

For release on delivery  
10:00 a.m. EDT  
July 21, 2011

Statement by

Ben S. Bernanke

Chairman

Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

July 21, 2011

Chairman Johnson, Ranking Member Shelby, and other members of the Committee, thank you for the opportunity to testify on the first anniversary of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act).<sup>1</sup>

On this anniversary, it is worth reminding ourselves of why the Congress passed sweeping financial reforms a year ago. The financial crisis of 2008-09 was unprecedented in its scope and severity. Some of the world's largest financial firms collapsed or nearly did so, sending shock waves through the highly interconnected global financial system. Critical financial markets came under enormous stress. Asset prices fell sharply and flows of credit to American families and businesses were disrupted. The crisis, in turn, wreaked havoc on the U.S. and global economies, causing sharp declines in production and trade and putting millions out of work. Extraordinary actions by authorities around the world helped stabilize the situation, but, nearly three years later, the recovery from the crisis in the United States and in many other countries remains far from complete.

In response to the crisis, we have seen a comprehensive re-thinking and reform of financial regulation, both in the United States and around the world. Among the core objectives of both the Dodd-Frank Act and the global regulatory reform effort are: enhancing regulators' ability to monitor and address threats to financial stability, strengthening both the prudential oversight and resolvability of systemically important financial institutions (SIFIs), and improving the capacity of financial markets and infrastructures to absorb shocks. I will briefly discuss each of these objectives.

First, to help regulators better anticipate and prepare for threats to financial stability, legislatures in both the United States and other developed economies have instructed central

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<sup>1</sup> An appendix to this testimony provides details on the Federal Reserve's progress in meeting its responsibilities under the Dodd-Frank Act.

banks and regulatory agencies to adopt what has been called a *macroprudential* approach to supervision and regulation--that is, an approach that supplements traditional supervision and regulation of individual firms or markets with explicit consideration of threats to the stability of the financial system as a whole. Under a macroprudential approach, regulators are enjoined not only to look for emerging financial risks but also to try to identify structural weaknesses or gaps in the regulatory system, thereby helping the regulatory framework keep pace with financial innovation and other market developments.

As you know, the Dodd-Frank Act created a council of regulators, the Financial Stability Oversight Council, to coordinate efforts to identify and mitigate threats to U.S. financial stability across a range of institutions and markets. The Council's monitoring efforts are well under way, and this new organization has contributed to what has been a very positive atmosphere of consultation and coordination among its member agencies. The Council is also moving forward with its rulemaking responsibilities, including rules under which it will be able to designate systemically important nonbank financial institutions and financial market utilities for additional supervisory oversight, including by the Federal Reserve. For its part, the Federal Reserve has also made organizational changes to promote a macroprudential approach to regulation. Among these changes is the establishment of high-level, multidisciplinary working groups to oversee the supervision of large, complex banking firms and financial market utilities, with a strong focus on developments that have implications for financial stability. We have also created an Office of Financial Stability Policy and Research to help coordinate our efforts to identify and analyze potential risks to the broader financial system and to serve as liaison with the Council.

A second major objective of financial reform is to mitigate the threats to financial stability posed by the too-big-to-fail problem. Here the Dodd-Frank Act takes a two-pronged

approach. The first prong empowers the Federal Reserve to reduce a SIFI's probability of failure through tougher prudential regulation and supervision, including enhanced risk-based capital and leverage requirements, liquidity requirements, single-counterparty credit limits, stress testing, an early remediation regime, and activities restrictions. The Federal Reserve and other agencies face the ongoing challenge of aligning domestic regulations with international agreements, including the Basel III requirements for globally active banks. These efforts are going well; in particular, the Federal Reserve expects to issue proposed rules on the oversight of SIFIs later this summer and, working with other banking agencies, is on schedule to implement Basel III.

Ending too-big-to-fail also requires allowing a SIFI to fail if it cannot meet its obligations--and to do so without inflicting serious damage on the broader financial system. Thus, the second prong of the Dodd-Frank Act's effort to end too-big-to-fail empowers the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC) to reduce the effect on the system in the event of a SIFI's failure through tools such as the new orderly liquidation authority and improved resolution planning by firms and supervisors. In particular, the Federal Reserve is working with the FDIC to require SIFIs to better prepare for their own resolution by adopting so-called living wills. A joint final rule on living wills is expected later this summer.

Reducing the likelihood of a severe financial crisis also requires strengthening the resilience of our financial markets and infrastructure--a third major objective of the Dodd-Frank Act. Toward that end, provisions of the act improve the transparency and stability of the over-the-counter derivatives markets and strengthen the oversight of financial market utilities and other critical parts of our financial infrastructure. We and our colleagues at the Securities and Exchange Commission, the Commodity Futures Trading Commission, and other agencies are moving this work forward, in consultation as appropriate with foreign regulators and

international bodies. The U.S. agencies are also working together to address structural weaknesses in areas not specifically addressed by the Dodd-Frank Act, such as the triparty repo market and the money market mutual fund industry.

To be sure, any sweeping reform comes with costs and uncertainties. In implementing the statute, the Federal Reserve is committed to the promulgation of rules that are economically sensible, appropriately weigh costs and benefits, protect smaller community institutions, and, most important, promote the sound extension of credit in the service of economic growth and development. A full transition to the new system will require much more work by both the public and private sectors, and no doubt we will learn lessons along the way. However, as we work together to implement financial reform, we must not lose sight of the reason that we began this process: ensuring that events like those of 2008 and 2009 are not repeated. Our long-term economic health requires that we do everything possible to achieve that goal.

Thank you. I would be pleased to take your questions.

***Key Implementation Initiatives of the Board of Governors of the Federal Reserve System  
 Under the Dodd-Frank Wall Street Reform and Consumer Protection Act***

The following highlights key initiatives undertaken by the Board of Governors of the Federal Reserve System (Board) in connection with the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act). By the one-year anniversary of the Act, the Board expects to have issued or considered nearly twenty-seven rules, three public notices, and nine reports or studies under the Act.

***Table 1. Summary of the Board’s Rulemaking Efforts Under the Dodd-Frank Act<sup>1</sup>***

<i>Seq.</i>	<i>Description</i>	<i>Due</i>	<i>Status</i>
<b>Rulemaking Under Title I</b>			
1.	<b>Proposed Rule to Establish Certain Definitions Under Title I [R-1405].</b> On February 8, 2011, the Board issued a <u>proposed rule</u> to define when a nonbank company is “predominantly engaged” in financial activities; and the terms “significant nonbank financial company” and “significant bank holding company.” (Section 102)	No Deadline	Comment period closed. Final rule under development.
2.	<b>Proposed Rule on Resolution Plans (living wills) [R-1414].</b> On April 12, 2011, the Board and the FDIC issued a <u>joint proposed rule</u> that would require large, systemically significant bank holding companies and nonbank financial companies to submit annual resolution plans and quarterly credit exposure reports. (Section 165)	1/1/2012	Comment period closed. Final rule under development.
3.	<b>Final Rule to Establish Minimum Risk-Based Capital Requirements (Collins Amendment) [R-1402].</b> On June 14, 2011, the Board issued a <u>joint final rule</u> , along with the FDIC and the OCC, to establish a floor for the risk-based capital requirements applicable to the largest, internationally active banking organizations. (Section 171)	No Deadline	Completed.

<sup>1</sup> The implementation initiatives highlighted below do not include the Board’s rulemaking responsibilities as part of the new Financial Stability Oversight Council, or rulemaking initiatives where the Board serves in a consultative role.

<b>Rulemaking Under Title III</b>			
4.	<b>Notice of Intent to Require Reporting Forms For Savings and Loan Holding Companies.</b> On February 3, 2011, the Board provided public <u>notice</u> of its intention to require savings and loan holding companies (SLHCs) to submit the same reports as bank holding companies, beginning with the March 31, 2012 reporting period. (Title III, generally)	No Deadline	Comment period closed.
5.	<b>Notice Related to Supervision of SLHCs [OP-1416].</b> On April 15, 2011, the Board issued a public <u>notice</u> that outlines how it intends to apply certain parts of its current consolidated supervisory program for bank holding companies to SLHCs after assuming supervisory responsibility for SLHCs. (Title III, generally)	No Deadline	Comment period closed. Final rule under development.
6.	<b>Notice of OTS Regulations To Be Continued.</b> On July 13, 2011, the Board approved public <u>notice</u> of all OTS regulations that it anticipates continuing to enforce. (Section 316)	7/21/11	Completed.
7.	<b>Interim Final Rule to Amend OTS Regulations.</b> The Board will soon consider an <u>interim final rule</u> setting forth regulations for SLHCs. The interim final rule has three components: (1) a new Regulation LL, setting forth regulations generally governing SLHCs; (2) a new Regulation MM, setting forth regulations governing SLHCs in mutual form (MHCs); and (3) several technical amendments to current Board regulations necessary to accommodate the transfer of supervisory authority for SLHCs from the OTS to the Board. (Section 312)	No Deadline	Board consideration expected soon.
<b>Rulemaking Under Title VI</b>			
8.	<b>Final Rule to Allow Interest on Demand Deposits [R-1413].</b> On July 14, 2011, the Board issued a <u>final rule</u> repealing Regulation Q and allowing payment of interest on demand deposits at institutions that are member banks of the Federal Reserve System. (Section 627)	No Deadline	Completed.

9.	<b>Proposed Rule on Registration of Securities Holding Companies.</b> The Board will soon consider a <u>proposed rule</u> that outlines the requirements that a nonbank company that owns at least one registered broker or dealer, and that is required by a foreign regulator or provision of foreign law to be subject to comprehensive consolidated supervision (“securities holding company”), must satisfy in order to register with the Board and subject themselves to supervision by the Board. (Section 618)	No Deadline	Board consideration expected soon.
10.	<b>Final Rule to Implement the Volcker Rule Conformance Period [R-1397].</b> On February 9, 2011, the Board issued a <u>final rule</u> to implement the provisions of the Act that give banking firms a period of time to conform their activities and investments to the prohibitions and restrictions of the Volcker Rule. (Section 619(c)(6))	1/21/11	Completed.
<b>Rulemaking Under Title VII</b>			
11.	<b>Proposed Rule on Margin and Capital Requirements for Swaps [R-1415].</b> On April 12, 2011, the Board issued a <u>joint proposed rule</u> with the FCA, FDIC, FHFA and OCC to establish margin and capital requirements for swap dealers, major swap participants, security-based swap dealers, and major security-based swap participants. The Agencies previously extended the comment period to July 11, 2011, to allow interested persons more time to analyze the issues and prepare their comments. (Sections 731 and 764)	No Deadline	Comment period closed. Final rule under development.
12.	<b>Proposed Rule on Retail Foreign Exchange Futures and Options.</b> The Board will soon consider a <u>proposed rule</u> that would permit entities under the Board’s jurisdiction to engage in retail foreign exchange futures and options. (Section 742)	No Deadline	Board decision expected soon.
<b>Rulemaking Under Title VIII</b>			
13.	<b>Proposed Rule on Financial Market Utilities (FMU) Risk Management Standards and Procedures [R-1412].</b> On March 30, 2011, the Board issued a <u>proposed rule</u> related to the supervision of FMUs designated as systemically important by the Financial Stability Oversight Council. (Sections 801 and 806)	No Deadline	Comment period closed. Final rule under development.

<b>Rulemaking Under Title IX</b>			
14.	<b>Advanced Notice of Proposed Rulemaking on Alternatives to the Use of Credit Ratings in Capital Rules (Regulations H and Y) [R-1391].</b> On August 10, 2010, the Board issued an <u>advanced notice of proposed rulemaking</u> regarding the alternatives to the use of credit ratings in the risk-based capital rules for banking organizations. (Section 939A)	No Deadline	Proposed rule under development.
15.	<b>Proposed Rule on Credit Risk Retention [R-1411].</b> On March 29, 2011, the Board issued a <u>joint proposed rule</u> with five other federal agencies, to implement the credit risk retention requirements applicable in connection with the issuance of asset-backed securities. The agencies have announced the extension of the comment period for the proposed rule to August 1, 2011. This will allow interested persons more time to analyze the issues and prepare their comments. (Section 941)	4/17/11	Comment period extended.
16.	<b>Proposed Rule on Incentive Compensation [R-1410].</b> On March 30, 2011, the Board issued a <u>joint proposed rule</u> with the OCC, FDIC, OTS, NCUA, SEC and FHFA to prohibit incentive-based compensation arrangements that encourage inappropriate risk-taking by covered financial companies, and to require the disclosure and reporting of certain incentive-based compensation information by covered financial companies. (Section 956)	4/21/11	Comment period closed. Final rule under development.
<b>Rulemaking Under Title X</b>			
17.	<b>Proposed Rule on Data Requirements for Motor Vehicle Dealers [R-1426].</b> On June 20, 2011, the Board issued a <u>proposed rule</u> under Regulation B to clarify that motor vehicle dealers temporarily are not required to comply with certain data collection requirements in Act until the Board issues final regulations to implement the statutory requirements. (Section 1071)	No Deadline	Comment period open.
18.	<b>Proposed Rules on Remittance Transfers Disclosures (Regulation E) [R-1419].</b> On May 12, 2011, the Board issued a <u>proposed rule</u> to require that remittance transfer providers make certain disclosures to senders of remittance transfers, including information about fees and the exchange rate, as applicable, and the amount of currency to be received by the recipient. The proposed rule also would provide error resolution and cancellation rights for senders of remittance transfers. (Section 1073)	1/21/12	Comment period closed (rule will transfer to the CFPB).

19.	<b>Debit Interchange—Final Rules Establishing Interchange Standards and Limitations on Payment Card Restrictions [R-1404].</b> On June 29, 2011, the Board issued a <u>final rule</u> to establish standards for debit card interchange fees, regulations governing network fees, and prohibitions against network exclusivity arrangements and routing restrictions. The statutory deadline for issuing interchange and network fee rules was April 21, 2011. The final rules to implement the exclusivity and routing restrictions of the Act were not due until July 21, 2011, but have been combined with the rules on interchange fees. (Section 1075)	4/21/11 and 7/21/11	Completed.
20.	<b>Debit Interchange—Interim Final Rule Regarding Fraud Prevention Adjustment [R-1404].</b> On June 29, 2011, the Board issued an <u>interim final rule</u> that allows for an upward adjustment of no more than 1 cent to an issuer’s debit card interchange fee if the issuer develops and implements policies and procedures reasonably designed to achieve the rule’s fraud-prevention standards. (Section 1075)	4/21/11	Completed.
<b>Rulemaking Under Title XI</b>			
21.	<b>Final Rule to Expand Coverage Under the Truth in Lending Act (Regulation Z) [R-1399].</b> On March 25, 2011, the Board issued a <u>final rule</u> to require creditors to disclose key terms of consumer loans and prohibit creditors from engaging in certain practices with respect to those loans. (Section 1100(E))	No Deadline	Completed.
22.	<b>Final Rule to Expand Coverage Under the Consumer Leasing Act (Regulation M) [R-1400].</b> On March 25, 2011, the Board issued a <u>final rule</u> requiring lessors to provide consumers with disclosures regarding the cost and other terms of personal property leases. (Section 1100(E))	No Deadline	Completed.
23.	<b>Final Rule to Increase Exemption Threshold Under the Consumer Leasing Act (Regulation M) [R-1423].</b> On June 13, 2011, the Board issued a <u>final rule</u> under Regulation M (Consumer Leasing) to increase the dollar threshold for exempt consumer lease transactions. These annual adjustments are required by statute. (Section 1100(E))	No Deadline	Completed.

24.	<b>Final Rule to Increase Exemption Threshold Under the Truth in Lending Act (Regulation Z) [R-1424].</b> On June 13, 2011, the Board issued a <u>final rule</u> to increase the dollar threshold for exempt consumer credit transactions. These annual adjustments are required by statute. (Section 1100(E))	No Deadline	Completed.
25.	<b>Final Rule Revising Risk-Based Pricing Notices Under the Fair Credit Reporting Act (FCRA) (Regulation V) [R-1407].</b> On July 6, 2011, the Board and the FTC issued a <u>joint final rule</u> to revise the content requirements for risk-based pricing notices and to add related model forms to reflect the new credit score disclosure requirements. (Section 1100F)	No Deadline	Completed.
26.	<b>Final Rule Implementing Combined FCRA Notices Under the Equal Credit Opportunity Act (Regulation B) [R-1408].</b> On July 6, 2011, the Board issued a <u>final rule</u> amending Regulation B to include the disclosure of credit scores and related information if a credit score is used in taking adverse action. The revised model notices reflect the new content requirements in section 615(a) of the FCRA, as amended by section 1100F of the Act. (Section 1100F)	No Deadline	Completed.
<b>Rulemaking Under Title XIV</b>			
27.	<b>Proposed Rule on Escrow Account Requirements Under the Truth in Lending Act (Regulation Z) [R-1406].</b> On February 23, 2011, the Board issued a <u>proposed rule</u> to expand the minimum period for mandatory escrow accounts for first-lien, higher-priced mortgage loans from one to five years, and longer under certain circumstances; provide an exemption from the escrow requirement for certain creditors that operate in rural or underserved counties; and implement new disclosure requirements contained in the Act. (Sections 1411, 1412 and 1414)	1/21/13	Comment period closed (rule will transfer to the CFPB)
28.	<b>Proposed Rule Regarding Ability to Repay Under the Truth In Lending (Regulation Z) [R-1417].</b> On April 19, 2011, the Board issued a <u>proposed rule</u> under Regulation Z that would require creditors to determine a consumer's ability to repay a mortgage before making the loan and would establish minimum mortgage underwriting standards. The proposal would also implement the Act's limits on prepayment penalties. The Board is soliciting comment on the proposed rule until July 22, 2011. (Sections 1411, 1412 and 1414)	1/21/13	Comment period open (rule will transfer to the CFPB)

29.	<b>Final Rule on Escrow Requirements Under the Truth in Lending Act (Regulation Z) [R-1392].</b> On February 23, 2011, the Board issued a <u>final rule</u> to increase the annual percentage rate threshold used to determine whether a mortgage lender is required to establish an escrow account for property taxes and insurance for first-lien “jumbo” residential mortgage loans, effective April 1, 2011. (Section 1461)	1/21/13	Completed.
30.	<b>Interim Final Rule on Appraisal Independence (Regulation Z) [R-1394].</b> On October 18, 2010, the Board issued an <u>interim final rule</u> that is intended to ensure that real estate appraisers are free to use their independent professional judgment in assigning home values without influence or pressure from those with interests in the transactions. (Section 1472)	10/19/10	Completed.

**Table 2. Reports and Studies Under the Dodd-Frank Act**

<i>Seq.</i>	<i>Description</i>	<i>Due</i>	<i>Status</i>
1.	<b>Study of the Impact of Credit Risk in Securitization Markets.</b> On October 19, 2010, the Board issued a report on the potential impact of credit risk retention requirements on securitization markets. (Section 941)	10/19/10	Completed.
2.	<b>Report on OTS Transition Plan.</b> On January 25, 2011, the Board, OTS, OCC, and FDIC issued a <u>joint report</u> to Congress and the Inspectors General of the participating agencies on the agencies’ plans to implement the transfer of OTS authorities. (Section 327)	1/20/11	Completed.
3.	<b>Report on Debit Card Transactions.</b> On June 29, 2011, the Board issued a <u>report</u> disclosing certain aggregate or summary information concerning interchange transaction and payment card network fees charged or received in connection with electronic debit transactions. (Section 1075)	7/21/11	Completed.
4.	<b>Study of the Resolution of Financial Companies under the Bankruptcy Code.</b> The Board has approved and will issue soon a <u>study</u> the Board has conducted, in consultation with the Administrative Office of the U.S. Courts, related to the resolution of financial companies under the Bankruptcy Code. (Section 216)	7/21/11	Completed.

5.	<b>Study of International Coordination Relating to the Resolution of Systemic Financial Companies.</b> The Board has approved and will issue soon a <u>study</u> the Board has conducted, in consultation with the Administrative Office of the U.S. Courts, regarding international coordination relating to the resolution of systemic financial companies under the Bankruptcy Code and applicable foreign law. (Section 217)	7/21/11	Completed.
6.	<b>Report on Remittance Transfers: Automated Clearing House Expansion (ACH).</b> On July 19, 2011, the Board approved a <u>report</u> to Congress on the status of ACH expansion for remittance transfers to foreign countries. (Section 1073)	7/21/11	Completed.
7.	<b>Report on Designated Clearing Entities.</b> The Board, CFTC and SEC have approved and soon will issue a joint <u>report</u> to Congress containing recommendations for promoting robust risk management standards and consistency in the supervisory programs of the CFTC and SEC for designated clearing entities. (Section 813)	7/21/11	Completed.
8.	<b>Report on the Use of Credit Ratings in the Board's Rules.</b> The Board will issue soon a <u>report</u> to Congress discussing the review the Board has conducted on the use of credit ratings in its regulations and sometime thereafter report to Congress. (Section 939A)	7/21/11	Expected Soon.
9.	<b>Report on Government Prepaid Cards.</b> The Board soon will issue a <u>report</u> to Congress on the use of prepaid cards by government authorities, and the interchange transaction and cardholder fees charged with respect to such prepaid cards. (Section 1075)	7/21/11	Expected Soon.

**Table 3. Other Implementation Initiatives Under the Dodd-Frank Act**

<i>Seq.</i>	<i>Description</i>	<i>Due</i>	<i>Status</i>
1.	<b>Assistance to the Financial Stability Oversight Council (FSOC).</b> The Board has been providing significant support to the FSOC. The Board continues to assist the FSOC in designing its systemic risk monitoring and evaluation process and in developing its analytical framework and procedures for identifying systemically important nonbank firms and FMUs. The Board also has contributed significantly to the FSOC's recent studies and reports. (Title I, generally)	Various deadlines	Ongoing.
2.	<b>OTS Transition Initiatives.</b> The Board has made substantial progress in its plans relating to the transfer of the supervisory authority of the OTS for SLHCs to the Board. (Title III, generally)	Transfer date is 7/21/11	Ongoing.
3.	<b>Establishment of the Consumer Financial Protection Bureau (CFPB).</b> The Board has established a transition team, headed by Governor Duke, to work closely with staff at the CFPB and at the Treasury Department to facilitate the transition. The Board has provided technical assistance as well as staff to the CFPB to assist it in setting up its functions. The Board has finalized an initial funding agreement and provided initial funding to the CFPB. Moreover, the Board has made substantial progress toward a framework for transferring Federal Reserve staff to the CFPB and integrating CFPB employees into the relevant Federal Reserve benefit programs. (Title X, generally)	Transfer date is 7/21/11	Ongoing.
4.	<b>Federal Reserve Governance, Transparency and Audit Initiatives.</b> On December 1, 2010, the Board provided detailed information on its public website about more than 21,000 individual credit and other transactions conducted during the financial crisis. The Board also has provided on its public website certain audit and related financial information, including audit reports, financial statements and reports to Congress on the Board's facilities under Section 13(3) of the Federal Reserve Act. (Sections 1109 and 1103)	12/1/10 for certain disclosures	Ongoing.
5.	<b>Office of Minority and Women Inclusion.</b> The Board and the Federal Reserve Banks each have established a formal Office of Minority and Women Inclusion to consolidate and build on existing equal opportunity and contracting resources. (Section 342)	1/21/11	Offices established. Initiative ongoing.