July 12, 2023

Chair Jerome H. Powell
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, D.C. 20551

Dear Chair Powell:

We are writing to express concern about a forthcoming proposal to implement the Basel agreement of 2017. While we will certainly await the details and plan to comment fully, the recent speech by Vice Chair Barr announcing the results of his "holistic review" of U.S. capital rules raises serious issues.

First, Vice Chair Barr's review apparently considered only the benefits of higher capital requirements and none of the costs, which will be borne by end users, small businesses and consumers across the country. Those costs are universally recognized in both academic research and, more importantly, real-world experience. No records of the review were provided; nor is there any evidence that it considered the interaction of the capital framework with other prudential regulations – seemingly the definition of a "holistic" review.

Second, the largest U.S. banks are well capitalized and have been a source of strength – a fact confirmed repeatedly by the banking agencies and the Administration, analysts and investors, your recent testimony and the recently announced results of the Federal Reserve's own stress test – as well as the results of past stress tests. The Vice Chair's speech reflected a very different view, and we expect that any proposed rule based on that view will document its justification.

Third, the Vice Chair's speech asserted that "there was a consensus among the Basel jurisdictions that current rules underestimate risks for the largest, most complex banks." In fact, at the press conference announcing the 2017 Basel agreement, Mario Draghi (then-ECB President and Chair of the Group of Governors and Heads of Supervision) stated, "The focus of the exercise was not to increase capital. As a matter of fact, the GHOS almost a year ago endorsed this review by the

Basel Committee, provided it wouldn't create a significant capital increase in the aggregate of the banking system."[1] That view is supported by the quantitative impact study released by the Basel Committee when it finalized the 2017 agreement, which concluded that the changes agreed to would actually *reduce* the risk-based capital requirements of all GSIBs in the aggregate.

Rather the record clearly shows that the goal of the 2017 Basel agreement was to *avoid* increasing capital for large banks generally, and instead "reduce regulatory capital variability, and level the playing field among internationally active banks."[2]

Thus, we would strongly urge you to allow a 120-day comment period on the proposed rule. This rule will have a profound effect on the U.S. banking system and U.S. capital markets. This will have a direct impact on the ability and cost of businesses and individuals to obtain credit and capital and manage business risks. It merits careful consideration.

Sincerely,

American Bankers Association
Bank Policy Institute
Financial Services Forum
Institute of International Bankers
Securities Industry and Financial Markets Association (SIFMA)

[1] https://www.bis.org/bcbs/b3/ghos_20171207_2.htm
[2] https://www.federalreserve.gov/newsevents/pressreleases/bcreg20171207b.htm