MEMORANDUM

To: Members of the Committee on Financial Services

From: FSC Majority Staff

Date: September 14, 2023

Re: September 19, 2023, Financial Institutions and Monetary Subcommittee Hearing

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On Tuesday, September 19, 2023, at 2:00 p.m. in Room 2128 of the Rayburn House Office Building, the Committee on Financial Services' Subcommittee on Financial Institutions and Monetary Policy will hold a hearing titled "A Holistic Review of Regulators: Regulatory Overreach and Economic Consequences." Testifying at the hearing will be:

- Mr. Hal Scott, Nomura Professor of International Financial Systems, Emeritus, Harvard Law School
- Ms. Karen Petrou, Managing Partner, Federal Financial Analytics Inc.
- Ms. Margaret E. Tahyar, Partner, Davis Polk & Wardwell LLP
- Ms. Mayra Rodríguez Valladares, Managing Principal, MRV Associates

Background

The hearing will explore the interaction and economic impact of the Federal banking agencies' recent regulatory proposals, including Basel III Endgame, new and expanded long-term debt requirements, changes to resolution plans, along with continued opacity surrounding Federal Reserve stress testing. In addition to significant proposals made in July and August, Federal Reserve Vice Chair for Supervision Michael Barr, and Federal Deposit Insurance Corporation (FDIC) Chairman Martin Gruenberg have indicated that there may be more regulations to come.

On July 27, 2023, the Federal Reserve Board (FRB), the FDIC Board, and Office of the Comptroller of the Currency (OCC) jointly issued a Notice of Proposed Rulemaking (NPR) that would implement the final components of the Basel III recommendations from the Basel Committee on Banking Supervision (BCBS). If implemented, the proposal is expected to meaningfully increase capital requirements for banking organizations, with the agencies estimating an aggregate 16 percent increase in common equity tier 1 capital requirements.

On August 29, 2023, the FRB and FDIC Board voted unanimously to issue a notice of proposed rulemaking that would require banks with $100 billion or more in assets to issue long-term debt (LTD) and other measures that could be used to absorb losses in the event of such a bank's failure. That same day, those agencies issued a notice of proposed rulemaking that would expand the banks subject to resolution planning. Likewise, the FRB and the FDIC Board of Directors voted to invite comment on proposed guidance for certain banks' resolution planning.

In the background of the proposed rulemaking, the Federal Reserve conducts stress tests, as required by the Dodd Frank Act, to assess banks' capacity to withstand economic downturns and continue lending through them. There are capital consequences that flow from stress test results, and banks subject to stress testing must manage their capital with stress testing in mind. Despite the significant consequences of stress tests, the Federal Reserve has maintained an opaque veil around the models and assumptions that it uses. Moreover, there has been an indication from the FRB that aspects of the stress testing framework may be revisited to reassess its risk assessment.

The Subcommittee will engage in a holistic assessment of the combined impacts of the recent significant federal banking regulatory proposals on financial stability, the U.S. economy, and American consumers, businesses, and families.