

Congress of the United States

Washington, DC 20515

November 17, 2023

The Honorable Jerome H. Powell
Chairman
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, N.W.
Washington, DC 20429

Mr. Michael J. Hsu
Acting Comptroller
Office of the Comptroller of the Currency
400 7th Street, S.W.
Washington, DC 20219

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

We are writing to express concerns regarding the Federal banking agencies' proposed rule requiring the issuance of long-term debt by certain financial institutions.¹ While we acknowledge the rule's intention to safeguard the financial system and depositors, we believe there are several critical issues that require more in-depth consideration before its finalization.

First, we believe it is premature to propose additional rules, such as long term debt requirements, without fully understanding the impacts of Basel III Endgame. It is made clear in the long term debt proposal the covered institutions and specific calibrations of the rule were determined using the current capital framework that Basel III Endgame seeks to amend, making an accurate assessment impossible and rendering the agencies' choice to simultaneously propose additional regulations questionable. While we continue to believe that the Basel III Endgame proposed rule should be withdrawn and reissued, agencies should not finalize additional proposals until banks have a better understanding of the capital requirements they will face under Basel III.

Additionally, we are concerned that the proposed rule's lack of tailoring fails to account for the unique characteristics and business models of different financial institutions and is another step to undo the bipartisan *S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act*. Instead of applying tailoring principles, this proposal treats Category II, III, and IV financial institutions in a practically identical fashion for purposes of long term debt issuances. We believe that any final rule should properly calibrate the requirements to the size and risk of the financial institution. Changes to the calculation, the requirement for the debt to be held at both the bank holding company and the insured depository institution level (IDI), and the current prohibition of the IDI from issuing debt externally should all be reconsidered with tailoring principles applied. We are also concerned that the fixed 5% cap imposed on non-eligible long-term debt liabilities may prove too restrictive for certain entities while lacking constraint for others. Without these changes, excessive requirements on regional banks will impair their

¹ Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions, 88 Fed. Reg. 64524 (proposed Aug. 29, 2023).

ability to provide credit to consumers, families, and small businesses. Should the agencies move forward with the proposed rule, it is important that it be tailored to reflect the size and risk of an institution.

Third, although the proposed rule's intent is to streamline the liability structure for easier resolution during a financial crisis, more evidence is needed to guarantee the capability of these changes in real-world crisis scenarios. The economic impact assessment section of the proposed rule exhibits several shortcomings. For instance, the proposal relies on outdated data and simplified assumptions, which call into question its applicability to real world conditions.

Lastly, the potential strain on the market due to the substantial volume of mandated long-term debt issuances and the rule's impact on non-covered entities - both within and outside the financial sector - have not received sufficient and thoughtful analyses from your agencies. To that extent, the proposed rule's focus on covered entities is vague and does not detail how these regulations interact with other regulations governing bank holding companies and their insured depository institution subsidiaries. This gap may result in overlaps or contradictions, introducing further regulatory complexity for financial institutions and potentially presenting more challenges than solutions in the event of a crisis. For instance, the proposal fails to consider that some bank holding companies may have to convert funds currently held as overnight deposits in their bank subsidiary to long-term debt, which could cause the organization to require additional funds to meet its Liquidity Coverage Ratio obligations. The proposed rule fails to address this interaction, creating an environment in which the cost of compliance could be more substantial than the proposal contemplates, and warrants a more comprehensive evaluation.

Accordingly, we urge you to reconsider the proposed rule requiring the issuance of long-term debt and conduct a more comprehensive cost-benefit analysis to address these concerns. At minimum, the Federal banking agencies should extend the comment period for the proposed rule and delay its implementation until there is a full understanding of the implications that will result from the Basel III Endgame proposal.

Thank you for your attention to these matters.


Respectfully,



William Timmons
Member of Congress



Andy Barr
Member of Congress



Tom Emmer
Member of Congress



Monica De La Cruz
Member of Congress



Byron Donalds
Member of Congress



Scott Fitzgerald
Member of Congress



Mike Flood
Member of Congress



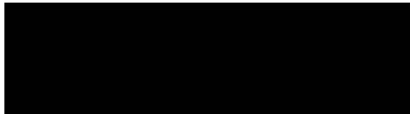
Andrew R. Garbarino
Member of Congress



Erin Houchin
Member of Congress



Young Kim
Member of Congress



Blaine Luetkemeyer
Member of Congress



Dan Meuser
Member of Congress



Alex X. Mooney
Member of Congress



Ralph Norman
Member of Congress



Bill Posey
Member of Congress



Pete Sessions
Member of Congress



Ann Wagner
Member of Congress