



United States House of Representatives
One Hundred Eighteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

September 13, 2023

The Honorable Michael S. Barr
Vice Chairman for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington D.C. 2049-9990

Mr. Michael J. Hsu
Acting Comptroller of the Currency
The Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Director Hsu:

Over the past two months, your agencies have released numerous proposals that lack sound rationale and economic analysis. Your opaque approach raises serious questions about the long-term impact these actions will have on our financial system and economy more broadly. As currently drafted, these proposals will undermine core principles and risk models that serve as the foundation of our financial system.

Republicans have raised concerns about your motives for such proposals from the start. Vice Chair Barr, your announcement that the Federal Reserve's (Fed's) Vice Chair for Supervision would conduct a "holistic review of capital standards" was the first signal that politics would compete with data when it comes to supervising the financial system.

The need for a "holistic capital review" was unclear given the strong performance of banking institutions during the COVID-19 pandemic – a position later confirmed by the Fed's own stress tests. Despite repeated requests for information by Congress, details about the holistic review remain scarce. It wasn't until the release of the Vice Chair for Supervision's self-assessment of the Silicon Valley Bank (SVB) failure that the Fed's political motives were made clear.

It appears your goal is to effectively rescind S. 2155, the bipartisan *Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018* through your recent underdeveloped Basel III Endgame proposal. The deficient proposal would massively raise capital requirements and has been appropriately met by opposition from members of the Federal Reserve Board and FDIC Board. Even Governors at the Federal Reserve who supported releasing the proposal for comment expressed deep reservations about its impact.

The Basel III Endgame proposal is problematic in many regards, specifically in its scope, depth, motivation, and process:

- **Scope:** The proposal would essentially standardize and homogenize capital charges and risk weightings associated with various credit, market, operational, and other risks facing financial institutions. The politically motivated proposal undoes tailoring that was implemented prior to the Basel III Endgame proposal in S. 2155. If adopted, the proposal would push the U.S. banking system further toward a “barbell” banking system, with a small number of too-big-to-fail large banks at the top and a scattering of small, often government supported, institutions at the bottom. This leaves nothing in the middle to provide valued financial services to American families, workers, small businesses, and communities.
- **Depth:** The proposal calls for massive increases in capital requirements on U.S. banks, far exceeding what is required by the Basel “agreement.” As Fed Chair Powell opined, the proposal “exceeds as well what we know of plans for implementation by other large jurisdictions.” The proposal would force the U.S. to overcapitalize financial institutions, compromising our global competitiveness.
- **Motivation:** The attempt to paint the Basel III Endgame proposal as a response to recent bank failures is misleading. Well before the recent banking sector turmoil, progressives called for S. 2155’s rescission and higher capital requirements for an already well-capitalized and resilient U.S. banking system. This proposal fulfills that partisan goal.
- **Process:** The development and release of this proposal has been deficient. This is an economically significant rule but does not contain a meaningful regulatory impact analysis, economic impact assessment, or cost-benefit analysis. In fact, the paltry 17 pages of impact analysis—out of the 1,087-page proposal—contain unsubstantiated assertions and citations to studies that often are too outdated to be relevant.

Given those fatal problems with your Basel III Endgame proposal, we urge that it be withdrawn. The proposal should be replaced with one based on sound, objective analysis supported by data, not one plagued by politics. It’s critical that you engage with Congress and stakeholders, as well as the talented pool of analysts within your agencies and Boards. Your agencies could then arrive at justifiable regulatory changes that address immediate problems and adhere to your missions of promoting safety, soundness, and stability in the financial system.

Sincerely,



Patrick McHenry
Chairman



Frank D. Lucas
Member of Congress



Bill Posey
Member of Congress



Bill Huizenga
Member of Congress



Andy Barr
Member of Congress



Tom Emmer
Member of Congress



Alexander X. Mooney
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John Rose
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