



January 16, 2024

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. NW
Washington, DC 20551

The Honorable Michael Hsu
Comptroller Office of the Comptroller of the Currency
400 7th Street SW, Suite 3E-218
Washington, DC 20219

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

Via electronic submission/email: reg.comments@federalreserve.gov

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

Docket No. R-1813, RIN 7100-AG64

To whom it may concern:

On behalf of the Small Business & Entrepreneurship Council (SBE Council), I am writing to express the concerns of our organization about, and its strong opposition to, the proposed Basel III Endgame implementation. SBE Council represents the interests of small business owners and entrepreneurs, a vital sector of the economy that generates nearly half of U.S. annual GDP. The proposed increase in capital requirements, as initially outlined in a July [announcement](#) by Federal Reserve Vice Chair Michael Barr, will have significantly negative impacts on small businesses and their ability to access capital and therefore their ability to grow, compete and innovate.

SBE Council is a nonpartisan, nonprofit advocacy, research and education organization dedicated to protecting small business and promoting entrepreneurship. With more than 100,000 members nationwide, SBE Council is engaged at the local, state, federal and international levels where we collaborate with elected officials, policy experts, entrepreneurs and business leaders on initiatives and proposals to enhance business competitiveness and improve the environment for business start-up and growth. For 30 years we have worked on a range of issues to strengthen the policy ecosystem for entrepreneurship. Access to capital has remained a core priority since SBE Council's founding, as successful entrepreneurship and small business formation are made possible through affordable and abundant capital.

In March of 2023, Silicon Valley Bank (SVB) and First Republic Bank collapsed, marking the biggest bank failures in recent history. In the aftermath of those failures, some regulators and lawmakers have unfortunately chosen to respond by tapping into their overregulation toolbox, instead of addressing the real symptoms of the problem.

In July of last year, Michael Barr recommended increasing capital requirements for large banks by as much as 20 percent, believing that such an extreme increase would provide a cushion and protect banks from being susceptible to failure. However, existing capital requirements on U.S. banks (which are already among the highest in the world) were not the reason for the collapses. Instead, they were primarily a result of poor bank management and laid-back oversight by U.S. regulators.

While the Basel III Endgame *won't* avert bank failures, it *will* lead to the aggravation of current pain points being experienced by small businesses in terms of difficulty in accessing capital for growth and operational needs. Moreover, entrepreneurial opportunity would be harmed if capital became even more limited and expensive.

The proposed increase in capital requirements, which lacks any clear rationale or justification, will produce harm for small business owners and local economies. Increasing capital requirements will limit how much money banks can lend, driving up costs associated with borrowing while limiting credit and capital availability for countless Americans. Essentially, the harmful consequences of this policy will be passed down to borrowers and customers. As the cost of capital increases many Americans will be unjustifiably squeezed, which will have a downstream impact on small business owners and a depressing effect on the overall economy.

Currently, U.S. small businesses are facing various challenges and economic headwinds, as conveyed in SBE Council's two most recent small business surveys. In the Q3 Small Business Check Up Survey for 2023, 62 percent of small business owners rated credit and capital availability as only fair or poor, with nearly 50 percent saying that access to capital is impacting their firms' competitiveness and operational capacity. The Q4 survey closed out the year by revealing that the share of small businesses citing the negative effects on operational capacity grew to over half. Moreover, inflationary pressures, lower sales volume for many, and economic uncertainty are all weighing heavily on small businesses.

A Goldman Sach's survey published in September 2023 reported on similar findings to the SBE Council Small Business Checkup Surveys. According to those results, "Of the small business

owners who have applied for a new business loan over the past year (28 percent), 70 percent reported difficulty in accessing capital. In contrast, 61 percent of loan applicants in the April 2023 Goldman Sachs *10,000 Small Businesses Voices* survey said it was difficult to access capital in the prior three months.”

Moreover, the Goldman Sachs survey concluded that 84 percent of small businesses were worried about how Basel III implementation would impact access to capital and credit. SBE Council’s Q4 2023 Check Up Survey reinforced the Goldman Sach’s findings in this regard, as 79 percent of small business owners expressed concern about the impact on capital availability and access due to Basel III. Over half anticipate reduced capital availability or increased costs. Specifically, due to constraints they expect from Basel III, 35 percent of business owners fear that expansion plans would need to be postponed, 30 percent expect reduced investments in equipment and technology, and *27 percent express worry about the survivability of their businesses.*

At a time when capital access and costs are becoming more restrictive, entrepreneurs and small business owners agree that the current proposal would only create heavier challenges.

The current proposal recommended by the Basel Committee (an international organization), which does not require congressional approval, must not be the guiding light for U.S. policy. American regulators must not blindly follow an outside organization’s policy advice that would not accomplish the goal of preventing future bank failures yet would certainly lead to significant problems across the U.S. economy. The current plan proposes to raise capital requirements on banks’ operational risk - an aspect of the proposal that not even European regulators are pursuing, as it amounts to a duplicative and unnecessary charge on banks’ operations. The “price” would inevitably be paid by a broad swath of U.S. bank consumers – including small businesses - and drag down U.S. economic growth and competitiveness.

Arbitrarily and hastily increasing capital requirements will not save banks from future failures. Instead, such an action jeopardizes the availability of capital – the critical fuel for entrepreneurship, innovation and economic growth. With more than 70 percent of small businesses already taking steps to prepare for a recession in the new year (according to SBE Council’s Q4 2024 Check Up Survey), restricting capital further will only add to the uncertainty and challenges that rang in the New Year for many small businesses.

On behalf of SBE Council, I urge the withdrawal of Basel III implementation as proposed. American regulators must protect the interests of the small business community. Moreover, regulators must fully consider the impact of future proposals or decisions on this vital sector.

Respectfully submitted by,



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