

## Cabinet News and Views

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### Vice Chair Barr Speaks on Capital Levels



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On December 1, Federal Reserve Board (“FRB”) Vice Chair of Supervision Michael Barr gave a [speech](#) at the American Enterprise Institute on Bank Capital. Vice Chair Barr noted that the FRB’s holistic review of capital standards continues and that they “hope to have more to say about that review early in the new year.”

Notwithstanding that the holistic review continues, Vice Chair Barr may be starting to socialize that this holistic review may bring higher capital requirements, at least for the largest banks. He noted that “[t]here is a body of empirical and theoretical research on optimal capital, which attempts to determine the level of capital that equalizes the marginal benefits of capital with the marginal costs. While the estimates vary widely, and are highly contingent on the assumptions made, *the current U.S. requirements are toward the low end of the range described in most of the research literature.*” (emphasis added, citations omitted) He added, however, that “[w]e have strong capital levels today, and generally higher bank capital requirements in the United States after the Dodd-Frank Act...”

His theme for the speech was one of being humble – humble in the sense that we can’t predict the risks that will occur, and that this “would argue for a higher overall capital level than one based solely on historical experience.” Vice Chair Barr’s theme of being humble echoed a theme that Acting Comptroller Hsu has been making in speeches that banks and bank regulators need to guard against [complacency](#).

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