

Congress of the United States

Washington, DC 20510

January 16, 2024

The Honorable Jerome Powell
Chair
Federal Reserve Board
20th Street and Constitution Ave. NW
Washington, DC 20551

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

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

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

We write to share our views on the proposed rule implementing the Basel III Endgame jointly issued by your agencies on July 27, 2023.¹ As history has shown, the instability caused by shocks to the financial system, if not contained, can have enormous costs for taxpayers, small businesses, and the economy.² A strong and well-capitalized banking system is foundational to economic stability. We share your goal of promoting the safety and soundness of U.S. banks so that they can continue to support Americans in both good and bad times. As this proposal is one of the most complex and broadly impactful bank regulatory proposals in the past decade, care must be taken to mitigate potential unintended consequences for American consumers and small businesses.

The Basel III Endgame rule, as proposed, would increase the amount of regulatory capital that large bank holding companies must hold by an average of 16 percent.³ It does so primarily through the adjustment of the risk weights that determine the amount of capital that banks must hold for their lending and investment activity, through the implementation of a newly created risk weighted asset category for operational risk, and through adjustments to the capital

¹ Regulatory Capital Rule: Large Banking Organizations and Banking" 18 Sep. 2023, <https://www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant>.

² Barnichon, Regis, et al. "The Financial Crisis at 10: Will We Ever Recover?" San Francisco Fed, Federal Reserve Bank of San Francisco, 13 Aug. 2018, www.frbsf.org/economic-research/publications/economic-letter/2018/august/financial-crisis-at-10-years-will-we-ever-recover/.

³ "Agencies Request Comment on Proposed Rules to Strengthen Capital Requirements for Large Banks." Board of Governors of the Federal Reserve System, 27 July 2023, www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm.

requirements for trading activities.⁴ These adjustments may affect lending, market liquidity, and market behavior of large U.S. banks, including the pricing and availability of bank products and services. It is essential to analyze how those adjustments will affect U.S. borrowers, savers, and businesses. Therefore, we encourage your agencies to make public, to the greatest extent possible, the data and analysis that is used to evaluate the adjustments that have been proposed. We support the efforts of your agencies to further strengthen the banking system and ensure that banks appropriately account for risk. Your agencies should evaluate the effects of this proposal in a collaborative and transparent manner and take necessary steps to ensure continued financial stability.

We recognize that significant adjustments to the bank capital framework can create new incentives and disincentives for large U.S. banks to engage in certain activities. These adjustments, if not properly calibrated, may affect the cost and availability of financial services for individuals, and businesses of all sizes. It is essential to understand the downstream impact this proposal and the corresponding shift in bank behavior will have across the economy. Adverse effects to the ability of Americans to get an affordable auto, home, or small business loan should be identified and mitigated. Further, we have long encouraged investment in underserved communities, and your agencies should preserve access to credit for individuals at the margins and avoid pushing traditional bank activity to less-regulated sectors that are not subject to comparable consumer protection rules, community investment rules, or financial stability regulation.

It is also important to consider further consolidation in the banking sector. Consumers benefit from a diverse banking system with banks of all sizes. Healthy competition promotes consumer choice, fosters innovation, and lowers prices. This proposal should promote the ability of small and regional banks to safely grow and compete with their larger competitors, without needlessly spurring consolidation that further entrenches a small number of too-big-to-fail banks. As you finalize the mechanisms that appropriately impose higher regulatory and capital requirements on banks as they grow, we urge you to fully analyze “cliff effects” that may perversely encourage banks to remain under critical size thresholds and thereby prevent a healthy distribution of banks by size.

The collapse of Silicon Valley Bank, Signature Bank, and First Republic Bank earlier this year highlighted flaws in the regulation and supervision of certain banks. While not overseen by U.S. regulators, we believe there may be lessons to learn from the failure of Credit Suisse, the only Global Systemically Important Bank to fail since the financial reforms of the last decade. We encourage your agencies to continue their review of those failures and to take appropriate steps to prevent banks with risky business models from presenting a systemic risk to the U.S. financial system in the future.

Your agencies should also review how the proposal correlates to the implementation of Basel III Endgame by other jurisdictions. Following the 2008 Financial Crisis, the Basel Committee on Banking Supervision convened to develop what would become the Basel III agreement. As was

⁴ Regulatory Capital Rule: Large Banking Organizations and Banking" 18 Sep. 2023, <https://www.federalregister.gov/documents/2023/09/18/2023-19200/regulatory-capital-rule-large-banking-organizations-and-banking-organizations-with-significant>.

stated by then-Federal Reserve Chair Janet Yellen, “this is mainly a matter of ensuring that other countries put into place appropriate capital regulation so that we have a level playing field.”⁵ The Basel III Endgame rule, as proposed, exceeds the standards set by the Basel agreement in several ways that regulators in competing economies, including the United Kingdom and the European Union, have chosen not to replicate, resulting in steeper potential capital increases here than in those two jurisdictions. Of particular relevance, the UK’s Prudential Regulation Authority announced that its implementation would only have a three percent capital impact on its regulated institutions, compared to the 16 percent increase proposed by your agencies.⁶ We encourage your agencies to engage with a wide range of stakeholders in a collaborative and transparent way to determine how variations in the implementation of the Basel III Endgame will affect the average cost of capital for American businesses and consumers, the international competitiveness of U.S. banks, the competitive balance between banks of different sizes as well as non-bank competitors, and the stability of our financial system.

As geopolitical tensions, emerging technologies, and climate change present new challenges for the global economy, it is essential for our regulatory framework to adapt. We support your efforts to improve the safety and soundness of our banking system. As you consider the Basel III Endgame proposal, we implore you to engage with consumer advocates, industry professionals, academics, and other relevant stakeholders in a collaborative and transparent way. Through this process, we encourage you to further clarify and demonstrate the effects of the proposal for public consideration. This approach will ensure that adverse effects are minimized and that the proposed changes to the capital framework will strengthen the banking system, support consumers’ access to credit, and foster the competitiveness of U.S. banks at home and abroad.

Thank you for your work supporting the strength and stability of the U.S. economy. We appreciate your consideration of these comments and look forward to engaging with your agencies further on this important topic.

Sincerely,



Bill Foster
Member of Congress



Wiley Nickel
Member of Congress

⁵ “Monetary Policy Report - House Committee on Financial Services.” C-SPAN, 12 July 2017, <https://www.c-span.org/video/?430765-1%2Fmonetary-policy-report>. Accessed 14 Dec. 2023.

⁶ “The PRA Publishes the First of Two Policy Statements for the Implementation of the Basel 3.1 Standards.” Bank of England, 12 Dec. 2023, www.bankofengland.co.uk/news/2023/december/prapublishesfirstoftwopolicystatementsforbasel31standardsimplementation.



Josh Gottheimer
Member of Congress



Debbie Wasserman Schultz
Member of Congress



Brad Sherman
Member of Congress



David J. Trone
Member of Congress



Gwen S. Moore
Member of Congress



Haley M. Stevens
Member of Congress



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Member of Congress



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Member of Congress