Statement of FDIC Vice Chairman Hoenig

on the semi-annual update of the Global Capital Index

September 26, 2017

The largest U.S. banks increased their capital levels in the first half of 2017, maintaining their stronger equity capital and stronger price-to-book value than their foreign counterparts, according to data released today by FDIC Vice Chairman Thomas M. Hoenig.

The average IFRS tangible leverage ratio – a measure of equity funding a bank's assets for U.S. GSIBs - increased to 6.62 percent equity-to-assets at June 30, 2017, up from 6.28 percent at yearend 2016, according to the semi-annual update of the Global Capital Index (GCI). This compares very favorably to most foreign banks reported in the GCI.

Also, U.S. GSIBs continued to trade at a premium, which has increased as their capital position has strengthened, reporting a price-to-book ratio of 1.28 percent (column 12) over the past six months from a discount to book of 0.90 percent a year earlier. European GSIBs traded at discount to book of 0.81 percent and Asian GSIBs were at a discount of 0.72 percent.

"Competing from a stronger capital position is paying off for U.S. banks. The data show that the stronger equity capital position of U.S. banks, as compared with their lower capitalized competitors around the world, is reflected in their higher price-to-book. U.S. banks have demonstrated that they can strengthen their leverage ratios and attain more sound levels of capital while remaining the most competitive and profitable in the world," Vice Chairman Hoenig said.

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The Global Capital Index can be found at
https://www.fdic.gov/about/learn/board/hoenig/global.html

The Global Capital Index relies on International Financial Reporting Standards (IFRS) to measure a firm's tangible equity (loss-absorbing capital) against a more complete reporting of derivative exposures, as shown in Column 7 of the table. The largest financial institutions continue to reference their risk weighted capital ratios (Column 3) rather than their tangible equity capital ratios (Column 8) to suggest they are well capitalized. However, this higher number occurs because assumed risk weighted assets represent only 43 percent of total assets measured under IFRS. The net effect is to reduce assets used in computing the risk based ratio, thus overstating the true equity capital available to absorb losses relative to the total risk of on- and off-balance-sheet exposures.