Congress of the United States
Washington, DC 20515

March 26, 2024

The Honorable Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave 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
Office of the Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

Dear Chair Powell, Chairman Gruenberg, and Acting Comptroller Hsu:

We write to express our concern with the impact that the Federal banking agencies' recent proposals regarding Basel III Endgame, the Global Systemically Important Bank Holding Company (GSIB) Surcharge, and Long-Term Debt Requirements (collectively, the proposals) will have on foreign banking organizations (FBOs). As you are aware, FBOs play important roles in the U.S. economy and the proposals' impact on FBOs will have a direct impact on U.S. financial markets, businesses, and consumers.

FBOs are a key channel for foreign investment in the U.S, the largest provider of infrastructure loans, and issue 40% of commercial and industrial loans in the U.S. They are among the top five auto lenders, agricultural lenders, and municipal bond issuers in the U.S., and are among the top ten small business lenders. FBOs facilitate foreign direct investment, financing over 3,000 foreign corporations that are initiating or expanding operations in the U.S. Foreign firms are also among the world's leading trade banks, with foreign banks facilitating more than $250bn in global trade annually. Moreover, FBOs play a key role in the distribution and market making for U.S. government securities. Taken individually and together, the proposals will have a detrimental impact on FBOs ability to provide these important services to the U.S. economy.

To begin, like their domestic counterparts, FBOs will be detrimentally impacted by every aspect of the Basel III Endgame proposal. FBOs will face needless increased capital charges for activities that are no riskier today than they have been over the past decade. In contrast to their domestic counterparts, FBOs will be disproportionately impacted by the operational risk capital charges, as FBOs tend to be more reliant on fee-income business lines that are particularly impacted by this capital charge. In addition, FBOs are likely to be impacted by capital charges on the funding arrangements between their U.S. operations and their foreign affiliates.

Second, the Federal Reserve's GSIB Surcharge proposal includes changes to the calculations used to determine the systemic footprint of bank holding companies and intermediate holding companies.[1] These changes would result in a number of FBOs being tiered up to regulatory tailoring category II from their current category III or IV tiers, while similarly situated domestic bank holding companies will remain in their existing category III or IV tiers. These changes are not necessary when there has been no material change to these FBOs' risk profiles, business models, or asset size.

Finally, the Long-Term Debt Proposal will have a disproportionate impact on FBOs as compared to their domestic counterparts. While the Federal banking agencies exempted U.S. GSIBs from the Long-Term Debt Proposal because they are already subject to Total Loss Absorbing Capacity requirements (TLAC), non-U.S. GSIBs who are also subject to TLAC were not similarly exempted from the proposal. In addition, the proposal disfavors multiple point of entry (MPOE) resolution strategies, even though several of the largest FBOs have long used MPOE strategies in their resolution planning. Indeed, this was recently reinforced by the Federal banking agencies' resolution planning guidance proposal that emphasized single-point-of-entry (SPOE) strategies. It is unfair to use a long-term debt requirement to strong-arm FBOs into changing their resolution planning strategies.

We recommend that you re-propose the proposals and conduct a careful analysis of their collective impact on the U.S. financial system. FBOs provide critical services to all aspects of the U.S. financial system, and it is important that changes to bank regulations do not force FBOs to consider reducing their U.S. footprint. We appreciate your consideration of this important issue and look forward to discussing it further.

Sincerely,

[redacted]

Young Kim
Member of Congress

[redacted]

Bill Posey
Member of Congress

[redacted]

Blaine Luetkemeyer
Member of Congress

[redacted]

Andy Barr
Member of Congress

[1] FBOs with combined U.S. assets of $100 billion or more and non-branch assets of $50 billion or more are required by the Federal Reserve's Regulation YY to establish a U.S. intermediate holding company. 12 C.F.R. § 252.153.

[redacted]

French Hill
Member of Congress

[redacted]

John Rose
Member of Congress

[redacted]

Bryan Steil
Member of Congress

[redacted]

Scott Fitzgerald
Member of Congress