to solicit public comment." In particular, Treasury recommended that the Federal Banking Agencies perform and make available for

public comment a cost-benefit analysis with respect to at least all "economically significant" proposed regulations.[4]

Second, the Act requires that the application of any enhanced prudential requirement to a firm with $100 billion in total consolidated assets or more must take into account a firm's "capital structure, riskiness, complexity, financial activities (including financial activities of subsidiaries), size, and any other risk-related factors that the [Federal Reserve] deems appropriate." This is a conjunctive, not a disjunctive, test. As a result, under the Act, the Federal Reserve cannot continue to apply enhanced prudential requirements to firms with more than $100 billion in total consolidated assets merely based on asset size alone. To comply with the Act, any application of enhanced prudential requirements to such regional-sized firms must incorporate each and every of the following characteristics of the firm: riskiness, complexity, financial activities, size, and any other factor the Federal Reserve deems appropriate, as well as consider how the application of enhanced requirements reduce financial stability risk and promote safety and soundness.

One idea for how the Federal Reserve could accomplish this tailoring would be to adopt and apply the methodology currently used to identify G-SIBs and calculate the G-SIB surcharge, or a similar multi-factored measure, to identify those banks with more than $100 billion in total consolidated assets that pose sufficient risk to qualify them for enhanced requirements. The G-SIB surcharge calculation methodology is a measure that the Federal Reserve has already adopted, it has already gone out for notice-and-comment, and,

[4] U.S. Department of the Treasury, *A Financial System That Creates Economic Opportunities: Banks and Credit Unions* (Washington, D.C., June 2017) (hereinafter the "June 2017 Treasury Report").

notwithstanding certain areas where the G-SIB calculation should be recalibrated and improved, it is a generally understood and accepted approach for measuring a firm's systemic risk.

Third, the Act requires the Federal Reserve to apply Dodd-Frank's multi-factored, conjunctive test for determining applicability for "any prudential standard." Congress required separate analyses for assessing the application of each separate rule. In other words, there should not be a single line which, if crossed, causes a firm to be subject the entire suite of enhanced prudential requirements. And this makes sense. For instance, why should a firm be subject to enhanced liquidity requirements based on the amount of its assets, even though those assets may be highly liquid and the firm may fund itself primarily with long-term stable funding? Why subject a regional banking organization with a traditional "mom-and-pop" business model of taking deposits and making traditional loans to a number of annual stress testing requirements, which costs millions of dollars and the efforts of dozens of employees on an ongoing basis, based merely on an asset threshold? An enhanced requirement that targets a specific risk should only apply to a firm if that firm demonstrates a vulnerability to that specific risk. It should not be the case, and the Act does not permit, the Federal Reserve to continue applying a single risk-insensitive trip wire that, if tripped, causes a firm to become subject to the full panoply of enhanced prudential requirements.

As the Federal Reserve proceeds to implement the Act, the *substantive requirement* of each of the enhanced prudential requirements should also be reviewed and tailored to ensure that the substance of the requirement is appropriate based on the risks posed by the subject firm. It does not make sense for the same prescriptive governance requirements that apply to G-SIBs to be applied to smaller regional banks. It similarly does not make sense for portions of rules that were specifically designed to target broker-dealer activities to be applied to firms that do not

have a significant broker-dealer. Failing to tailor properly both the scope *and* substance of the Federal Reserve's enhanced prudential requirements will inevitably result in constraints on economic growth and access to credit, and may distort incentives and ultimately cause more risk to exist in the system.

I am encouraged by statements by the Federal Reserve's leadership about the importance of improving the efficiency of regulation by carefully considering a regulation's potential adverse economic consequences, and by focusing on precise calibration of the regulation to fit the risks in need of mitigation.[5] I am also hopeful that the Federal Reserve will apply these principles as it tailors the enhanced prudential requirements, if any, that continue to apply to regional banks with above $100 billion in total consolidated assets.

Before I move on to discuss enhanced prudential requirements applicable to international banks, I would like to add one final thought on tailoring for regional banks. The Federal Reserve should immediately cease the application of the enhanced prudential requirements to firms with less than $250 billion in total consolidated assets, in the same fashion that the Federal Banking Agencies recently indicated that they would not apply these requirements to firms with less than $100 billion in total consolidated assets. Although the Act included an 18-month delayed effective date, presumably to give the Federal Banking Agencies time to consider how to tailor these regulations appropriately, every day that these burdensome requirements unnecessarily apply to regional banks that do not present significant risks, economic growth is stifled and this cost is primarily borne by consumers and small businesses.

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[5] Randal K. Quarles, Speech at the American Bar Association Banking Law Committee Annual Meeting, Washington, D.C. (January 19, 2018) (noting that "[e]fficiency of regulation can be improved through a variety of means," including by achieving a given regulation's objective using fewer tools, addressing unintended adverse consequences or eliminating perverse incentives created by a regulation, calibrating a given regulation more precisely to the risks in need of mitigation, or using simpler examination procedures for bank supervisors).

In all events, applying rules until or unless they can be empirically validated puts the cart before the horse. Given the statutory mandates of Dodd-Frank and the Act, a demonstrated analysis showing systemic risk should be required before any further application of these rules to regional banks.

Tailoring Enhanced Prudential Requirements Applicable to International Banks

I would next like to discuss the application of enhanced prudential requirements to international banking organizations that are organized in countries outside of the United States. International banks represent an important segment of the U.S. banking sector, representing 20% of total U.S. banking system assets, providing one-third of U.S. business loans, and engaging in significant broker-dealer and capital markets activities in the U.S. markets.[6]

Since the passage of the International Banking Act of 1978, the regulation of international banks operating in the United States has been guided by a non-discrimination principle of "national treatment and equality of competitive opportunity." Put simply, and as explained by Congress, national treatment has meant the "parity of treatment between foreign and domestic banks in like circumstances." The policy goal of providing parity of treatment was two-fold. It was designed both to support the fair and equal treatment of U.S. and international banking organizations operating in the United States, ideally with the result of engendering fair and equal treatment of U.S. banking organizations that operate abroad. It was also designed to ensure that U.S. customers would benefit from increased competition and access to credit that would result from international firms providing services in U.S. markets.

Congress's commitment to national treatment was reaffirmed in the Dodd-Frank Act, where Congress directed the Federal Reserve, when applying enhanced prudential requirements

[6] June 2017 Treasury Report, pg. 68.

to international firms, to "(A) give due regard to the principle of national treatment and equality of competitive opportunity; and (B) take into account the extent to which the foreign financial company is subject on a consolidated basis to home country standards that are comparable to those applied to financial companies in the United States."

In some ways, the implementation of enhanced prudential requirements has been in tension with the principle of national treatment, most notably with respect to the implementation of an intermediate holding company ("IHC") requirement on firms with $50 billion or more in U.S. non-branch assets; a variety of prescriptive governance, risk management, capital, liquidity, stress testing and resolution planning requirements on the U.S. operations of international banks with $50 billion or more in total assets (measured against U.S. assets or global assets, depending upon the requirement); and for IHC subsidiaries of international banks that are G-SIBs, a requirement to maintain certain amounts of internal total-loss absorbing capacity ("TLAC") and long-term debt, in each case that is issued from the U.S. IHC to its foreign parent company.

The adverse net effect of these requirements has been well-documented, with industry participants, the Treasury Department (in its June 2017 Treasury Report), and Federal Reserve officials themselves noting that the U.S. has administratively created a system of ring-fencing, under which local U.S. capital, liquidity, and debt requirements have contributed to the balkanization and fragmentation of international financial markets that threatens the free-flow and efficient transfer of money and capital across the international financial system.

The IHC requirement predictably spurred IHC proposals in other jurisdictions. For international firms operating in the United States and U.S. banks operating abroad, ring-fencing requirements make it significantly more expensive to operate. This has and will continue to result in international firms retreating from U.S. markets, thereby harming competition and

decreasing the availability of credit and capital markets activities in the United States, which will ultimately hurt the U.S. consumer.[7] Moreover, the U.S. ring-fencing requirements, and reactive foreign-ring fencing requirements, will cause a net increase in capital costs on international firms, and U.S. firms operating abroad, as countries apply stand-alone capital and liquidity requirements. This may have the perverse effect of making banks with cross-border activities less safe, because if a crisis in one geography burns through the firm's local prepositioned resources, the firm may be precluded from using its resources located elsewhere to bolster the part of its operations that is under stress.[8]

There are a number of actions that the Federal Banking Agencies can and should take to reintroduce national treatment into their regulation of the U.S. operations of international banks. The first is that the Federal Banking Agencies should better take into account the global resources of international firms when calibrating capital, liquidity, and stress testing requirements applied to the U.S. operations of these firms. International firms are often more diversified and safer on a global basis than would appear from just a narrow focus on their U.S. operations, and this should be reflected in the Federal Banking Agencies' regulation of such firms. Further, any current or future plans to increase or further solidify ring-fencing, such as in the area of liquidity regulation or resolution planning requirements, should be carefully tailored to prevent further fragmentation of the financial system. The new leadership at the Federal Reserve has indicated a willingness to reconsider the calibration of its ring-fencing requirements,

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[7] *See*, *e.g.*, Institute for International Bankers, Submission to U.S. Treasury Department Regarding Executive Order 13772; Financial Stability Oversight Council 2016 Annual Report; Oliver Wyman, Enhanced Prudential Standards for Foreign Banking Organizations: An Impact Assessment, April 30, 2013.

[8] *See* Wilson Irving, "Understanding 'ring-fencing' and how it could make banking riskier," Brookings Center on Regulation and Markets (February 7, 2018).

and I urge the Federal Reserve to focus on the safety and soundness of international firms on a global basis when it proposes future tailoring of these requirements.[9]

Second, consistent with the June 2017 Treasury Report recommendations, the requirements applicable to the U.S. operations of international banks should be commensurate with the risks posed by their U.S. footprints (with due consideration to the benefits arising from these firms' global resources and diversification). For instance, U.S. IHC subsidiaries of certain international banks are subject to certain heightened standards that, with respect to U.S. banking organizations, only apply to the largest and most complex firms. In this regard, certain IHCs are subject to enhanced capital planning requirements, additional and punitive market shock scenarios in their CCAR stress testing, as well as the CCAR qualitative assessment, and enhanced liquidity stress testing and risk management requirements, each of which are otherwise applied only to the largest and most complex U.S. banking organizations. Further, certain international banks have been grouped with the U.S. G-SIBs in the Federal Reserve's Large Institution Supervision Coordinating Committee ("LISCC") supervisory portfolio, under which they are subject to heightened supervisory standards and expectations and are judged in horizontal reviews against U.S. G-SIBs that have much more significant U.S. footprints. This creates an unequal playing field.

Any tailoring of requirements, as well as the finalization of any current proposals for new requirements, should take into account the economic impact that such rules would have on international banks operating in the United States.[10] It is vital for the transparency and due

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[9] Randal K. Quarles, Speech at "Ring-Fencing the Global Banking System" Symposium, Harvard Law School, Cambridge, Massachusetts (May 16, 2018) ("We are interested in views from the firms and the public on how the [ring-fencing] regimes can be improved, and we expect to invite public comment on our living will guidance for U.S. and foreign firms in the near future.").

[10] Notably, the stress capital buffer proposal contained no analysis of the impact of the proposal on international banks.

process of our regulatory process for administrative agencies to measure and analyze the impact of their rules on affected parties, and that obligation should not be ignored merely because a U.S. entity has a foreign parent.

Finally, there are numerous opportunities for tailoring that should be performed that take into account the unique global operations of international firms. The Federal Reserve should, for example, consider whether there is a need for both U.S. capital requirements and internal TLAC requirements for IHCs of G-SIBs. In stress, capital and internal TLAC, which can be converted into equity, are functionally similar, which raises the question of whether both of these requirements are necessary. The internal TLAC requirement also raises international tax issues that are unique to international firms that should be addressed. There are numerous changes that should be made to the CCAR process as it applies to domestic and international firms, including introducing more transparency, stronger processes, and a reconsideration of scenarios and supervisory models. With respect to international firms in particular, the current CCAR framework disadvantages firms whose U.S. operations are primarily capital markets in nature, and does not take into account the benefits of global diversification that exist for international banks. These disadvantages would be further exacerbated if the CCAR results are engrained in a spot capital requirement through the proposed Stress Capital Buffer. This disparate treatment should be addressed in connection with a broader rethink of the CCAR process, one that includes significantly more transparency, public input, and due process into what is most firms' binding capital constraint.

I am optimistic that with the passage of the Act, and new heads of the Federal Banking Agencies, that our financial system will benefit from a regulatory framework that is more appropriately tailored to the risks posed by regulated financial institutions, particularly

regional and international banking organizations. In particular, I look forward to working with the Federal Banking Agencies to promote a regulatory regime for regional banks in which each rule is appropriately tailored to the risk profile of any bank subject to such rule, based on a multi-factor analysis of the bank's risk characteristics and a rigorous cost-benefit analysis of the intended and unintended economic consequences of each rule (beginning with an immediate moratorium on compliance with enhanced prudential requirements for any banking organization with less than $250 billion in total consolidated assets). And I look forward to the economic benefits that the U.S. financial system would enjoy through a recalibration of the current ring-fencing requirements and a regulatory approach to international banking organizations that gives more consideration to the strength of the firm's global operations, which will ultimately result in a more robust U.S. financial market.

Thank you for allowing me to appear before you today to present my views on these important issues.