NATIONAL ASSOCIATION OF Manufacturers

Charles Crain

*Vice President,
Domestic Policy*

January 10, 2024

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
Attention: Ann E. Misback, Secretary
Docket No. R-1813
RIN 7100-AG64

Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218
Washington, DC 20219
Attention: Chief Counsel's Office, Comment Processing
Docket ID OCC-2023-0008
RIN 1557-AE78

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Attention: Comments/Legal OES, James P. Sheesley, Asst. Executive Secretary
RIN 3064-AF29

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

To whom it may concern:

The National Association of Manufacturers (the "NAM") welcomes the opportunity to provide written comments on the proposed bank regulatory capital rule (the "Proposed Rule") as set forth in the above-referenced notice of proposed rulemaking (the “NPRM”).[1] The NAM is the largest manufacturing association in the United States, representing nearly 14,000 manufacturers, small and large, in every industrial sector and in all 50 states. Manufacturing employs 13 million people across the country and contributed approximately $2.91 trillion to the U.S. economy in the first quarter of 2023. Most manufacturing firms in the United States are quite small – more than 74% of firms have fewer than 20 employees and more than 93% have fewer than 100 employees.[2]

The Proposed Rule would significantly and arbitrarily increase the amount of capital that banks are required to hold against their credit and market risks. The NAM and its members strongly oppose the Proposed Rule and request that it be withdrawn.

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[1] 88 Fed. Reg. 64028 (Sept. 18, 2023).
[2] *See* National Association of Manufacturers, “Facts about Manufacturing.”

The Proposed Rule, if implemented, would have significant adverse consequences for manufacturers of all sizes throughout the U.S. In particular, it would harm smaller manufacturers who lack access to the capital markets and must rely on bank funding, manufacturers who do not have publicly traded securities, and manufacturers who rely on banks to help them manage financial risks. Inexplicably, the NPRM does not consider these significant costs in its economic analysis. The Proposed Rule may be aimed at the banking industry, but its ultimate impact will be felt by U.S. manufacturers. As a recent study notes, U.S. corporations (including manufacturers) would be among those who "would need to absorb the higher cost of capital for banks."[3]

The Proposed Rule comes at a time when U.S. manufacturers are already facing a wave of costly new regulations that threaten to undermine their competitiveness. The NAM's benchmark Cost of Federal Regulations[4] study (the "NAM Study") shows that manufacturers are already bearing a disproportionately large share of the $465 billion increase in regulatory compliance costs since 2012. The average per employee per year cost of regulations for manufacturers is now more than $29,000—a figure that rises to more than $50,000 per employee per year for small manufacturers.[5] The NAM Study also highlights the indirect costs of this regulatory onslaught, noting that "regulations introduce uncertainty into planning and affect business operations, the consequences of which include modifying employment and investment decisions and reductions in international competitiveness."[6] If the U.S. is to retain and attract manufacturers in the face of increasing competition from foreign jurisdictions, it must reduce the regulatory costs of manufacturing in the U.S. That includes addressing regulations, such as the Proposed Rule, that would significantly and unnecessarily undermine the ability of manufacturers to secure the financial services they need to compete in a global marketplace.

In particular, manufacturers depend on the banking system to help them manage the risks inherent in modern manufacturing, finance capital expenditures (including investments in innovation), and provide necessary working capital.

- **Risk Management.** Manufacturers face a variety of risks associated with fluctuating interest rates, currency exchange rates, and commodity prices. Manufacturers also face the liquidity risk associated with converting inventory and receivables into cash. These risks can significantly impact a manufacturer's financial performance, operational efficiency, and competitiveness. Manufacturers rely on banks to help them manage these risks through the use of derivatives, securitization, and other hedging transactions. Banks collaborate with manufacturers to create customized hedging solutions that are tailored to the manufacturer's specific needs and risk profile and, in doing so, help them manage the financial risks inherent in their businesses.

- **Capital Expenditures**. Manufacturers require funds to acquire, upgrade, and maintain physical assets such as property, plants, and equipment. Access to reasonably priced bank and capital markets financing also is essential for manufacturers to invest in

[3] Navigating Global Shifts and Risks In Wholesale Banking (oliverwyman.com).
[4] *See* The Cost of Federal Regulation to the U.S. Economy, Manufacturing and Small Business (nam.org) (October 2023).
[5] *See* The Cost of Federal Regulations - NAM.
[6] *See* NAM Study, at p. 7. As one manufacturer explained in the survey supporting the NAM Study, "Regulatory uncertainty in the U.S. market can inhibit or discourage domestic development and deployment of technologies. Companies rely on legislative and regulatory certainty to achieve steady progress toward sustainable objectives. Policies must be in place for the U.S. to continue leading in the race to develop and manufacture these innovations domestically or our nation's manufacturing and employment bases will ultimately suffer." *See* NAM Study, at 42.

research and development, state-of-the-art machinery, new technologies, and facility expansions. These investments are often large and require substantial upfront capital, which many manufacturers may not have readily available without the help of banks in providing financing and other services.

- **Working Capital**. Manufacturers frequently require bank loans to cover short-term operational needs, such as bridging the gap between their receivables and payables. This is particularly important in the manufacturing industry because of its long production cycles and the time lag between producing goods and receiving payment. Adequate working capital ensures that manufacturers can maintain inventory, manage their supply chains, and keep production lines running.

The Proposed Rule would reduce the amount of such funding and services banks can provide to manufacturers, as well as increase the costs of the financing and services they can provide.

The Proposed Rule should be withdrawn due to its adverse impact on U.S. manufacturers. In the event, however, that the banking regulators decide to proceed with the Proposed Rule or re-propose the Proposed Rule, the NAM recommends several important changes that would help mitigate many of the major problems caused by the Proposed Rule.

I. The Proposed Rule would cause significant harm to manufacturers in the U.S.

a. The Proposed Rule would increase the cost and reduce the availability of critical hedging tools, thereby impairing the ability of manufacturers to manage interest rate, exchange rate, and commodity price risks.

The Proposed Rule's substantial increase in capital requirements for banks' trading books through the Fundamental Review of the Trading Book will significantly increase the costs of critical risk management tools for U.S. manufacturers. When a bank provides a derivative to a customer, it is often required to record the transaction in the bank's trading book as a dealing/market-making exposure. Banks will then mitigate the market risk from customer-driven derivatives through offsetting or hedging activities in order to ensure the bank is risk neutral. The Proposed Rule does not recognize the most efficient hedging activities, thereby forcing banks to utilize less efficient and more costly hedges. The increased cost of hedging will primarily reduce liquidity and raise costs for derivatives that banks provide to their clients. It is important to note that, in response to the 2008 financial crisis, the trading book requirements were raised significantly in, and further addressed through, the General Market Shock ("GMS") component of the Federal Reserve's Comprehensive Capital Analysis and Review ("CCAR") stress testing framework.

The Proposed Rule would also broaden the scope of banks required to use the Standardized Approach for Counterparty Credit Risk ("SA-CCR") method for calculating the capital charge associated with derivatives, while eliminating the internal model method as an option for calculating the exposure amount of derivative contracts.[7] All large banking organizations would be required to calculate regulatory capital ratios using SA-CCR under the existing standardized approach, the new expanded risk-based approach, and the supplementary leverage

[7] *See* NPRM, at 64056.

ratio.[8] As a result, risk weights for derivatives will be significantly higher, thus requiring banks to re-price or scale back the derivatives they offer. End-users such as manufacturers will be impacted with higher pricing and decreased availability of hedging tools.

Finally, proposed changes to derivatives, particularly those pertaining to credit valuation adjustment ("CVA") risk, would require separate capital for CVA. (CVA risk is the risk of mark-to-market loss due to a counterparty's credit quality deterioration.) However, that risk, as well as a significant portion of market risk, is already reflected in the market shock scenario against which banks must hold capital under the Federal Reserve's supervisory stress tests. Because both CVA and market risk are captured by market shock risk measurements, capital charges are effectively "double counted" for the same risk position under the Proposed Rule. This double counting of risk would exacerbate the re-pricing and scaling back of derivatives offered by banks to manufacturers and other end-users.

As Federal Reserve Governor Bowman has noted, the Proposed Rule "introduces new regulatory redundancies."[9] The result is a duplication of risk capital, which overstates the risks that banks face, including those posed by derivatives. These consequences of the Proposed Rule have also been recognized by Federal Reserve Governor Chris Waller, who has stated:

> It is not clear to me why our large banks should face a further roughly 70 percent hike in market risk capital requirements, on top of the existing post-crisis requirements to address risks in the trading book, including market risk capital requirements plus the stress test. And I worry that doing so could discourage those banks from engaging in certain market making activities, which could impede market functioning.[10]

Furthermore, banks already hold significant capital specifically to protect against derivative credit losses in the event of a jump-to-default scenario. As a result of the duplicative capital charge, banks will increase the price of, or stop offering, derivatives that allow manufacturers to hedge their interest rate, currency exchange rate, and commodity price risks, forcing manufacturers to accumulate those non-core risks within their own businesses.

The NPRM claims that the Proposed Rule's revisions to the capital requirements for banks' trading books are intended to make the financial system safer and reduce risks to financial stability. In practice, however, these changes will undermine risk management in the broader economy because the NPRM fails to consider how the Proposed Rule would impact risk management by banks' customers. By making it less affordable and more complex for manufacturers and other non-bank entities to manage risks, the Proposed Rule will ultimately make the U.S. economy *less* resilient and *more* vulnerable to financial shocks. The NPRM's narrow, bank-focused perspective overlooks the larger adverse consequences of the Proposed Rule on the U.S. economy's ability to manage risks.

Due to the significant problems with the Proposed Rule's trading book provisions, the NAM recommends that the entire market risk proposal be re-calibrated, and its approach fundamentally

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[8] *Id*. The Proposed Rule would apply to any banking organization with $100 billion or more in assets, as well as others with significant trading activity. Under current rules, only U.S. global systemically important banks and banking organizations with over $700 billion in assets, or over $75 billion in cross-jurisdiction activity, are required to use SA-CCR.

[9] https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20230727.htm

[10] https://www.federalreserve.gov/aboutthefed/boardmeetings/waller-statement-20230727.pdf

reconsidered. At the very least, the trading book provisions should better account for hedging. In addition, derivatives and associated hedges should be exempted from the CVA.

b. The Proposed Rule's securitization framework would impair the ability of manufacturers to manage their liquidity risks and increase the cost of financing for manufacturers and their customers.

Many manufacturers rely on securitization to manage their liquidity risks and provide efficient financing for their operations. For example:

- The securitization of trade receivables allows manufacturers to transfer the risk of collectability and to improve their liquidity and cash flow by converting receivables into cash. Such securitizations are often more cost-effective than other forms of financing.

- Some manufacturers, such as automakers, have finance subsidiaries that provide inventory financing to dealers, as well as purchase or lease financing to consumers. The resulting receivables are frequently securitized.

- Other manufacturers produce equipment (*e.g.*, medical equipment, construction equipment, office equipment) that is leased to businesses and consumers. The resulting receivables are frequently securitized.

Banks are key participants in the securitization activities of manufacturers. Banks are also investors in and market-makers for asset-backed securities issued by manufacturers.

The Proposed Rule would significantly increase the capital requirement for banks' securitization exposures, whether in the trading book or banking book. This increase is primarily due to the doubling of the supervisory calibration parameter (the "p-factor") under the proposed expanded risk-based approach.[11] The NPRM provides almost no explanation for its proposal to increase the p-factor from 0.5 to 1.0 despite the fact that the p-factor value has a significant impact on securitization risk weights.

The increase in risk weights for securitizations would cause bank lenders to increase the interest rates they charge for loans to securitization special purpose entities or stop making such loans altogether. The increase would also lead many banks to reduce their investments and market-making activities in asset-backed securities, thus limiting the size of the investor pool and the liquidity for those securities. As a result, securitization financing will become more expensive and less available for manufacturers.

The banking regulators should revise the Proposed Rule by keeping the p-factor at 0.5.

c. The Proposed Rule would put U.S. manufacturers at a competitive disadvantage.

The Proposed Rule deviates significantly form the internationally agreed-upon proposal of the Basel Committee on Banking Supervision and, in doing so, imposes a *de facto* tax on U.S. banks and their customers. The costs of these new regulations will be borne primarily by manufacturers and other end-users of bank credit, not the financial institutions that are directly

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[11] *See* Proposed Rule, §___.133(a).

subject to the new requirements.[12] The NAM is deeply concerned that the Proposed Rule would put U.S. manufacturers at a competitive disadvantage because manufacturers in other countries would be able to borrow at lower cost from banks that are subject to regulatory capital requirements that are more consistent with international standards.[13]

Capital requirements resulting from stress tests, as well as capital requirements for credit and market risks that are more stringent than the internationally agreed-upon Basel standards, require U.S. banks to set aside significantly more capital than their international peers.[14] Starting in 2013, unlike their international peers, U.S. banks have been subject to annual stress testing under the CCAR and the stress capital buffer ("SCB"), which are the binding constraints for most banks under the Proposed Rule. Moreover, both the market risk capital rule and the global market shock component of SCB capture the risk of market losses from trading operations, resulting in a redundant capital requirement.

As a result of the higher requirements to which U.S. banks are subject, the amount of common equity capital locked inside of the largest U.S. banks has more than doubled since 2009.[15] The Proposed Rule would greatly exacerbate this trend. As FDIC Director McKernan noted, the Proposed Rule "generally deviates from [international] standards with a singular focus: pushing capital levels yet higher and higher." Director McKernan also observed that this increase in capital levels "pays little heed to the associated economic costs."[16] Supervisory Chair of the European Central Bank Andrea Enria has echoed this concern, stating that the Proposed Rule would impose requirements that "would be significantly higher for the European [global systemically important banks ("G-SIBs")]."[17] Indeed, U.S. banks would *begin* implementation of the Proposed Rule with higher capital requirements than UK, EU, Swiss, and Canadian banks would *end* with after implementation of their versions of the Basel endgame.[18]

Subjecting U.S. banks to much higher capital requirements than their international peers would put US. manufacturers at a competitive disadvantage in the global marketplace. Lower capital requirements for foreign banks would give foreign manufacturers access to more cost-

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[12] As the Oliver Wyman study notes, main street (the end users of bank credit) will be particularly challenged by the Proposed Rule due to "reduced capital from banks for private companies in US driven by higher risk weights and funding costs" and "increased reliance on market-based financing or alternative sources of capital." *See* Morgan Stanley Research, Oliver Wyman Bluepaper "Into the Great Unknown" ("MS-OW Study"), at p. 21.

[13] The MS-OW Study notes that "Our analysis supports the official view that the impact of the proposed rules as written would be material, adding 35% in total RWA [risk-weighted assets] for wholesale banking businesses that must adopt the proposed US rules. This contrasts with a more modest RWA uplift of 15% for businesses adopting rules implemented by European regulators, which we use as a proxy for the global standards … given the number of wholesale banking businesses that operate under European rules." *See* MS-OW Study, at p. 10.

[14] This fact has been recognized by Federal Reserve Chair Powell, who has acknowledged that "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."
See https://www.federalreserve.gov/newsevents/pressreleases/powell-statement-20230727.htm.

[15] *See* https://www.federalreserve.gov/supervisionreg/stress-tests-capital-planning.htm.

[16] *See* Statement by Jonathan McKernan, member, FDIC Board of Directors, on the Proposed Amendments to the Capital Framework (July 27, 2023).

[17]https://www.bankingsupervision.europa.eu/press/speeches/date/2023/html/ssm.sp230914~c6c0be0cc6.en.html.

[18] https://www.islaemea.org/thought-leadership/prudential-banking-rules-basel-iii-endgame-the-buyside/ (Chart 4 shows the US starts implementation with an 80% output floor, while UK, EU, Swiss and Canadian banks end with 72.5% output floors).

effective bank financing and hedging services, thus impairing the ability of U.S. manufacturers to compete on price, capture market share, and lead the world in innovation.

II. <u>The NPRM does not provide adequate support for the banking regulators' policy choices.</u>

In light of the Proposed Rule's significant negative impact on manufacturers, the NAM is concerned about the NPRM's lack of data or quantitative analysis in support of the banking regulators' policy choices. In fact, two months *after* the NPRM was released, the Federal Reserve announced a request for data from banks affected by the Proposed Rule. The data collection effectively asks banks to restate their entire financial positions and recent income statements as if the proposals have been finalized—yet the data required would be better served helping the banking regulators craft a better, more tailored, and more cost-effective rule.

The Administrative Procedure Act ("APA") requires regulatory agencies to collect and analyze information *prior* to releasing a proposal. Of course, it is appropriate for a regulatory agency to change a proposal based on public comment and further analysis. However, waiting until after the release of the NPRM to collect and analyze relevant data calls into question whether the banking regulators considered relevant data in formulating the Proposed Rule as required by the APA.[19] Furthermore, the Proposed Rule's economic analysis failed to demonstrate that the Proposed Rule appropriately balances--or even that the banking regulators had appropriately considered—its costs and benefits. As former New York Federal Reserve President Bill Dudley has pointed out:

> Equity costs more than deposits or subordinated debt, so banks and their securities units will pass that on in the form of higher lending rates, higher trading costs and reduced market liquidity. It's hard to see how the benefit of greater resilience will outweigh such costs.[20]

After withdrawing the Proposed Rule, the banking regulators should conduct a comprehensive review of bank regulatory capital requirements across the stress tests, the market risk capital rule, and the credit risk capital rule. Any re-proposal should be based on this review, as well as a careful consideration of the effects of any changes in capital requirements on manufacturers and other end-users of bank credit.

III. <u>Other aspects of the Proposed Rule would have significantly negative impacts on specific kinds of manufacturers and banking products.</u>

a. Small and medium-sized manufacturers would be significantly disadvantaged by the Proposed Rule.

Corporate Loans. The Proposed Rule specifies that bank loans made to publicly traded investment grade corporate borrowers have a 65% risk weight, whereas loans made to corporate entities that are not publicly traded or investment grade rated have a 100% risk weight.[21] The

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[19] In addition, we note the deadline for submitting data is January 16, 2024, which is also the deadline for submitting comments on the NPRM. Therefore, in preparing their comment letters, the public will have no opportunity to understand what the collected data show and to comment on the ways in which the banking regulators propose to use the collected data to revise the Proposed Rule.

[20] https://www.washingtonpost.com/business/2023/09/11/the-fed-s-bank-capital-proposal-isn-t-the-right-answer/f8b54376-508e-11ee-accf-88c266213aac_story.html

[21] *See* Proposed Rule, §___.111(h)(1).

NAM agrees that a 65% risk weight appropriately reflects the creditworthiness of a publicly traded corporation that is rated investment grade.

However, manufacturers strongly disagree that corporate borrowers who do not meet these criteria should be ineligible for the 65% risk weight. A risk weight of 100% is arbitrary, excessive, and makes little sense from a bank regulatory or public policy perspective. Under the Proposed Rule, a corporate loan to a privately held manufacturer, regardless of its credit rating, has a risk weight of ***100%***, significantly disadvantaging private, small, and medium-sized manufacturers as compared to their publicly traded peers.

Most private and non-investment grade corporate manufacturers are fundamentally sound and viable. These include growing manufacturing businesses, manufacturers in industries with higher volatility but strong long-term prospects, and manufacturers that have chosen not to go public or obtain a public credit rating. Even small manufacturers have substantial tangible assets such as machinery, equipment, and real estate. They also frequently enter into contracts that provide a more predictable and stable revenue stream than businesses in more volatile industries.

A risk weight of 100% would result in less credit availability and higher borrowing costs for small- and medium-sized manufacturers (*i.e.*, most manufacturers) because banks would be incentivized to direct their lending to lower risk-weight categories. If banks direct their lending elsewhere, smaller manufacturers would have less access to alternative funding from debt and equity capital markets as compared to larger companies. The NAM strongly opposes such an arbitrary and punitive standard for privately held businesses. Private manufacturers, or those without an investment grade rating, should not be disqualified from the 65% risk weight unless there are clear indicators of a lack of creditworthiness, such as poor credit history or a demonstrably weak financial condition. Accordingly, the public-listing requirement for the preferential risk weight for corporate exposures should be eliminated.

Regulatory Retail Exposures. The 85% risk weight for "regulatory retail exposures" (*e.g.*, credit cards) would apply to small and medium-sized enterprises ("SMEs"), but only if certain conditions are met. If the conditions are not met, a 110% risk weight would apply.

Many manufacturers are SMEs who rely on credit cards to provide short-term financing. We agree with the banking regulators that making SMEs eligible for the 85% regulatory retail exposure risk weight is appropriate. However, under the proposal, if the bank has more than $1,000,000 in retail exposures to a particular SME, no retail exposure by the bank to that SME would qualify for the 85% risk weight. This "aggregate limit" condition would make the 85% risk weight unavailable to many small manufacturers because many of them will exceed this limit. The aggregate limit for SMEs should be eliminated in any final rule.

Further, even if the conditions are met and the 85% risk weight applies, SMEs would still be disadvantaged compared to publicly listed companies that would be eligible for 65% risk weight. The 85% risk weight should be recalibrated to eliminate the disparate treatment of non-public SMEs.

b. The cross-default provision is unreasonable and would significantly increase the cost of bank credit for manufacturers.

The current U.S. capital rule requires banks to assign a risk weight of 150% to defaulted loans on a loan-by-loan basis.[22] According to the Basel Committee's revisions to international standards, a bank should assign a risk weight of 150% to all of its loans to a borrower if the borrower defaults on any of those loans.[23]

The Proposed Rule would go far beyond the current U.S. capital rule and international standards by imposing a universal cross-default on all commercial borrowers. Under the proposal, if a commercial borrower has *any* credit obligation to *any* creditor that is 90 days past due or in nonaccrual status, that borrower would be deemed unlikely to pay its credit obligations. Therefore, any bank that has made loans to that borrower must treat those loans as "defaulted exposures," subject to a risk weight of 150%—even if the borrower had never defaulted on its loans to that bank.[24]

This cross-default provision is particularly concerning to manufacturers. Most manufacturers operate within a complex supply chain. A large manufacturer can have thousands of suppliers and other creditors, and millions of outstanding accounts payable. Under the Proposed Rule, a single overdue payment to a single supplier could set off a chain reaction. If the credit obligation to that supplier is 90 days past due or enters nonaccrual status, every bank loan to that manufacturer would become subject to a risk weight of 150%.

The possibility of a sudden increase in the capital requirement caused by a single default would significantly increase the cost of borrowing for manufacturers. Furthermore, the requirement for lenders to continuously monitor borrowers would put further pressure on borrowing costs, as banks would be required to collect and track information on every credit obligation of their corporate borrowers.

The NAM strongly urges the banking regulators to adopt a more measured approach consistent with the Basel Committee's standards. A bank should be required to consider only its own exposures to the borrower when determining whether an exposure must receive the risk weight for defaulted exposures.

c. The Proposed Rule's change in the capital treatment for undrawn commitments would needlessly increase the cost of manufacturers' working capital lines of credit.

The Proposed Rule's changes to the capital treatment of undrawn commitments would unjustifiably increase the cost of working capital lines of credit. These lines of credit are essential tools for managing the cash flow cycles inherent to manufacturing.

The Proposed Rule would increase the credit conversion factor ("CCF") for unconditionally cancelable commitments from 0% to 10%.[25] In addition, for commitments that do not have an

[22]12 C.F.R. §3.32(k), 217.32(k), 324.32(k).
[23] Basel Committee, CRE 20.104 (Jan. 1, 2023).
[24] *See* Proposed Rule, §___.101(b).
[25] *See* Proposed Rule, §___.112(b)(1).

express contractual maximum draw amount, the commitment amount against which banks would be required to hold capital would equal to *ten times* the historical line usage.[26]

Committed working capital lines of credit differ fundamentally from the consumer credit card and charge card lines targeted by these proposed changes. Draws on working capital lines of credit are not automatic and require the bank's involvement and assessment, including checks for covenant compliance, such as requirements to maintain certain financial ratios. In addition, unlike most consumer credit cards, working capital lines of credit are often secured.

Treating working capital lines the same as unsecured consumer credit card lines is arbitrary and unjustified by the NPRM; applying a punitive CCF would cause more banks to either discontinue or increase the cost of such lines. This would have a devastating impact on manufacturers. Manufacturers frequently experience a timing mismatch between their cash receipts and their many recurring operational expenses, such as payroll, rent, and inventory. In addition, more irregular expenses, such as equipment repairs and maintenance and the cost of fulfilling large orders, can strain a manufacturer's cash reserves. Manufacturers routinely rely on working lines of credit for these and other critical cash flow management issues. As such, increasing the costs of these lines of credit would have direct operational impacts for many manufacturers.

Furthermore, subjecting all unconditionally cancelable commitments to the same 10x multiplier ignores the wide range of usage patterns in different industries. Manufacturers may carry relatively high balances on working capital lines from time to time. Unlike revolving consumer lending, the fact that a manufacturer has a high working capital line utilization does not correlate with financial stress, as balances are typically paid down as inventory is sold to wholesalers. Requiring banks to apply a multiplier designed for consumer card lines to working capital lines will cause banks to impose express limits on such credit lines, which will limit their usefulness to manufacturers.

The NAM respectfully encourages the banking regulators not to subject manufacturers' working lines of credit to the same heightened standards as consumer credit cards. In particular, manufacturers' working capital lines of credit should not be subject to an increased CCF, nor should their unconditionally cancelable commitments be subject to the 10x multiplier as described above.

IV. **The Proposed Rule would increase the cost of fees and commissions that manufacturers pay for essential financial services, including insurance, investment advice, and risk management.**

The Proposed Rule includes a new capital requirement for operational risks. This requirement requires banks to hold capital against fee and commission income on the basis that such amounts are proxies for operational risk.[27] The NPRM provides no quantitative evidence that fee and commission income is related to operational risk.

Despite the lack of any regulatory benefit from that capital charge, it is clear that the cost of that capital charge will be borne by manufacturers in the form of higher prices for bank services. For example, many manufacturers rely on bank letters of credit to facilitate the international shipment of products. This new capital requirement would apply to bank fees for letters of credit,

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[26] *See* Proposed Rule, §___.112(a)(5).
[27] *See* NPRM, p. 64083.

resulting in higher costs or reduced availability of letters of credit. In addition, many banks offer insurance products and services, investment advisory and management services, and underwriting services utilized by manufacturers. The unnecessary operational risk capital charges will make these critical financial services more expensive and/or less available to manufacturers. Because the costs of unnecessary capital requirements are ultimately borne by manufacturers and their customers, the NAM recommends that the operational risk requirement for banks' fee and commission income be eliminated.

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For all of the foregoing reasons, the Proposed Rule is fundamentally flawed and should be withdrawn. While regulation is critical to ensuring the safety and soundness of banks and the stability of the financial system, the Proposed Rule ignores the equally critical need to ensure that the banking system serves the manufacturers who are key drivers of the U.S. economy and employment. The Proposed Rule, if finalized, would be another regulatory setback for U.S. manufacturers. It would lead to higher financing costs and fewer risk management options.

In short, U.S. manufacturers need a better-calibrated approach to bank regulation that limits downstream impacts on end-users that rely on the banking system for risk management, capital expenditures, and working capital. To compete on the global stage, serve their customers, and support their employees, manufacturers must have access to a broad range of cost-effective financial services. In order for manufacturers in the United States to succeed and drive economic expansion, the banking regulators should reconsider their proposed approach to bank capital requirements. The NAM respectfully encourages the banking regulators to withdraw, or at a minimum substantially revise and re-propose, the Proposed Rule.

The NAM appreciates the opportunity to comment and looks forward to working with the banking regulators to address manufacturers' critical concerns about the Proposed Rule.

Sincerely,

[redacted]

Charles Crain
Vice President, Domestic Policy