

Congress of the United States
Washington, DC 20515

January 8, 2024

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

Dear Chairman Gruenberg:

As members of Wisconsin's Congressional delegation, we are writing to raise concerns about a provision in the Notice for Proposed Rulemaking ("proposal") entitled "Regulatory capital rule: Amendments applicable to large banking organizations and to banking organizations with significant trading activity" that would revise the measurement of risk-weighted assets and the definition of regulatory capital applicable to large banking organizations. In particular, we are concerned that the proposal's corporate exposures provision requires a company to have publicly traded securities outstanding as a criterion for a reduced risk weight without a comparable alternative for non-public companies. Risk weights for corporate exposures should be based on financial strength and not corporate ownership structure.

Wisconsin is blessed with a talented workforce and an abundance of companies representing a wide cross-section of industries which run the gamut from solo proprietors and small businesses to large Fortune 500 companies. In addition to publicly traded companies, our state is home to many non-public companies such as agricultural co-ops, mutual insurance companies, smaller mom-and-pop businesses, and credit unions that have all played a critical and longstanding role in our communities. We are concerned about the proposal's treatment of non-public companies, which assigns corporate exposures to such entities with a relatively higher risk weight than those to publicly traded companies, regardless of the non-public companies' financial strength.

Under current law, corporate exposures receive a 100 percent risk weight except for certain exposures to qualified central counterparties. However, under the proposal, corporate exposures to investment grade public companies would receive a 65 percent risk weight, while all other exposures – regardless of the corporate entity's financial strength – would stay at 100 percent. Consequently, corporate exposures to non-public companies would be more than 50 percent higher on a relative basis than those to investment grade public-companies – a significant divergence that would have negative impacts on non-public companies and warrants careful consideration.

According to the proposal, the reasoning for the significant disparity in risk weights between public companies and non-public companies is that public companies "are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange." That said, the proposal does not cite any evidence which demonstrates that public companies, in fact,

have a track record of being more creditworthy and financially strong than their non-public peers. The lack of evidence is concerning, especially since the proposal's implication that non-public companies are inherently less creditworthy is a groundless critique of these firms and ownership structures which have served consumers well.

Moreover, the proposal's rationale overlooks that non-public companies can also be subject to enhanced transparency and market discipline. For instance, mutual life insurance companies – like all other types of insurance companies – are required to periodically submit audited financial statements to their state regulators, and this information is publicly available. Such transparency can be impactful to the markets these insurers serve since consumers may consider a life insurer's financial strength as a factor when shopping for a policy due to the long duration nature of these contracts.

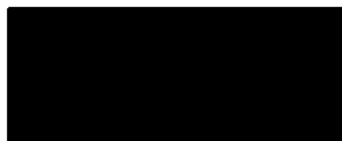
In addition, non-public companies can have ownership structures that closely align their long-term financial interests with those of their owners and customers, as compared to public companies which may be more focused on the shorter-term interests of the equity markets. As such, non-public companies have ownership structures which can enhance, rather than reduce, their focus on long-term financial strength and creditworthiness. It is therefore not a surprise that some of the handful of U.S. companies with the highest possible credit ratings – including higher than the federal government's own ratings in some instances – are not public companies.

By assigning a significantly higher risk weight for corporate exposures to non-public companies versus public companies, the proposal could encourage large banks to shift their business from non-public companies with top notch creditworthiness towards publicly traded companies which are not as financially strong although still deemed investment grade. We are concerned that such a consequence would, paradoxically, increase risk in the banking system, rather than mitigate it.

Lastly, we understand that the proposal's use of having publicly traded securities outstanding as a criterion for a lower risk weight has not been adopted by the European Union, the United Kingdom, or other foreign jurisdictions. To the extent that the proposal is intended to align our nation's capital rules for large banks with global standards, we question why it includes this criterion considering its absence in foreign jurisdictions.

For the abovementioned reasons, we believe that the proposal's corporate exposures provision and its approach towards non-public companies may have a harmful impact on non-public companies in our state.

Thank you for considering our bipartisan comments.



Gwen Moore
Member of Congress



Bryan Steil
Member of Congress



Scott Fitzgerald
Member of Congress



Tammy Baldwin
U.S. Senator



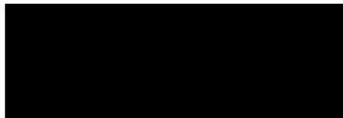
Ron Johnson
U.S. Senator



Derek Van Orden
Member of Congress



Glenn Grothman
Member of Congress



Tom Tiffany
Member of Congress



Mark Pocan
Member of Congress



Mike Gallagher
Member of Congress