BR Business Roundtable

1000 Maine Avenue, SW, STE 500
Washington, DC 20024
202.872.1260
brt.org

December 21, 2023

The Honorable Jerome Powell
Chair
Board of Governors, Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

The Honorable Martin Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Mr. Michael Hsu
Acting Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Re: Regulatory Capital Rule: Amendments Applicable to Large Banking Organizations and to Banking Organizations with Significant Trading Activity

Dear Chair Powell, Acting Comptroller Hsu and Chairman Gruenberg:

This letter is submitted on behalf of Business Roundtable, an association of more than 200 chief executive officers (CEOs) of America's leading companies representing every sector of the U.S. economy. Business Roundtable CEOs lead U.S.-based companies that support one in four American jobs and almost a quarter of U.S. GDP. We appreciate the opportunity to respond to the proposed regulatory capital rule applicable to large banking organizations and those with significant trading activity, referred to as the Basel III Endgame proposal (Proposal).

As the CEOs of America's leading companies, Business Roundtable members are deeply committed to advancing economic policies that spur job creation, expand opportunity and strengthen U.S. competitiveness.

Our multinational member companies across sectors – technology, communications, retail, financial services, health, public safety and security, defense, manufacturing, hospitality, insurance, and others – rely on large U.S. banks to provide critical financial services across the globe.

Roundtable member companies rely on these banks to provide loans as well as cash management, foreign exchange, custody, securities underwriting, risk management and other financial services that allow them to remain global leaders across various industries.

Business Roundtable appreciates the opportunity to comment on this important matter and has serious concerns with the Proposal. For the reasons detailed below, it is our considered opinion that the U.S. banking agencies should repropose the rule and address the structural flaws described below in order to offer the public another opportunity to provide meaningful comment. If the agencies do not repropose the rule, we believe they should fundamentally recalibrate multiple aspects of the capital framework to avoid negative impacts on the American economy. Our comments and concerns are as follows:

The impact of this proposal is understated and will impede the ability of America's banks to provide a range of critical financial services to Business Roundtable member companies, reducing both innovation and economic growth.

We are concerned that the Proposal ignores the substantial economic benefits provided by large banks and would impose enormous burdens on America's businesses, including lower credit availability, less liquid capital markets and higher costs.

The agencies estimate that the Proposal would raise capital requirements for covered banks by 16 percent on average,[1] which materially understates not only the impact from this Proposal but the aggregate upward trajectory of other recent requirements. Notably, although the Proposal's market risk component did account for certain flaws in the global rulemaking, it would still increase requirements for capital market activities substantially, with some banks seeing requirements that would more than double.[2]

The negative effect of substantially higher capital requirements on economic growth would occur at an especially challenging time for the U.S. and global economy. For example, the Federal Reserve's most recent Senior Loan Officer Opinion Survey on Bank Lending Practices shows that banks reported tighter standards and weaker demand for commercial and industrial loans to firms of all sizes over the second quarter of 2023.[3] By exacerbating the tightening standards and weaker demand for credit, the Proposal risks pushing the economy into a recession,[4] as banks impacted by the Proposal currently provide $1.84 trillion in commercial and industrial loans and extend loans to over 155,000 unique businesses, including 153,000 private companies that would not meet the new public listing requirement to be eligible for the preferential risk weight otherwise available to "investment grade" corporates.[5]

Strong banks benefit the U.S. economy – and large U.S. banks have consistently demonstrated their strength and resilience during recent real-life stress tests.

A strong banking sector is vital to support a vibrant U.S. economy. Business Roundtable member companies can only flourish with competitive sourcing of financing and access to financial services in a range of economic and market conditions.

Based on our member companies' experience, the past and present comments of regulators, and the experience of banks through economic stress, we see large U.S. banks as resilient and ready to serve America's businesses throughout the economic cycle. Business Roundtable shares the policy objective of a strong and resilient banking sector. However, that objective has already been achieved through the U.S. implementation of the Basel III capital framework,[6] heightened capital requirements related to the U.S.-specific stress testing regime,[7] standardized liquidity requirements,[8] and numerous additional post-crisis reforms, including those implemented pursuant to the Dodd-Frank Act. Therefore, the new requirements contemplated by the Proposal would impose greater costs on the broader economy without a clear benefit and in a manner that is not fit for purpose.[9]

Regulators, policymakers and market participants have widely acknowledged the strength and resiliency of large U.S. banks,[10] including their robust capital and liquidity positions, as well as the stringency of the other prudential requirements that apply to them.[11] In fact, as the Financial Stability Oversight Council (FSOC) recently stated in its December 2023 Annual Report, "the U.S. banking system remains resilient overall" and "U.S. banks continue to have sound levels of regulatory capital."[12] Further, FSOC Chair Yellen noted that "[d]espite facing tighter financial conditions and heightened global economic uncertainty over the last year, the U.S. financial system remains resilient. The U.S. banking system as a whole is sound, with strong capital and liquidity positions."[13]

Over the past several years, their strong performance during real-life stress tests – including the COVID-19 pandemic, the Russian invasion of Ukraine and the regional bank failures in spring 2023 – have demonstrated their financial and operational resilience.

Throughout these periods and other times of market stress (*i.e.*, when financial products, services and liquidity are most needed), large U.S. banks have consistently supported their customers – which include Roundtable member companies, their customers, and their suppliers – and the broader economy.

The proposed increase in capital requirements will negatively impact the U.S. capital markets.

The costs of the Proposal are clear and substantial. The agencies estimate that the Proposal would raise capital requirements for covered banks by 16 percent on average.[14]

The increase in capital requirements for capital market activities would be even more pronounced, with some banks seeing requirements that would more than double.[15]

In addition, the changes would introduce significant operational complexities and challenges[16] without a corresponding benefit to the safety and soundness of the U.S. financial system. These increases would reduce access to credit, prevent banks from offering critical services and negatively impact GDP.[17]

The proposed changes would directly affect products and services on which companies rely and would decrease the competitiveness of U.S. banks.

We are concerned that the Proposal would make it more difficult and more expensive for banks to provide companies of all sizes the full range of services to meet their business needs and that the agencies are pursuing potential revisions to the capital framework without fully understanding how these changes will impact the U.S. economy.

We share Chair Powell's concern that, as a result of the proposed substantial capital increases for capital markets activities, banks subject to the Proposal "could reduce their activities in this area, threatening a decline in liquidity in critical markets and a movement of some of these activities into the shadow banking sector."[18]

In addition, the agencies project a 75 percent increase in risk-weighted assets related to capital markets activities, such as market making.[19] The agencies acknowledge that the "overall effect of higher capital requirements on market making activity and market liquidity remains a *research question needing further study*."[20]

Given the magnitude of the proposed changes for banks, their retail and business customers, and the U.S. economy, the agencies should study this issue and develop a new proposal after fully understanding its implications, rather than treating the Proposal as a real-life empirical experiment.

The Proposal would have a negative impact on several specific products and services offered by large banks. For example:

- The new framework for market risk (the Fundamental Review of the Trading Book or FRTB) and the new additive requirements for derivative transactions (the Credit Valuation Adjustment or CVA-related changes) would significantly raise the costs for U.S. public companies to hedge business and operating risks (*e.g.*, interest rate, foreign exchange and commodity risks).

- In the face of higher costs, companies may: (i) hedge less or, if hedging becomes cost-prohibitive, not at all, with the Proposal having the perverse effect of making America's companies and, by extension, the broader U.S. economy, less financially resilient; (ii) internalize the costs, which would reduce earnings and restrict their ability to innovate, hire, grow and invest; or (iii) pass these costs to customers by raising prices on goods and services.

- The narrow scope of the lower "investment grade" risk weight may increase borrowing costs for private creditworthy businesses. The requirement that a company be publicly listed to be considered "investment grade" would place small and growing companies at a competitive disadvantage.

- The minimum haircut floors for securities financing transactions could result in reduced liquidity across debt and equity markets. For example, securities borrowing and lending enhances market liquidity and improves price discovery, but the proposed changes would make it significantly more expensive for large banks to engage in these activities, which could result in worse execution.

- The proposed 400 percent risk weight for equity exposures that are not publicly traded would limit access to funding for new companies. These companies would either be required to pay more for financing or would simply not be able to fund research, development and other innovation.

The Proposal would also decrease the competitiveness of banks subject to the U.S. capital rules relative to their non-U.S. competitors. Other jurisdictions, including the European Union and the United Kingdom, have proposed to implement a meaningfully less stringent version of the Basel framework, as Chair Powell noted.[21]

In conclusion, the agencies should repropose the rule and address these foundational issues; at minimum, they should substantially revise the proposal.

The agencies have asked for public comment on alternative ways to update the capital framework; specifically, Question 3 asks about the "unintended consequences" of the Proposal and what steps the agencies should consider to mitigate those consequences.[22]

In response to that question, we urge the agencies to repropose the rule. At minimum, they should take a fundamentally different approach that would avoid raising costs of critical financial services and maintain the competitiveness of America's innovation economy. Specifically, the agencies should: (i) exempt commercial end-users, insurance companies, and pension funds from the new additive requirements for derivative transactions; (ii) remove or substantially broaden the public listing requirement applied to otherwise "investment grade" corporates; (iii) recalibrate the risk weighting associated with the operational risk requirements; (iv) eliminate the gold-plating relative to international standards and implementation, including by eliminating risk weight surcharges and removing the minimum haircut floors for securities financing transactions; and (v) mitigate the impact on capital markets by improving hedge recognition within the revised market risk requirements.

Business Roundtable appreciates the underlying goal of the agencies and the opportunity to comment on this important matter. Because of the breadth of the Proposal, we have not attempted to provide comprehensive comments but have focused on the areas of highest concern. We would be happy to discuss these comments or any other matters you may find helpful. Please contact Scott Farnham, Senior Policy Director of Business Roundtable, at sfarnham@brt.org or 202-496-3261.

cc: The Honorable Philip N. Jefferson, Vice Chair, Board of Governors of the Federal Reserve System
The Honorable Michael S. Barr, Vice Chair for Supervision, Board of Governors of the Federal Reserve System
The Honorable Michelle W. Bowman, Governor, Board of Governors of the Federal Reserve System
The Honorable Lisa D. Cook, Governor, Board of Governors of the Federal Reserve System
The Honorable Adriana D. Kugler, Governor, Board of Governors of the Federal Reserve System
The Honorable Christopher J. Waller, Governor, Board of Governors of the Federal Reserve System
The Honorable Travis Hill, Vice Chairman, Federal Deposit Insurance Corporation
The Honorable Jonathan McKernan, Director, Federal Deposit Insurance Corporation
The Honorable Rohit Chopra, Director, Consumer Financial Protection Bureau

---

[1] *See* 88 Fed. Reg. at 64,169.

[2] Board Memorandum, at 10.

[3] *See* Federal Reserve, Senior Loan Officer Opinion Survey on Bank Lending Practices (July 31, 2023), *available at* https://www.federalreserve.gov/data/sloos/sloos-202307.htm.

[4] *See, e.g.*, Bill Nelson, "Will a De Facto Tightening of Regulations Cause a Recession and an Early End To QT?" Bank Policy Institute (Sept. 6, 2023), *available at* https://bpi.com/will-a-de-facto-tightening-of-regulations-cause-a-recession-and-an-early-end-to-qt/ ("…reductions in credit supply from banks have been associated with the three recessions prior to the COVID-19 recession.").

[5] *See* Bank Policy Institute, Basel Endgame's Impact on American Businesses, *available at* https://bpi.com/wp-content/uploads/2023/09/Basel-Endgames-Impact-on-American-Businesses.pdf.

[6] *See* Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule (Oct. 11, 2013).

[7] *See, e.g.*, Federal Reserve, Large Bank Capital Requirements (July 2023), *available at* https://www.federalreserve.gov/publications/files/large-bank-capital-requirements-20230727.pdf.

[8] *See* 12 C.F.R. 249.

[9] *See, e.g.*, Bill Dudley, "Bigger Financial Cushions Won't Solve Banks' Woes," BLOOMBERG (Sept. 11, 2023, 6:00 AM), *available at* https://www.bloomberg.com/opinion/articles/2023-09-11/the-fed-s-bank-capital-proposal-isn-t-the-right-answer ("…there are definitely more cost-effective ways to achieve the desired outcome [of stronger banks]. Better and more timely supervision could have prevented the failure of Silicon Valley Bank: Supervisors identified the risks well ahead of time, but simply failed to act quickly or forcibly enough. Stress tests with more diverse worst-case scenarios could help ensure that capital and liquidity levels are adequate.").

[10] *See, e.g.*, Jerome H. Powell, Financial Stability and Economic Developments (June 29, 2023), *available at* https://www.federalreserve.gov/newsevents/speech/powell20230629a.htm ("Over the course of the decade, capital and liquidity at the largest U.S. banks more than doubled . . . Our regulatory system is much stronger for the substantial additional safeguards we have built around the G-SIBs since the Great Recession. They are

---

subject to capital surcharges, required to be highly liquid, and held to the highest supervisory standards. The events of the past couple of months would have been much more difficult to manage had the largest banks been undercapitalized or illiquid.").

[11] In addition to heightened capital and liquidity requirements, large U.S. banks are subject stress tests, long-term debt and total loss-absorbing capacity requirements, single-counterparty credit limits, and resolution planning, among other requirements.

[12] FSOC, *2023 Annual Report* 7, *available at* https://home.treasury.gov/system/files/261/FSOC2023AnnualReport.pdf.

[13] Remarks by Secretary of the Treasury Janet L. Yellen at the Open Session of the meeting of the Financial Stability Oversight Council (Dec. 14, 2023), *available at* https://home.treasury.gov/news/press-releases/jy1990.

[14] *See* 88 Fed. Reg. at 64,169.

[15] Board Memorandum, at 10.

[16] *See* PwC, "Basel III endgame: Complete regulatory capital overhaul" (Aug. 2023), *available at* https://www.pwc.com/us/en/industries/financial-services/library/our-take-special-edition-basel-iii-endgame.pdf.

[17] For example, the Basel Committee's own review of the academic literature found that a one percentage-point increase in capital requirements could reduce annual GDP by up to 16 basis points *See* Basel Committee on Banking Supervision, Working Paper 37, *The costs and benefits of bank capital – a review of the literature* (June 2019), *available at* https://www.bis.org/bcbs/publ/wp37.pdf.

[18] Statement by Chair Jerome H. Powell (July 27, 2023), *available at* https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20230727.htm (hereinafter "Powell Statement").

[19] *See* 88 Fed. Reg. at 64,167. Although risk-weighted assets would increase by 75 percent on average, Federal Reserve staff estimate that they would more than double for some banks. *See* Board Memorandum, at 10.

[20] *See* 88 Fed. Reg. at 64,170 (emphasis added).

[21] *See, e.g.*, Powell Statement ("...the proposal exceeds what is required by the Basel agreement, and exceeds as well what we know of plans for implementation by other large jurisdictions.").

[22] 88 Fed. Reg. at 64,033.