September 3, 2009

Principles for Reforming the U.S. and International Regulatory Capital Framework for Banking Firms

Introduction

The global regulatory framework failed to prevent the build-up of risk in the financial system in the years leading up to the recent financial crisis. The sources of this failure were manifold, including insufficient capital and liquidity requirements for banking firms; inadequate and fragmented supervision and regulation of bank and non-bank financial firms that posed a threat to the stability of the financial system; and lack of oversight more generally over the non-bank financial sector. In this policy statement, the Department of the Treasury (Treasury) sets forth the core principles that should shape a new international capital accord to better protect the safety and soundness of individual banking firms and the stability of the global financial system and economy.

We recognize that regulatory capital requirements are only one tool among many that supervisors should use. Activity restrictions, constraints on credit concentrations and liquidity risk, underwriting standards, market discipline, and supervision of risk management and corporate governance practices, among other things, are all indispensable elements of a robust program of oversight for banking firms. But capital requirements have long been and will remain a principal regulatory tool used by supervisors to promote the safety and stability of the banking system.

A principal lesson of the recent crisis is that stronger, higher capital requirements for banking firms are absolutely essential. At the same time, we recognize that stricter capital requirements for banking firms are not without cost. Stricter capital requirements generally will reduce the amount of financial intermediation and may limit credit availability. The objective in designing a regulatory capital regime should be to maximize the prospects for financial stability without unduly curtailing credit availability, financial innovation, economic growth, or the ability of banking firms to attract private investment.

Stronger, higher capital requirements for banking firms will tend to increase incentives for financial intermediation to shift from the banking sector to the non-bank financial sector. We must carefully guard against the emergence of systemic risk from either sector.

The regulatory capital regime for banking firms should reflect the complex financial marketplace in which the firms operate. It should be dynamic and able to

respond nimbly to innovation and other structural changes in the financial system. At the same time, the regime should be as simple as possible – to reflect the limited ability of firms and supervisors to measure risk precisely and to make implementation more consistent and effective. In addition, the regime should not be designed simply to address the flaws that were exposed in the recent financial crisis; it should be built for the future. The financial system will continue to evolve in ways we cannot foresee, and we must seek to design a system that is able to respond to unanticipated changes in the patterns of financial intermediation.

Finance is a global business, and regulatory capital rules for banking firms should be as consistent as possible internationally. Consistent capital rules and consistent application and enforcement of capital rules around the world are essential to prevent geographical regulatory arbitrage and an international race to the bottom.

In our June 17 white paper on financial regulatory reform, A New Foundation: Rebuilding Financial Supervision and Regulation, Treasury announced that it would lead a working group to conduct a fundamental re-assessment of existing regulatory capital requirements for banking firms, and would produce a report with its conclusions by December 31, 2009. Treasury has begun discussions with supervisors and other outside experts to conduct this re-assessment.

The core regulatory reform principles outlined in this policy statement are those that Treasury considers most essential to enhance the resiliency of the global financial system and thereby promote the long-term welfare of individuals and businesses around the world. This is a statement of high-level principles and does not, for example, contain specific numerical recommendations for risk weights on particular exposure types or for the level of minimum capital ratios. Resolving those sorts of calibration issues will require more empirical analysis and deliberation. This policy statement expresses the views of Treasury but reflects consultations with the U.S. federal financial supervisory agencies.

Treasury is issuing this statement to facilitate the process of reaching a domestic and then international consensus on a new regulatory capital and liquidity regime for global banking firms. We should seek to reach a comprehensive international agreement on the new global framework by December 31, 2010, with implementation of the reforms effective December 31, 2012.

Core Principle #1: Capital requirements should be designed to protect the stability of the financial system (as well as the solvency of individual banking firms).

One of the most salient lessons of the recent crisis is that financial firms are deeply intertwined, linked by a complex web of contractual and reputational connections. These inter-firm connections allow financial distress to spread contagiously across the system. To address this feature of modern finance, our regulatory capital framework must have a macro-prudential focus – that is, a focus on promoting the stability of the financial system as a whole – in addition to its traditional micro-prudential focus on protecting the solvency of individual banking firms.

A narrow micro-prudential concern for the solvency of individual firms, while necessary, is by itself insufficient to guard against financial instability. In fact, actions taken to preserve one or a few individual banking firms may destabilize the rest of the financial system. For instance, a single firm may weather a stress event by selling assets and deleveraging, but such stress-induced asset sales may set off a negative spiral, causing losses at other firms that lead to further deleveraging. As the recent crisis has shown, the macroeconomic consequences of such spillovers on the flow of credit throughout the economy are too severe to ignore.

A macro-prudential approach to the regulation of banking firms requires a broad shift in the way capital and related regulations are conceived and analyzed. It requires that we consider how any new regulatory structure would affect the behavior of firms through the credit cycle, and how such behavior might generate externalities that would affect other firms and the broader economy. Among other things, a macro-prudential approach to regulation means: (i) reducing the extent to which the capital and accounting frameworks permit risk to accumulate in boom times, exacerbating the volatility of credit cycles; (ii) incorporating features that encourage or force banking firms to build larger capital cushions in good times; (iii) raising capital requirements for bank and non-bank financial firms that pose a threat to financial stability because of their combination of size, leverage, interconnectedness, and liquidity risk (Tier 1 FHCs) and for systemically risky exposure types; and (iv) improving the ability of banking firms to withstand firm-specific and system-wide liquidity shocks that can set off deleveraging spirals.

Core Principle #2: Capital requirements for all banking firms should be higher, and capital requirements for Tier 1 FHCs should be higher than capital requirements for other banking firms.

Capital requirements for banking firms should be higher across the board. Bringing more capital into the global banking system is vital to protect financial stability.

In the U.S. framework, this means at a minimum that capital requirements for financial holding companies (FHCs) should be raised. The Gramm-Leach-Bliley Act (GLB Act) currently requires a bank holding company (BHC) to keep its subsidiary depository institutions "well capitalized" and "well managed" in order to qualify as an FHC. FHC status allows a BHC to engage in riskier financial activities such as merchant banking, insurance underwriting, and securities underwriting and dealing. The GLB Act does not, however, require an FHC to be "well capitalized" or "well managed" on a consolidated basis. As a result, many of the BHCs that have been most active in volatile capital markets activities have not been held to the highest consolidated regulatory capital standard available. To remedy this situation, in addition to the current FHC eligibility requirements, all FHCs should be required to achieve and maintain well-capitalized and well-managed status on a consolidated basis.

In addition, Tier 1 FHCs should be subject to substantially heightened capital requirements. The failure or financial distress of a Tier 1 FHC can inflict serious damage on many other financial firms and the broader financial system. As a result, Tier 1 FHCs should be subject to higher capital requirements than other firms in order to force them to internalize the costs of such potential spillover effects. Capital requirements for Tier 1 FHCs should be strict enough to be effective under extremely stressful economic and financial conditions.

Core Principle #3: The regulatory capital framework should put greater emphasis on higher quality forms of capital.

A key function of capital is to ensure that a banking firm can absorb losses and continue to operate as a going concern. Capital can only fulfill this purpose if it is permanent, deeply subordinated, and does not obligate the issuer to make any periodic or other payments to investors. An increased focus on the going concern loss absorption capacity of capital – as opposed to merely the capacity of capital to serve as a buffer against taxpayer losses in the event of firm liquidation – is particularly important for Tier 1 FHCs because the potential damage to the financial system associated with their failure or rapid deleveraging is much more significant than for other banking firms.

For these reasons, during good economic conditions, common equity should constitute a large majority of a banking firm's tier 1 capital, and tier 1 capital should constitute a large majority of a banking firm's total regulatory capital. In addition, the inclusion in regulatory capital of deferred tax assets and non-equity hybrid and other innovative securities should be subject to strict, internationally consistent qualitative and quantitative limits.

We also consider it important that voting common equity represent a large majority of a banking firm's tier 1 capital. Investors that have voting control over a banking firm should have a substantial financial stake at risk from the success or failure of the firm's activities. The absence of such an equity stake by the investors that control a banking firm can give those investors an incentive to pursue high-risk strategies. Such an incentive structure can create an acute moral hazard problem because the investors in the firm may obtain outsized profits if the strategies succeed but the public will bear substantially all the costs if the strategies fail. Moreover, voting common equity generally is a standardized and heavily traded capital instrument and, thus, provides the greatest source of market discipline for a firm.

Core Principle #4: Risk-based capital requirements should be a function of the relative risk of a banking firm's exposures, and risk-based capital ratios should better reflect a banking firm's current financial condition.

For a risk-based capital framework to protect the safety and soundness of banking firms and to provide appropriate incentives for firms to engage in prudent forms and amounts of risk-taking, it is crucial that relative risk weights be appropriately calibrated. The capital inadequacy of some of our largest banking firms during the recent crisis stemmed in significant part from the inadequate capture of risk exposures in our capital rules. Among other things, we must reduce to the extent possible the vulnerabilities that may arise from excessive regulatory reliance on internal banking firm models or ratings from credit rating agencies to measure risk.

Risk weights should be a function of the asset-specific risk of the various exposure types, but they also should reflect the systemic importance of the various exposure types. From a macro-prudential perspective, exposure types that exhibit a high correlation with the economic cycle, or whose prevalence is likely to contribute disproportionately to financial instability in times of economic stress, should attract higher risk-based capital charges than other exposure types that have the same level of expected risk. One of the key examples of a systemically risky exposure type during the recent crisis was the structured finance credit protection

purchased by many banking firms from AIG, the monoline insurance companies, and other thinly capitalized special purpose derivatives products companies.

Although systemically important exposure types will change over time and will in part be a function of how widely such exposures are held by banking firms and other highly leveraged investors, some of the principal systemically important exposure types today include:

i. Implicit and explicit exposures to off-balance sheet vehicles sponsored by the banking firm;
ii. Proprietary and other trading positions;
iii. Equity investments;
iv. Structured asset-backed securities and mortgage-backed securities;
v. Counterparty credit risk exposures to financial firms, including non-centrally cleared derivatives and securities financing transactions (repurchase and reverse repurchase agreements, securities lending and borrowing transactions, and margin loans).

It is also important to make each banking firm's regulatory capital ratios more transparently reflect the current condition of the firm. Many of the firms that failed or required extraordinary government assistance during the recent crisis were well capitalized under existing regulatory capital standards. This highlights how the existing regulatory capital and accounting rules generate capital ratios for banking firms that too often are a lagging indicator of financial distress. For example, the existing capital rules generally provide that a banking firm's capital does not reflect unrealized gains or losses on available-for-sale securities. These and other similar features of the capital framework reduce the credibility of regulatory capital ratios for market participants and reduce the usefulness of such ratios for supervisors.

These features of our capital framework complicated our response to the crisis by forcing supervisors to contend both with marketplace doubt about the ability of banking firms to absorb losses in uncertain future scenarios and doubt about whether the capital ratios of banking firms were an accurate indicator of their current condition. To meet this challenge, U.S. supervisors were compelled to take the extraordinary step of subjecting the largest U.S. banking firms to a special Supervisory Capital Assessment Process (the so-called "stress test"). Although the stress test results assuaged many of the doubts of market participants about the capital adequacy of our largest banking firms, going forward we should make regulatory capital ratios reflect more information about the current financial health of banking firms.

Removal of these transparency-reducing provisions from the regulatory capital regime also would substantially strengthen the U.S. prompt corrective action (PCA) framework. The PCA framework is designed to enable or force supervisors to intervene early in troubled firms. The framework relies almost exclusively on regulatory capital ratios, however, and, as noted above, the lagging indicator nature of existing regulatory capital ratios has resulted in far too many banking firms going from well-capitalized status directly to failure. Consequently, in addition to improving the usefulness of the regulatory capital triggers in the PCA framework, we should analyze the merits of adding supplemental triggers. Supplemental triggers could include, for example, measures of non-performing loans or liquidity metrics.

Core Principle #5: 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.

Financial markets are inherently procyclical – that is, they tend to amplify the business cycle. Financial markets amplify the business cycle because financing terms change in response to economic trends. Positive trends in profits and growth lead to more lending and investment from the financial sector, reinforcing the positive economic trends. Negative economic trends lead to less lending and investment, and the retrenchment from the financial sector reinforces the negative economic trends. Financial regulations, however, should not contribute to the procyclicality of financial markets; rather, they should play a mitigating role.

Unfortunately, existing capital requirements encourage banking firms to contract lending or shed assets during a credit crunch. This phenomenon may occur even if minimum capital requirements are not binding because firms typically seek to hold a capital buffer in excess of their minimum requirements for a variety of reasons. Banking firms often believe it is prudent to have room to withstand a certain amount of capital depletion without breaching minimums, and they often perceive that supervisors, credit ratings agencies, and market participants expect such a buffer. As firms suffer losses in the early stages of an economic downturn, their capital ratios decline and their buffers shrink.

Although firms could restore their capital adequacy by raising new capital, they tend to be slow to recapitalize following the onset of a crisis. This phenomenon stems from several sources, including:

i. Recapitalization dilutes existing equity holders of a firm (who control the decision about whether to recapitalize);

ii. Recapitalization benefits existing creditors of a firm and the broader financial system at the expense of existing equity holders of the firm; and
iii. Management may view recapitalization as an admission of failure or may be reluctant to issue new shares at a price that management views as artificially depressed.

Instead of raising new equity capital, banking firms facing an economic downturn or financial crisis typically prefer to improve their capital adequacy by reducing new lending or selling assets. Such behavior by a number of large banking firms may contribute to a contraction of credit availability in the financial system, a reduction in the prices of loans and other debt instruments, consequent impairments to the capital of other financial firms, and further deleveraging behavior. Therefore, efforts to reduce the procyclicality of the regulatory capital regime, or even introduce countercyclicality, have great appeal from a macro-prudential perspective. Moreover, such policies also would contribute to the narrower micro-prudential goal of making individual banking firms less likely to fail. Capital regulation that cushions the effects of adverse system-wide shocks would better enable banking firms to absorb losses and continue operating as going concerns.

Certain aspects of accounting standards also have procyclical tendencies. For example, during good times, loan loss reserves tend to decline because recent historical losses are low.

The regulatory capital and accounting frameworks should be modified in several ways to reduce their procyclicality. First, the regulatory capital regime should require banking firms to hold a buffer over their minimum capital requirements during good economic times (to be available for drawing down in bad economic times). Crucially, the minimum capital requirement must remain credible in the eyes of the financial markets even under severe economic downturn conditions. In addition, the size of the buffer must be sufficient to address likely capital impairment through the credit cycle with minimal credit contraction or deleveraging behavior by banking firms. The principal options for implementing such an approach include adopting (i) fixed, time-invariant target capital ratio(s) above the minimums, with capital distribution restrictions as the penalty for falling below the target ratios; and (ii) time-varying minimum capital ratio(s), where the applicable minimum capital ratio for banking firms at a particular time is a function of one or more contemporaneous macroeconomic indicators. Each of these proposals has its advantages and disadvantages, and additional work should

be done to design a system of countercyclical capital buffers that would best promote financial stability.

Second, regulatory capital requirements for banking firms should reflect more forward-looking, through-the cycle considerations. The capital rules should rely less on procyclical Value-at-Risk (VaR) models, point-in-time internal rating systems, and non-stressed risk parameters. A movement toward greater use of longer-horizon, through-the-cycle risk estimates should result in higher capital requirements in the early phases of the credit cycle and more uniform capital requirements throughout the cycle.

Third, in determining their loan loss reserves, banking firms also should be required to be more forward-looking and consider factors that would cause loan losses to differ from recent historical experience. This would likely result in recognition of higher provisions earlier in the credit cycle and hence should act to dampen the amplitude of credit cycles. Earlier, more forward-looking loss recognition by banking firms has the potential to reduce procyclicality and meet the safety and soundness goals of prudential regulators, while at the same time providing necessary transparency to users of banking firm financial reports.

In addition, regulatory capital disincentives to robust provisioning should be reduced or eliminated. Under the existing U.S. risk-based capital rules, reserves are included in regulatory capital only up to a specified percentage of risk-weighted assets. Under the Basel II internal-ratings-based frameworks, reserves shortfalls are deducted from regulatory capital, while excess reserves are included in regulatory capital only up to a specified percentage of credit-risk-weighted assets. Risk-based capital rules should be revised to remove or modify those provisions that could play a role in unnecessarily discouraging banking firms from setting aside adequate provisions throughout the credit cycle.

Finally, we should examine the merits of providing favorable regulatory capital treatment for, or requiring some banking firms (such as Tier 1 FHCs) to issue, appropriately designed contingent capital instruments – including (i) long-term debt instruments that convert to equity capital in stressed conditions; or (ii) fully secured insurance arrangements that pay out to banking firms in stressed conditions. Requiring banking firms to issue these sorts of contingent capital instruments to market participants could substantially reduce the procyclical effects of regulatory capital requirements and expedite the private sector recapitalization of banking firms during a severe economic downturn. The feasibility of contingent capital instruments, however, remains uncertain. The challenges of contingent capital include, among others, devising the right trigger event for conversion and

designing an instrument that will be marketable by banking firms at a reasonable cost.

Although strong efforts should be made to reduce the procyclicality of the regulatory capital rules, we should not allow those efforts to distort the risk signals provided by risk-based capital requirements. As discussed above, risk-based capital requirements should better capture the relative risk of different exposures, and risk-based capital ratios should better reflect a banking firm's current financial condition.

Core Principle #6: Banking firms should be subject to a simple, non-risk-based leverage constraint.

Risk-based capital rules are a critical component of a regulatory capital regime; however, it is impossible to construct risk-based capital rules that perfectly capture all the risk exposures of banking firms. Inevitably, there will be gaps and weak spots in any risk-based capital framework, and regulatory arbitrage activity by firms will tilt asset portfolios and risk taking toward those gaps and weak spots. A simple leverage constraint would make the regulatory system more robust by limiting the degree to which such gaps and weak spots in the risk-based capital framework can be exploited. A simple leverage constraint also can help reduce the threats to financial stability from categorical misjudgments about risk by market participants and the official sector.

In addition, imposing a leverage constraint on banking firms would have macro-prudential benefits. The balance sheets of financial firms and the intermediation chains between and among financial firms tend to grow fastest during good economic times but become subject to rapid reversal when economic conditions worsen. Supervisors generally have failed to exercise discretion to constrain leverage leading into a boom. A simple leverage ratio acts as a hard-wired dampener in the financial system that can be helpful to mitigate systemic risk.

It is important to recognize that the leverage ratio is a blunt instrument that, viewed in isolation, can create its own set of regulatory arbitrage opportunities and perverse incentive structures for banking firms. To mitigate potential adverse effects from an overly simplistic leverage constraint, the constraint should at a minimum incorporate off-balance sheet items. It is also important to view the leverage constraint as a complement to a well designed risk-based capital requirement. Although it may be relatively easy for banking firms to arbitrage any free-standing risk-based capital requirement and relatively easy for firms to

arbitrage any free-standing simple leverage constraint, it is much more difficult to arbitrage both frameworks at the same time.

Core Principle #7: Banking firms should be subject to a conservative, explicit liquidity standard.

Prudential regulation of banking firms has primarily focused on the asset side of the balance sheet. The recent crisis has shown, however, that the risk profile of a banking firm critically depends on the way that the firm funds its assets. Excessive funding of longer-term illiquid assets with short-term debt by a banking firm can contribute as much or more to the firm's failure as insufficient capital.

Excessive liquidity risk at a single Tier 1 FHC or in the banking system in the aggregate also can generate macro-prudential concerns. Liquidity is always and everywhere a highly procyclical phenomenon. In good economic conditions, financial firms generally are awash in liquidity, and firms frequently attempt to increase profitability by relying more heavily on short-term wholesale funding sources. Excessive liquidity risk at a Tier 1 FHC or in the banking system also may generate substantial negative externalities by increasing the likelihood of funding disruptions in the event of the financial distress of the Tier 1 FHC or a broader shock to the financial system. Banking firms are not required to fully internalize the systemic risks they create by incurring inordinate amounts of funding liquidity risk, and the historical oversight of these risks through the supervisory process has not been sufficient.

For these reasons, banking firms should be subject to an explicit liquidity regulation regime. The liquidity regime should be independent from the regulatory capital regime. The liquidity regime should make both individual banking firms and the broader financial system more resilient by limiting the externalities that banking firms can create by taking on imprudent levels and forms of funding mismatch. Introducing strict but flexible liquidity regulations would reduce the chances of destabilizing runs by enhancing the ability of debtor banking firms to withstand withdrawals of short-term funding and by making creditor banking firms less likely to withdraw short-term funding from other firms. The new liquidity regulations should be considered a complement to – and not a substitute for – careful, intensive, firm-specific supervision of each banking firm's liquidity risk management practices.

Although it is important to have a liquidity regulation regime separate from the regulatory capital regime, it is equally important to recognize that capital regulation and liquidity regulation are highly complementary. Liquidity stress can

result in capital adequacy problems; and a bank's vulnerability to liquidity problems depends in part on its capital adequacy. Therefore, each of the regulatory capital and liquidity regimes should be designed bearing the other in mind.

Liquidity regulations should be designed to accomplish two goals: (i) enhancing the short-term resiliency of banking firms by requiring them to hold a pool of unencumbered, liquid assets sufficient to cover likely funding shortfalls in the event of an acute liquidity stress scenario; and (ii) reducing longer-term structural asset-liability maturity mismatches at banking firms. The core attributes of a desirable liquidity regulation include simplicity; comparability across firms and across countries; conservative assumptions about the liquidity of assets during times of financial stress; and conservative stress-case assumptions about runoff rates for all types of liabilities, collateral calls by derivative counterparties, draws by borrowers on committed credit facilities extended by the banking firm, and implicit support that would be provided to vehicles sponsored and advised by the banking firm.

In addition, a strong macro-prudential liquidity regulation framework should focus on more than safeguarding the funding liquidity positions of individual banking firms in the face of firm-specific stress events. The framework should attend to system-wide liquidity risks; it should help preserve the funding liquidity of banking firms in the event of system-wide liquidity contractions. The framework should reflect the cross-funding among banking firms and between the banking system and the non-bank financial sector, and should address concentrations in funding sources and liquidity pools across banking firms.

Consideration also should be given to the merits of making regulatory capital requirements a function of the liquidity risk of banking firms. Although higher capital levels are not a fully reliable protective device for preventing a run by creditors, it may be consistent with macro-prudential goals to require banking firms with greater amounts of structural funding mismatches or that disproportionately rely on volatile short-term funding sources to hold more capital. Such a capital requirement would force the banking firm to internalize the cost that its higher level of funding liquidity risk imposes on the financial system.

Core Principle #8: Stricter capital requirements for the banking system should not result in the re-emergence of an under-regulated non-bank financial sector that poses a threat to financial stability.

Any regulatory reforms undertaken in the banking sector – including in particular higher capital and liquidity requirements for banking firms – will have effects on the nature and size of the non-bank financial sector and on the boundary

interactions between the two sectors. In particular, stronger regulation of banking firms is likely to incent the migration of financial transactions away from the banking sector into the non-bank financial sector. Vigilance is required to ensure that any such migration does not generate systemic risk.

Mitigating this source of systemic risk demands two things. First, it demands that we design our stronger regime of bank regulation in a balanced fashion – with a view toward minimizing incentives for risk transfers to the non-bank financial sector.

Second, it demands that we not allow potential threats to financial stability to escape regulation simply because they reside outside the banking system. Treasury's financial regulatory reform plan is designed to help check the growth of systemic risk in the non-bank financial sector. All financial firms that pose a threat to financial stability (Tier 1 FHCs) – regardless of whether they own a bank – will be subject to robust supervision and regulation on a consolidated basis by the Federal Reserve. Banking firms will be required to consolidate for financial statement purposes and/or hold regulatory capital against vehicles that they sponsor and advise. Money market mutual funds will be subject to tighter regulation, including tighter regulation of their credit and liquidity risks. Derivative transactions will be subject to reporting requirements and higher margin and capital requirements, and standardized derivative transactions will be subject to central clearing and central trading requirements. Securitization markets will be subject to greater transparency standards and requirements to align the incentives of loan originators and securitization sponsors with those of investors. The Federal Reserve and the Financial Services Oversight Council (FSOC) will be explicitly charged with monitoring threats to financial stability that might emerge from any quarter.

Going forward, the Federal Reserve and the FSOC will need to devote considerable attention to assessing potential systemic risks arising in the non-bank financial sector and the prospects for disruptions in the non-bank financial sector to adversely affect the banking system. For instance, the terms on which financing is extended from banking firms to non-bank financial firms should be carefully monitored in order to limit the build-up of leverage in the non-bank financial sector.

Conclusion

Global financial stability depends on the achievement of a high and level regulatory playing field for all global banking firms. Accordingly, once the

financial system has emerged from the recent financial crisis, global banking firms must be made subject to stronger, more macro-prudential, and more uniform regulatory capital, liquidity, and accounting rules. This policy statement lays out what Treasury deems to be the key principles for reforming these regimes to promote long-term financial stability. We look forward to continuing to work with the U.S. federal financial regulatory agencies to advance these reform principles domestically and internationally.