

July 7, 2023

The Honorable Michael S. Barr
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Dear Vice Chair Barr:

We write to request that upon your completion of the holistic review of capital and plans for implementing Basel III reforms in the U.S. banking system, you provide this review to the public and that you or a designee appear before the Subcommittee on Financial Institutions and Monetary Policy to present the conclusions of the review and your plans.

In the wake of the recent bank failures, and the qualitatively new features of internet-driven bank runs, we agree that it is important that capital and liquidity standards are both adequate to protect the system yet tailored carefully to avoid incurring additional stress. We request that details of your holistic review, Basel III reform plans, and testimony before our Subcommittee precede any notice of proposed rulemakings with respect to requirements for bank holding companies under your supervision.

Given the work of this committee in enacting major financial services legislation and our continued oversight of the prudential regulatory agencies, we must fully understand and have the opportunity to comment on the scope and conclusions of the holistic review of capital standards and the implementation of Basel III reforms – including the degree to which they reflect recent events in the banking system, conclusions you have reached, and the contours of any potential proposals.

Specifically, we request the following:

- 1) To maximize the usefulness of this information, we urge you to incorporate into your review and testimony any cost-benefit analysis, including supporting data, for any rulemaking you intend to propose following the review.
- 2) Because tapering of capital, liquidity and regulatory oversight as a function of bank size will likely have an impact on the growing consolidation of the banking industry, we request that this be addressed both in your holistic review and in your testimony to our committee.
- 3) As you implement the Basel III endgame framework, we request that you consider the option to incorporate contingent capital instruments in meeting capital requirements. As you know, contingent capital requirements were authorized under Dodd-Frank, but this authority was never used by our regulators. In the last decade, Asian and European regulators have recognized the value of contingent capital instruments as an economically efficient alternative to higher capital requirements, and they proved instrumental in

preventing both contagion and taxpayer-funded bailouts during the orderly failure of Credit Suisse.

It is important to balance financial stability with economic growth when considering modification to our capital standards.¹ With heightened inflation and threats to our mid-term economic outlook, Americans worry about accessing credit for mortgages, cars, small businesses, and everyday living expenses. Your holistic review and any new requirements should consider those concerns to minimize negative impacts as we enter a phase of potential credit tightening. We must strike the right balance between safeguarding our financial system and ensuring banks of all sizes can support communities' access to credit.

We appreciate your attention to this request. Please respond as soon as possible, but no later than 60 days before your public notice of the Basel III proposed rule and/or the holistic capital review. Please note that attaching the proposed rule is not a sufficient response to our request.

We fully appreciate your leadership on the supervision and regulation of our banking system and your work in ensuring a strong economy, and we look forward to discussing the results of the holistic review you have undertaken.

If you have any questions, please do not hesitate to contact Megan Guiltinan (Megan.Guiltinan@mail.house.gov) in Rep. Barr's office or Tim Weiler (Tim.Weiler@mail.house.gov) in Rep. Foster's office.

Sincerely,



Andy Barr

Chair

Subcommittee on Financial Institutions and Monetary Policy



Bill Foster

Ranking Member

Subcommittee on Financial Institutions and Monetary Policy

Cc: Chair Jerome H. Powell, Board of Governors of the Federal Reserve System
Governor Michelle W. Bowman, Board of Governors of the Federal Reserve System

¹ “We know that higher capital makes banks safer and sounder. We also know that you will at the margin provide less credit, the more capital you must have. But it's never exactly clear that you're at perfect equilibrium. And it's a fair question, I think, to look at that,” said Federal Reserve Board Chair Jerome Powell. Senate Banking Committee Hearing, entitled, “Semiannual Monetary Policy Report to Congress,” March 7, 2023, available at <https://www.banking.senate.gov/hearings/02/28/2023/the-semiannual-monetary-policy-report-to-the-congress>.

Governor Lisa D. Cook, Board of Governors of the Federal Reserve System
Governor Phillip N. Jefferson, Board of Governors of the Federal Reserve System
Governor Christopher J. Waller, Board of Governors of the Federal Reserve System
Chairman Martin J. Gruenberg, Federal Deposit Insurance Corporation
Acting Comptroller Michael J. Hsu, Office of the Comptroller of the Currency