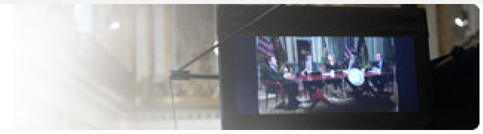

Stronger Capital and Liquidity Standards for Banking Firms

9/3/2009

To read the Treasury Department's policy statement, "Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms," please visit link.

The global regulatory framework failed to prevent the build-up of risk in the financial system in the years leading up to the recent crisis. Major financial institutions around the world had reserves and capital buffers that were too low; used excessive amounts of leverage to finance their operations; and relied too much on unstable, short-term funding sources. The resulting distress, failures, and government bailouts of these firms imposed unacceptable costs on individuals and businesses around the world. Going forward, global banking firms must be made subject to stronger regulatory capital and liquidity standards that are as uniform as possible across countries. Today the Treasury Department set forth the core principles that should guide reform of the international regulatory capital and liquidity framework to better protect the safety and soundness of individual banking firms and the stability of the global financial system and economy.

Stronger capital and liquidity standards for banking firms:

· Capital requirements should be designed to protect the stability of the financial system, not just the solvency of individual banking firms, including banks, bank holding companies, financial holding companies and large, interconnected firms.

· Capital requirements for all banking firms should be increased, and capital requirements for financial firms that could pose a threat to overall financial stability should be higher than those for other banking firms.

· The regulatory capital framework should put greater emphasis on higher quality forms of capital that enable banking firms to absorb losses and continue operating as going concerns.

· The rules used to measure risks embedded in banks' portfolios and the capital required to protect against them must be improved. Risk-based capital requirements should be a function of the relative risk, including systemic risk, of a banking firm's exposures, and risk-based capital rules should better reflect a banking firm's current financial condition.

· The procyclicality of the regulatory capital and accounting regimes should be reduced and consideration should be given to introducing countercyclical elements into the regulatory capital regime.

· Banking firms should be subject to a simple, non-risk-based leverage constraint.

· Banking firms should be subject to a conservative, explicit liquidity standard.
· Stricter capital and liquidity requirements for the banking system should not be allowed to result in the re-emergence of an under-regulated non-bank financial sector that poses a threat to financial stability.

· A comprehensive agreement on new international capital and liquidity standards should be reached by December 31, 2010 and should be implemented in national jurisdictions by December 31, 2012.

###