U.S. Chamber of Commerce

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November 14, 2023

Michael S. Barr
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
Washington, DC 20500

Dear Governor Barr:

The undersigned organizations are concerned about the proposed rule known as the "Basel III Endgame"[1] that would substantially increase capital requirements on covered U.S. banks and make capital and credit more expensive for businesses of all shapes and sizes. The proposed capital increase is without merit given the U.S. banking system is more than adequately capitalized and continues to demonstrate its resilience.[2] Banking regulators should not advance a capital increase that hamstrings U.S. businesses and make an already challenging economic environment worse for working Americans.

The federal banking regulators have not justified why a significant increase of capital on U.S. banks is necessary or appropriate. In fact, large banks passed their annual stress test in June, with the Federal Reserve Board concluding these banks are, "well positioned to weather a severe recession and continue to lend to households and businesses even during a severe recession."[3] A survey of 300 corporate treasurers and financial decision-makers found that businesses are not overly concerned about the stability of individual banks or the banking system, ranking this issue as number 8 out of 10 potential concerns.[4]

Businesses are concerned about the indirect costs that would be imposed on them and the overall economy because of the Basel III Endgame proposed regulations given it will become more expensive to access the banking system and capital markets. According to the aforementioned survey, a striking **87%** of businesses have been negatively impacted by cost increases resulting from financial regulation, including the **46%** of companies that have delayed or cancelled planned investments or capital expenditures due to financial regulations. Notably, **68%** of business owners say a net increase in capital requirements on banks could be damaging to their business.

Businesses will be confronted with either higher costs or fewer options in nearly every product and service they access from affected banks. For example, small business loans will be more expensive given

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[1] Agencies request comment on proposed rules to strengthen capital requirements for large banks. Board of Governors of the Federal Reserve System. (2023, July 27). https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm

[2] Powell, J. (2023, June 29). Financial Stability and Economic Developments. Board of Governors of the Federal Reserve System. *"Over the course of the decade, capital and liquidity at the largest U.S. banks more than doubled."* https://www.federalreserve.gov/newsevents/speech/powell20230629a.htm

[3] The Federal Reserve Board of Governors. (2023, June 28). Federal Reserve Board releases results of annual bank stress test, which demonstrates that large banks are well positioned to weather a severe recession and continue to lend to households and businesses even during a severe recession. https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230628a.htm

[4] How Business Views Financial Challenges: Basel III and Beyond (Fall 2023). https://www.uschamber.com/finance/how-business-views-financial-challenges

the proposed rule requires banks to hold more capital against credit exposures from companies that are not publicly listed. The housing sector could be stifled due to restrictions in mortgage credit.[5] Loans to companies and households for renewable energy investments will be more expensive because the proposal disfavors certain tax credit programs like provided in the Inflation Reduction Act. Businesses that depend on banks for wealth management or are ready to enter the public markets will encounter additional costs due to an entirely new, and untested method of calculating the capital required for operational risk. Notably, the market risk capital requirements are estimated to increase 70% under the proposal which will make it difficult for corporations to issue debt,[6] for farmers to lock in future prices on grains and livestock, for logistics companies to hedge against an increase in the price of fuel, and for financial companies to manage interest rate risk, to name just a few.

The federal banking regulators have failed to consider these and other costs in their Basel III Endgame proposal. These regulations risk undermining efforts across the government to tame inflation and provide for a "soft landing," given the clear impact they would have on the supply side of the economy. This is not just bad policymaking; failing to appropriately measure the costs or justify the need for increasing capital may cause federal banking regulators to push forward a rule that violates basic tenets of cost-benefit analysis and the Administrative Procedure Act.

We request that you repropose the Basel III Endgame regulations. The Federal Reserve Board must first measure the full impact of this proposal on U.S. businesses and our economy.

Sincerely,

Small Business Investor Alliance
Associated Equipment Distributors
The Real Estate Roundtable
Brick Industry Association
Wine & Spirits Wholesalers of America
The National Association of Manufacturers
American Land Title Association
International Agribusiness Council (IAC)
Business Roundtable
American Farm Bureau Federation
American Council of Life Insurers
National Association of REALTORS®
America's SBDC
National Association of Corporate Treasurers
Small Business & Entrepreneurship Council
Association for Financial Professionals
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U.S. Chamber of Commerce

cc: Board of Governors of the Federal Reserve System

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[5] Zhu, J. (2023, September). Bank Capital Notice of Proposed Rulemaking: A Look at the Provisions Affecting Mortgage Loans in Bank Portfolios. https://www.urban.org/sites/default/files/2023-09/Bank%20Capital%20Notice%20of%20Proposed%20Rulemaking.pdf