How Business Views Financial Challenges:

Basel III and Beyond

U.S. Chamber of Commerce
Center for Capital Markets
Competitiveness

Fall 2023

Introduction

The past 15 years have been an eventful period for the American economy. Businesses have dealt with evolving challenges during this time, including the financial crisis of 2008, the legislative and regulatory response to the crisis, a historically weak economic recovery following the Great Recession, the onset of the COVID-19 pandemic in 2020, and, more recently, the rapid rise in both inflation and interest rates. Businesses are also currently contemplating the cumulative effect of dozens of regulations that the federal financial regulators—including the Federal Reserve Board, Consumer Financial Protection Bureau (CFPB), and Securities and Exchange Commission (SEC)—have either proposed or recently finalized.

The U.S. Chamber of Commerce Center for Capital Markets Competitiveness (CCMC) has periodically conducted surveys of corporate treasurers to gauge the outlook and concerns of businesses in the United States and to assess the ways in which businesses—large and small and from every region in the country—use the financial system to meet their needs. These surveys also examine how regulatory policy affects the ability of businesses to raise capital, manage their cash, and invest in long-term projects. The Chamber conducted previous surveys in 2013, 2016, and 2019.

This year's survey, conducted in collaboration with Teneo Research, examined three key areas:

1. **The economic outlook of U.S. businesses and potential risks faced**
    - The survey sought the views of businesses about their outlook for both their businesses and the broader economy over the next 12 months.
    - The survey examined the top macroeconomic risks to individual businesses and the broader economy, as viewed by corporate treasurers.
2. **How U.S. businesses are financing their operations**
    - The survey asked corporate treasurers to explain the types of financial services and products they rely on, the total number of financial institutions they use, and the typical size of financial institutions they use for certain services.
3. **How recent regulations targeting the financial sector are affecting the operations of companies across a range of industries, and the regulatory risks U.S. businesses must anticipate and manage to maintain their funding**
    - The survey focused, among other rules, on proposed increases in capital requirements under Basel III, the SEC's new regulations for money market funds and swing pricing for open-end funds, and proposed restrictions on leveraged loan holdings in investment funds.

Methodology

Working closely with CCMC, Teneo Research conducted a national survey of U.S. corporate treasurers.

300 corporate finance executives:

- Treasurer
- Deputy Treasurer
- Controller
- CFO
- CEO / Owner (small businesses only)

Data were collected between June 28 and July 27, 2023

The survey was fielded online and via mobile telephone

The credibility interval for this study is ±5.7% at the 95% level of confidence

Key Findings

Economic outlook and potential risks

Corporate treasurers reported a generally optimistic outlook for both their company and the broader economy over the next 12 months. This finding appears to reflect the confidence treasurers feel in managing risk for their individual business, despite concerns over looming macroeconomic risks.

- Seventy-nine percent of respondents expect their company's economic performance to somewhat improve over the next 12 months, while 73% expect the overall economic outlook to somewhat improve over the same period.

However, this year's survey shows that corporate treasurers are concerned about several potential risks that could weaken their company's outlook and that of the overall economy.

- Corporate treasurers identified taxes, inflation, interest rates, and concerns over trade policy and tariffs as the top four current macroeconomic risks.
- Notably, every major industry surveyed—retail/services, energy, and manufacturing—identified concerns over taxes as their top macroeconomic risk.
- Nearly two-thirds of publicly traded companies reported that the recent imposition of a stock buyback tax will "disrupt" their ability to manage corporate finances.
- Notwithstanding the recent collapse of Silicon Valley Bank and Signature Bank and concerns over regional banks, corporate treasurers do not view the stability of individual banks or the banking system as a major threat, ranking it 8th on a list of 10 potential threats.

The ongoing impact of regulation

This year's results again demonstrate that changes to financial regulations can inhibit the ability of companies to soundly manage their finances. Many businesses have been forced to take undesirable actions in response to costs imposed by certain regulations.

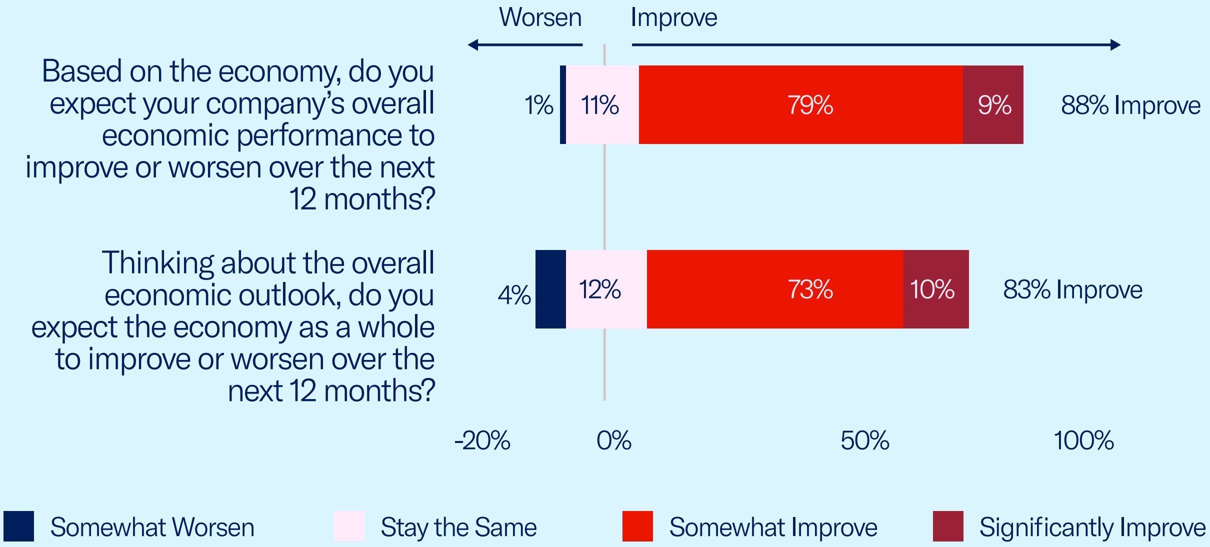
- Eighty-seven percent of U.S. businesses reported they have been negatively affected by regulatory-related costs increases.

- More than one-third of businesses are raising costs due to financial regulations.
- Nearly half of U.S. businesses have had to either absorb costs or delay planned new investments due to regulations.
- Forty percent of businesses have decreased certain types of services offered to customers in response to financial regulations.
- Sixty-eight percent of respondents reported that a proposed net increase in capital requirements on banks under Basel III would be damaging to their business.
- Fifty-five percent of businesses are concerned that their cost of financing would increase if loan funds are deemed “illiquid” under the SEC’s proposed liquidity risk management rules for open-end funds.
- Fifty-four percent of businesses, including 64% of midsize businesses, reported that their ability to raise capital would be harmed if no-action relief related to SEC Rule 144A expires and businesses would have to publicly disclose sensitive financial information.
- The overwhelming majority of respondents supported treating banks equally when it comes to cross-border financial regulation, with 90% saying that foreign banks operating in the United States should be treated the same as domestic banks and that U.S. banks operating overseas should be treated the same as local banks operating in those markets.

Economic Outlook and Potential Risks

Notwithstanding recent economic events and developments, most corporate treasurers have a generally optimistic outlook for both their company and the economy over the next 12 months. Seventy-nine percent of corporate treasurers expect their company's performance to "somewhat improve" over the next 12 months, while 73% believe the economy will somewhat improve over the same time frame. Only 12% believe their corporate prospects will worsen, while 16% expect the economy will worsen. The optimism these treasurers expressed about their own company's prospects is firmly in line with the phenomenon of "secondhand pessimism" that has persisted for a few years now—which is that businesses have long been downcast about the economy and its prospects but have been bullish about their own companies' fortunes.

Treasurers take an overwhelmingly bullish outlook on the economy and their businesses prospects over the next 12 months.



However, businesses are also concerned about substantial risks that could derail economic growth in the coming months. The top issue for businesses—regardless of industry—is concern over taxes. Given that taxes always affect the bottom line for a business, the issue is always top of mind for corporate treasurers. Eighty-three percent of respondents identified at least one tax reform proposal that would help businesses grow. These proposals included (1) restoring the deduction for research and development expenditures under section 174; (2) restoring the allowance for depreciation, amortization, or depletion in determining the limitation on the deduction of business interest expenses under section 163(j); (3) extending 100% bonus depreciation for investments in qualified property under section 168(k); and (4) extending the 20% deduction for qualified business income under section 199A.

One additional related issue that businesses are especially concerned about is the new 1% excise tax on stock buybacks enacted in the Inflation Reduction Act of 2022 that went into effect January 1, 2023. The Biden administration's FY2024 budget request and legislation introduced in Congress call for increasing this tax to 4%. When asked about the stock buyback tax and proposed 300% increase, 65% of publicly traded companies that participated in this year's survey reported that the tax would "disrupt their corporate finances."

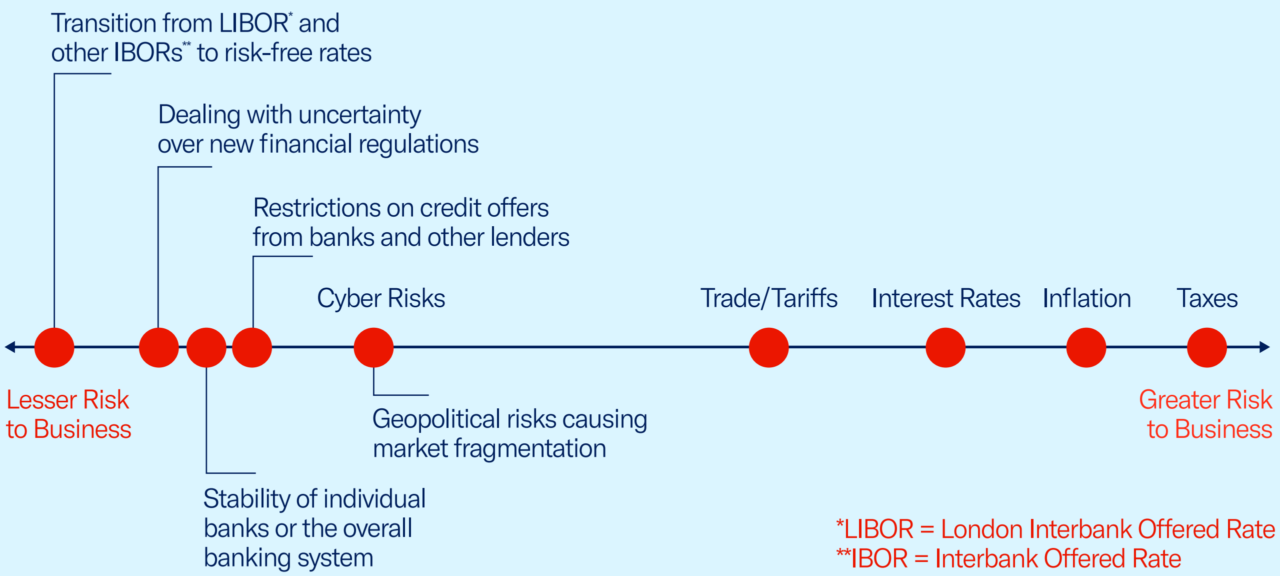
In addition to taxes, inflation, interest rates, and issues related to trade and tariffs rounded out businesses' top four concerns about the economy. The Federal Reserve embarked on the fastest increase in interest rates in 40 years, and recent comments from the Federal Reserve Chairman indicate that the central bank is not necessarily done with its tightening cycle. Rising interest rates increase the cost of borrowing for businesses, and although inflation has moderated over the last 12 months, continually rising prices remain a major threat to the economy and may cause the Federal Reserve to further tighten monetary policy.

Businesses also face uncertain challenges when it comes to trade policy. The current administration's reluctance to seek new market-opening trade agreements leaves U.S. manufacturers, farmers, and service providers at a competitive disadvantage to firms based in the many other countries that are entering into new preferential trade pacts at a steady clip. Further, proposals being voiced on the presidential campaign trail for steep new tariffs—and the fact that those established in the Trump administration have been left intact in the Biden administration—engender uncertainty that may depress investment.

Interestingly, businesses did not report they were overly concerned about the stability of individual banks or the banking system, ranking this issue as 8th out of 10 potential concerns. This finding is notable given that the survey was conducted shortly after the failure of Silicon Valley Bank and Signature Bank in March 2023, and the concerns over the banking system that resulted from that episode were otherwise making headlines. In fact, businesses ranked cyber risks and uncertainty resulting from new financial regulations as higher risks than the risks to the stability of the banking system.

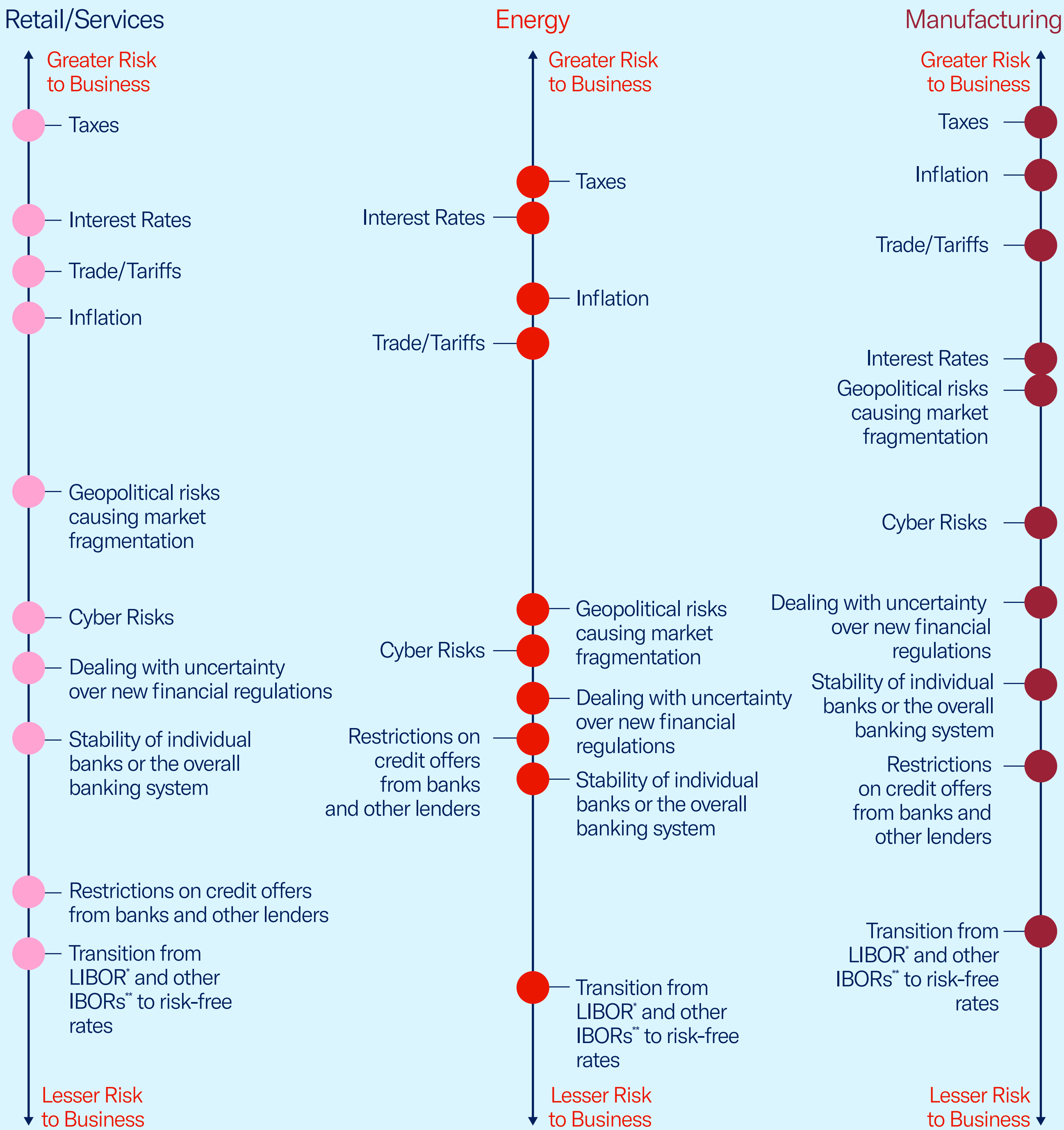
Economic Risk

As corporate treasurers look ahead to the next 12 months, macroeconomic risks around taxes, inflation, interest rates, and trade barriers stand well ahead of other pressing issues as the most significant risks to their businesses.



Question:
Over the next 12 months, what do you see as the most significant risks to your company?

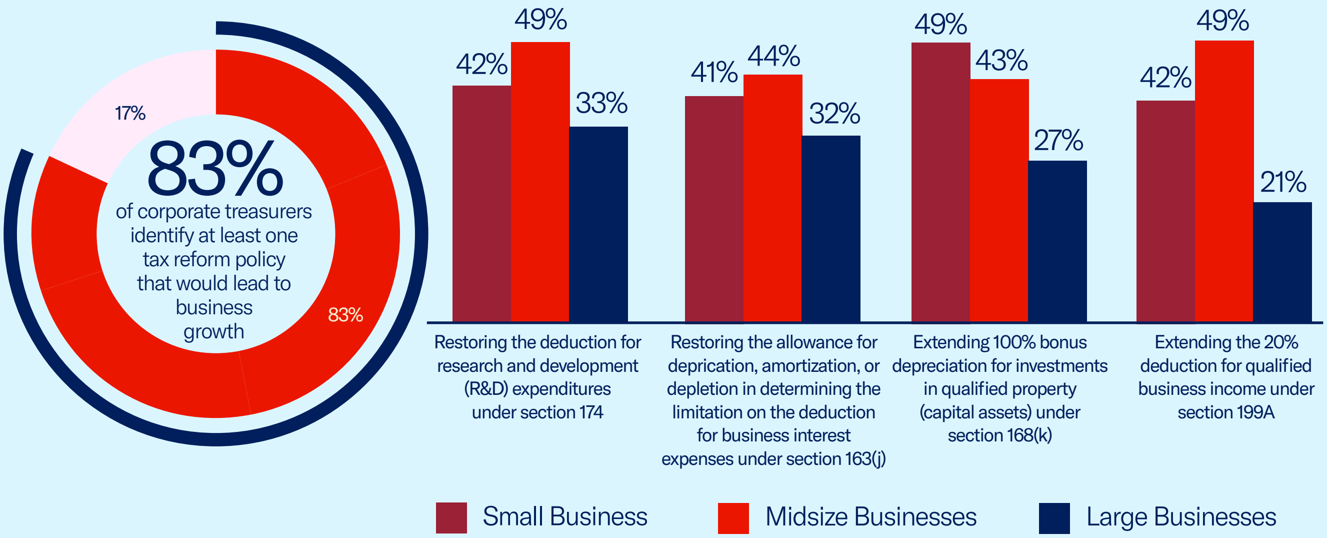
Across critical industries, we see a shared concern over operational costs, driven by taxes, inflation, and interest rates.



*LIBOR = London Interbank Offered Rate
**IBOR = Interbank Offered Rate

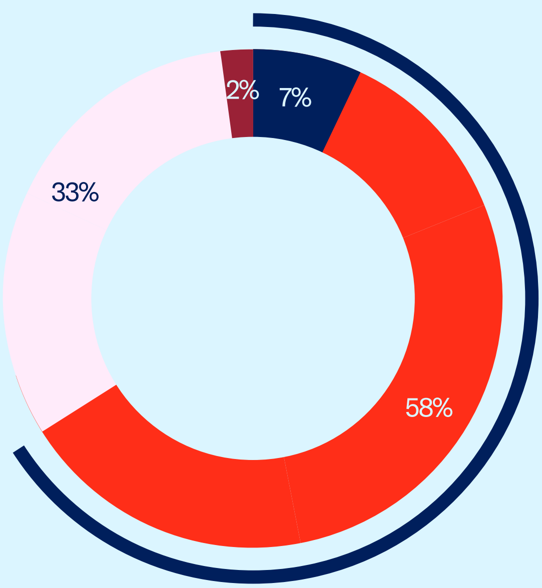
Question:
Over the next 12 months, what do you see as the most significant risks to your company?

With taxes seen as the top risk to their businesses', overwhelming majorities of corporate treasurers see growth opportunities in tax reform



Question:
Which – if any – of the following federal income tax policy changes would benefit your business's ability to finance its operations and grow?

Two in three publicly traded companies indicated that planned increases in stock buyback taxes would pose new difficulties in managing corporate finances.



65%

of publicly traded companies report they are concerned pending and proposed excise taxes on buybacks will disrupt their corporate finances

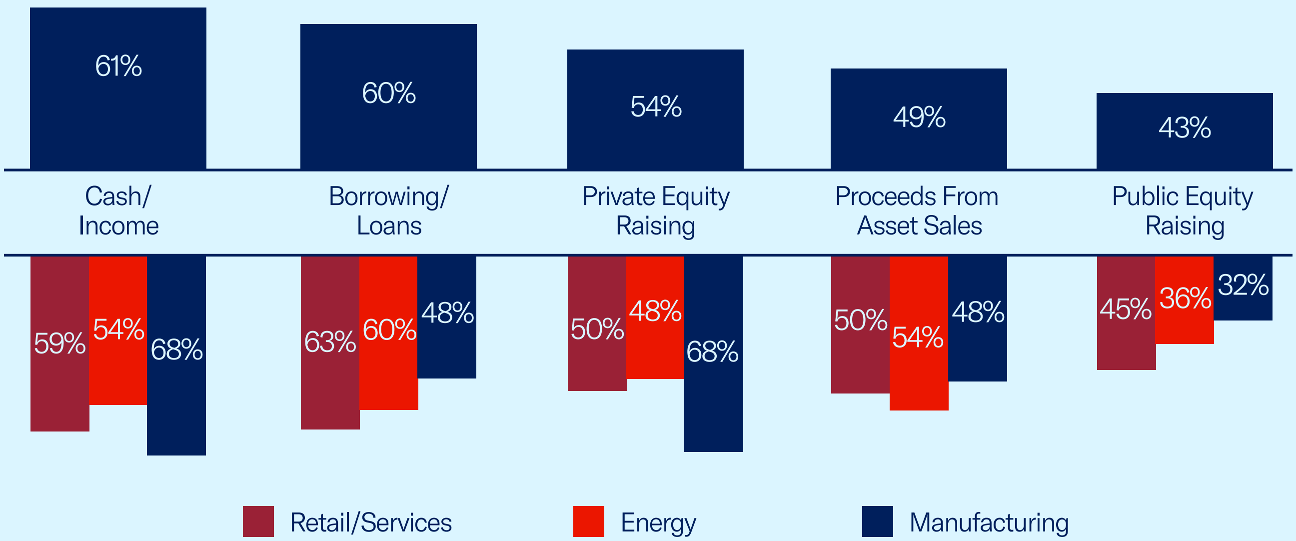
- Concerned
- Somewhat Concerned
- Not Sure
- Not Too Concerned
- Not At All Concerned

Question:
How concerned are you, if at all, that a new excise tax on stock buybacks in 2022 and the president's 2024 budget proposes to increase it by 300% could make it more difficult for your company to manage its finances? (Asked among public companies n = 91.)

Planned capital investments fueled by cash and debt

Facing these challenges around short-term funding, the majority of corporate treasurers are looking to cash and debt to fund capital expenditures.

Businesses in the retail and energy sectors are especially reliant on access to lending to support their growth



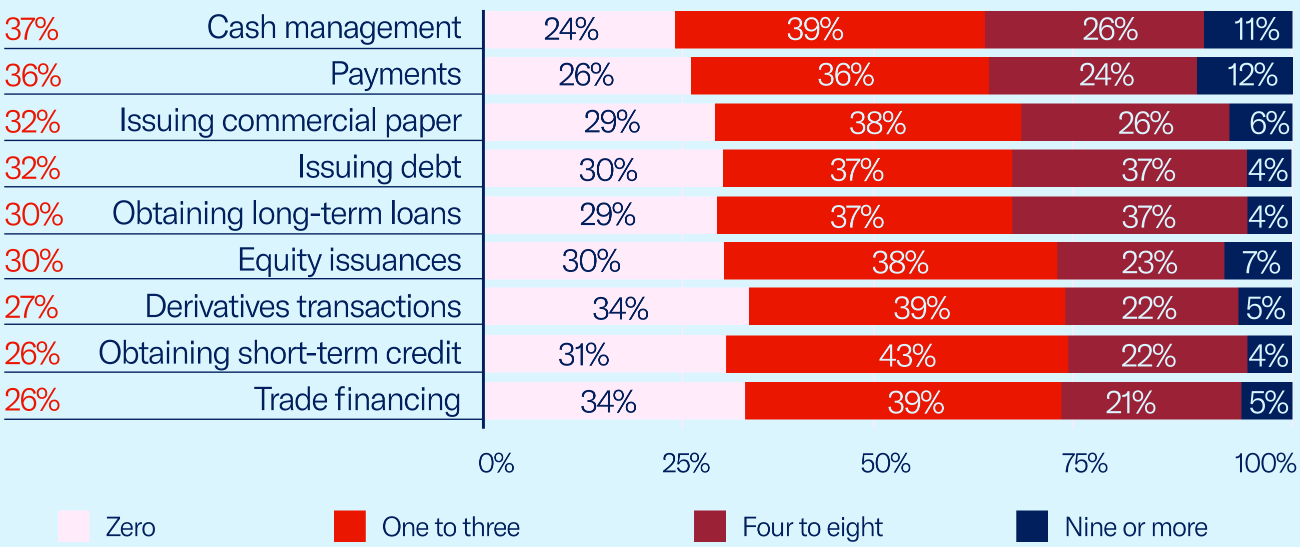
Question:
Will your company's future capital investments be funded through...?

How U.S. businesses are financing their operations

Consistent with the findings from the Chamber's 2013, 2016, and 2019 surveys, businesses rely on diversity and competition within the banking system to meet their short- and long-term financing needs. Depending on their size, industry, or geographic location, businesses may use different financial situations for different reasons. A substantial number of businesses also use multiple financial institutions for different products and services.

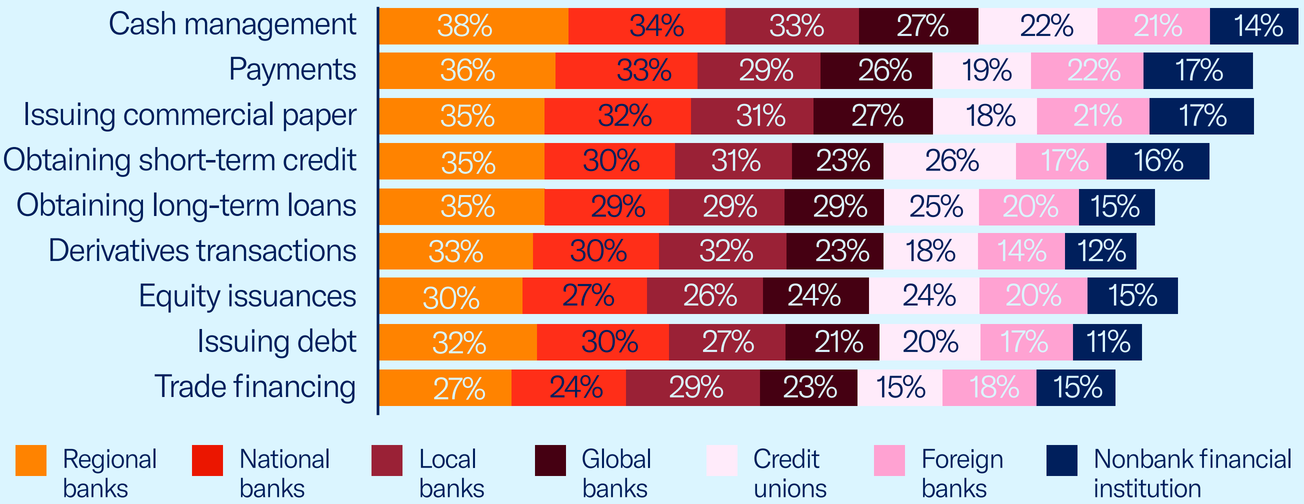
For example, 37% of businesses depend on at least four financial institutions to provide cash management services, while 36% of businesses use four or more institutions for payment services. Thirty-two percent of businesses use at least four institutions for issuing both commercial paper and debt. According to the survey, cash management and payment services also necessitate the use of a diverse range of financial institutions, with businesses using regional banks, large banks, local banks, credit unions, foreign banks, and nonbank institutions for these services.

Businesses rely on the widest range of financial services partners for cash management and payments.



Question:
How many financial institutions does your company use or have relationships with for these types of services?

Cash management and payments also require the most diverse range of financial institution partners.



Question:
For each of the services you selected previously, please indicate the type of financial institution your company uses mostly for that service.

The regulatory risks U.S. businesses must anticipate and manage to maintain their funding

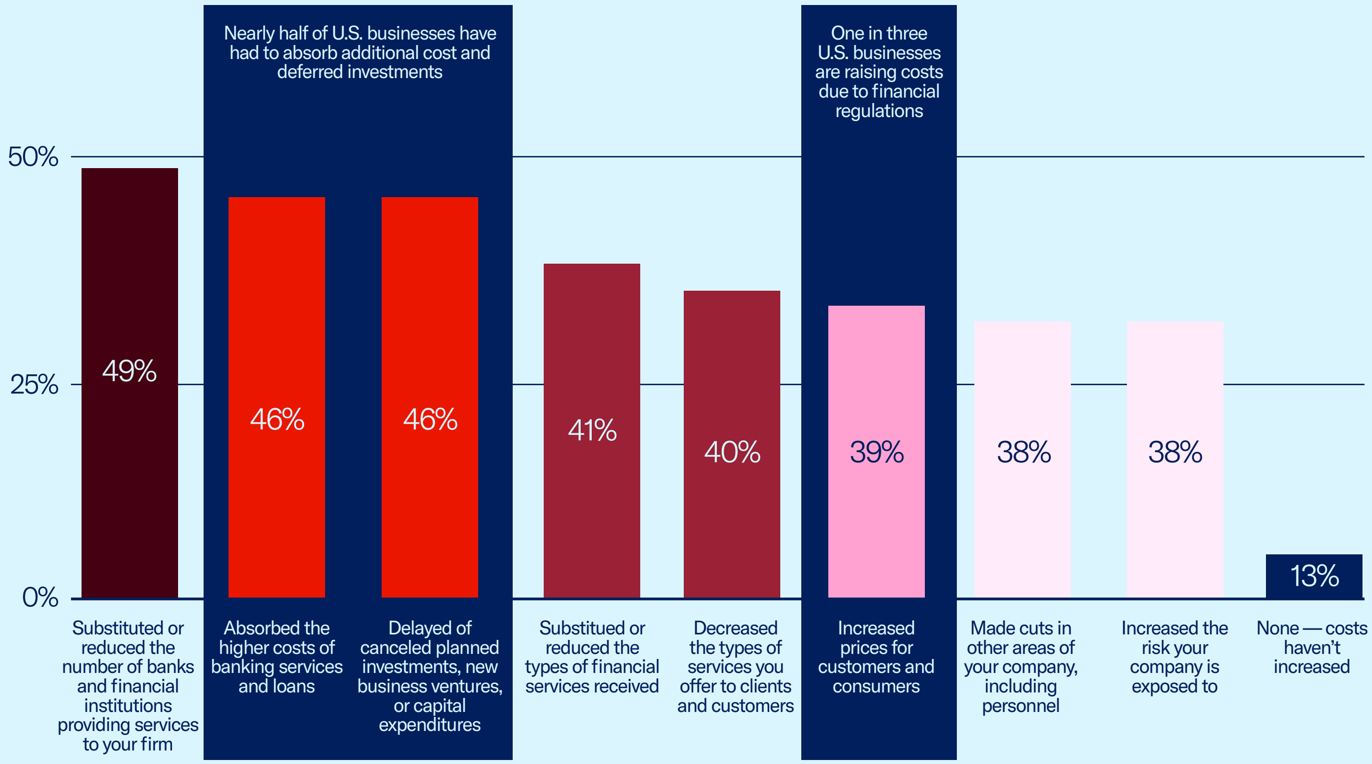
A key principle of financial regulation is that many of the costs imposed on financial institutions by new rules are ultimately borne by the customers of those institutions, including Main Street businesses and other end users within the economy. This reality has been especially visible over the past decade, as rules stemming from the 2010 Dodd–Frank Wall Street Reform and Consumer Protection Act have taken effect and as federal financial regulators have recently embarked on an increasingly aggressive regulatory agenda.

A striking 87% of businesses have been negatively affected by cost increases resulting from financial regulation. This includes 46% of companies that have delayed or canceled planned investments or capital expenditures due to regulations, 40% that have decreased the types of services offered to customers, and 49% that have substituted or reduced the number of banks or financial institutions that provide services to them.

More than one-third of businesses reported that they have raised costs due to financial regulation—a finding that indicates that certain financial regulations may actually be driving inflation throughout the economy, one of the top economic risks identified by businesses.

Although businesses, regardless of industry, reported that they are negatively affected by regulations, actions taken in response to certain rules vary by industry. For example, businesses in the retail sector are more likely to absorb higher costs and feel exposed to greater financial risk because of regulation. Energy and mineral companies are more likely to reduce product or service offerings due to regulation, while manufacturers are more likely to be forced to pass on higher prices to customers. Only 13% of retailers, 16% of energy/mineral companies, and 17% of manufacturers reported that costs have not increased as a result of financial regulations.

Eighty-seven percent of U.S. companies have been negatively affected by regulatory-related cost increases.



Question:

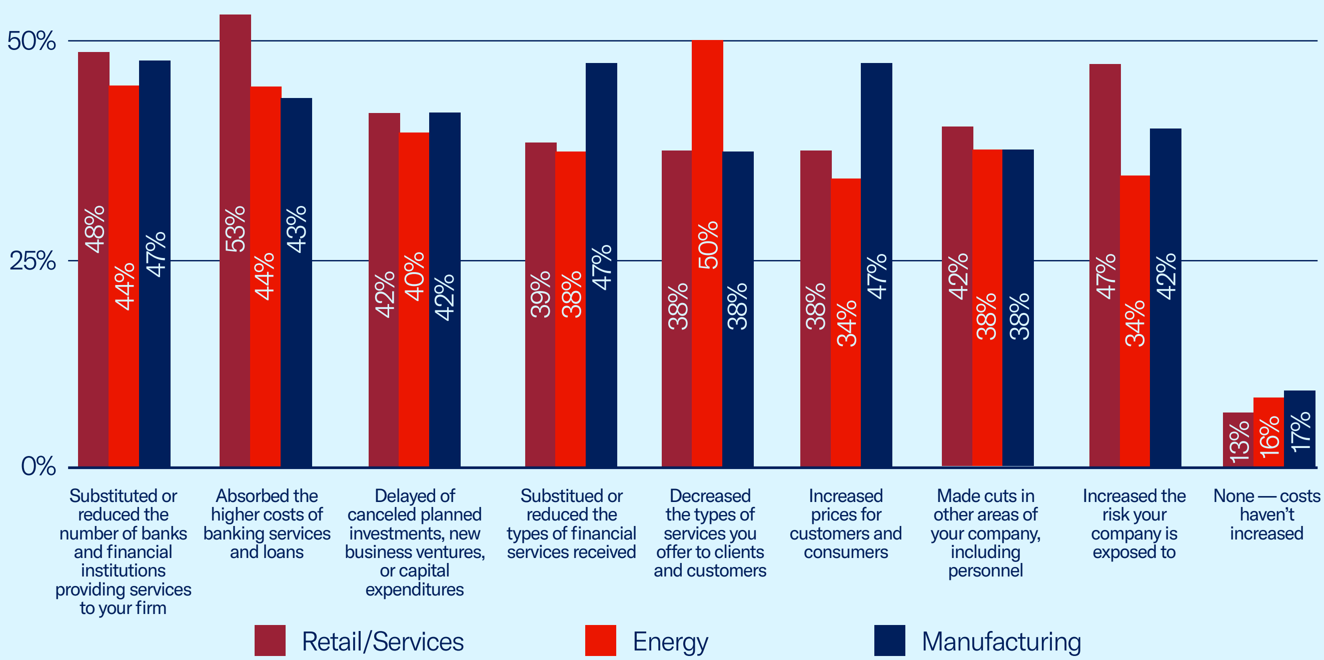
Which of the following actions has your company taken as a result of changes to financial regulations?

Financial regulations are affecting key industries differently.

Retailers are more likely than business in other industries to absorb higher costs and feel exposed to greater risk.

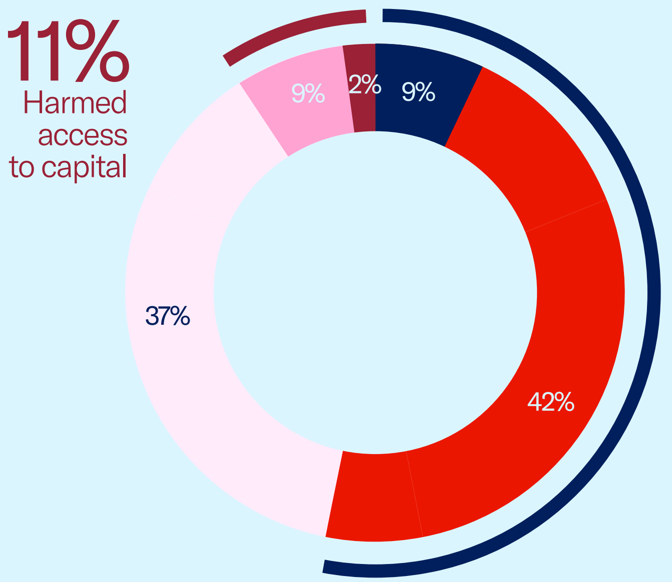
Energy and mineral companies are the most likely to have reduced product and service offerings, potentially risking America's progress on the energy transition.

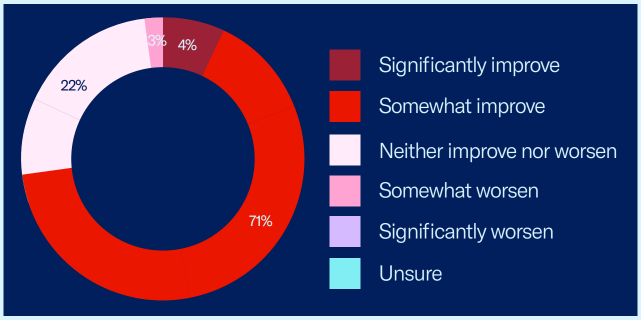
Companies in the manufacturing sector are the most likely to have passed along higher prices to their customers, potentially driving up inflation throughout the economy.



Question:
Which of the following actions has your company taken as a result of changes to financial regulations?

Despite these impacts on U.S. business operations, financial service industry regulations are reported to have eased companies' access to capital, and 75% expect further improvements.





Question:
To what extent have financial services regulations affected your company's ability to access capital? Thinking about the overall regulatory outlook for the financial services sector, do you expect the regulations on that industry to improve or worsen the outlook for your own company over the next 1 to 2 years?

Although corporate treasurers initially held a favorable view of some new or proposed regulations, they became increasingly concerned once the consequences of these new rules were made clear.

Basel III

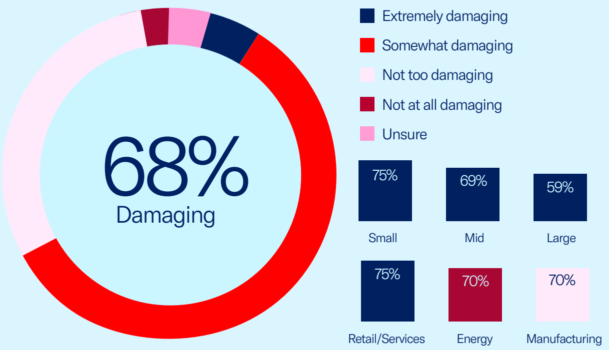
Businesses expressed major concerns over pending changes to the capital and regulatory framework for banks resulting from Basel III.

- Sixty-eight percent of businesses say a net increase in capital requirements on banks could be damaging to their business.
- Seventy-seven percent of businesses are concerned that investment-grade private companies will be treated less favorably than investment-grade public companies under the new Basel III framework.
- Fifty-three percent of businesses believe that the costs under Basel III related to interest rate swaps could make it more difficult to manage currency risk.
- The overwhelming majority of businesses also support treating banks equally when it comes to cross-border financial regulation, with 90% saying that foreign banks operating in the U.S. should be treated the same as domestic banks, and that U.S. banks operating overseas should be treated the same as local banks operating in those markets.

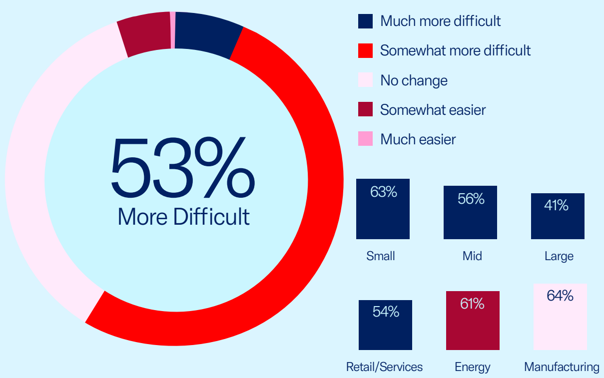
These concerns regarding Basel III are even more heightened for small and midsize enterprises (SMEs): More than 80% expressed concerns about unfavorable treatment for investment-grade private businesses, while nearly three-fourths of SMEs expressed concerns about the impact of higher bank capital requirements on their respective business.

Once the consequences of new rules were made clear, U.S. corporate treasurers, especially those of SMEs, voiced significant concerns. Such concerns among key industries outpace the national average.

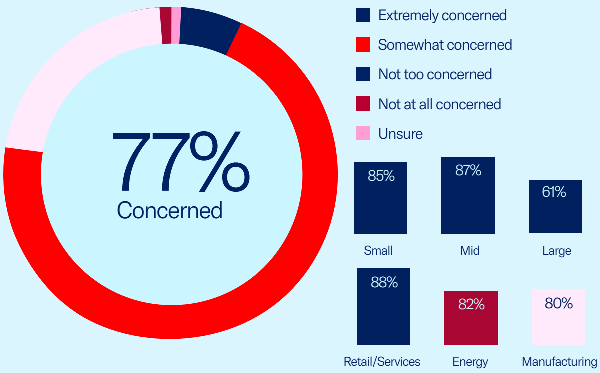
A net increase in capital requirements imposed on banks could cause them to reduce availability of certain services or products, or increase their prices. How damaging would this be to your business?



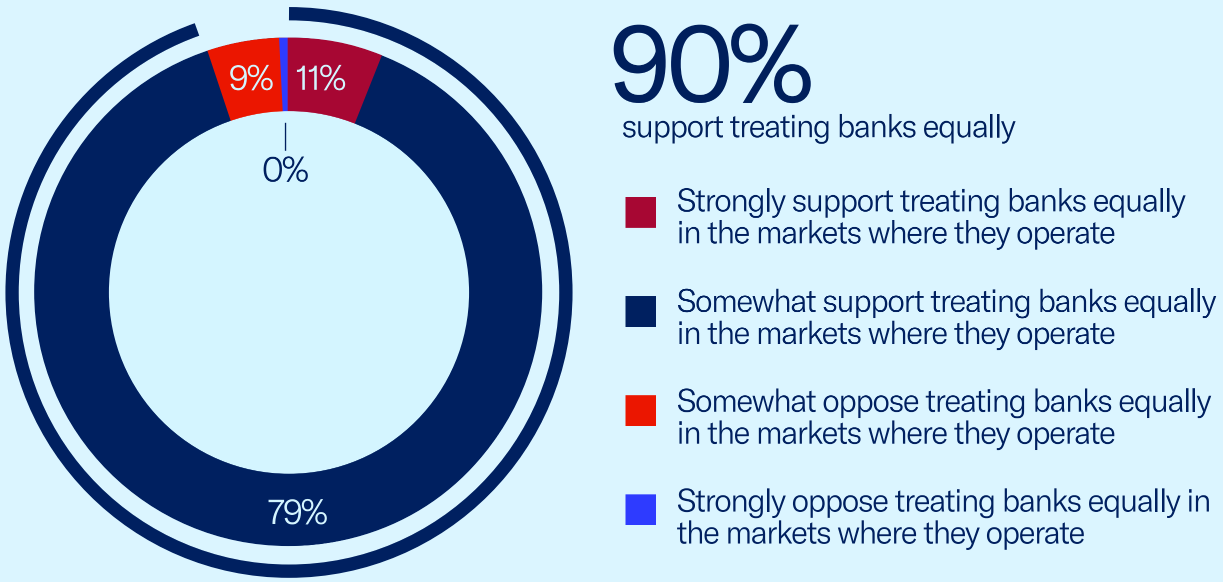
The final Basel III framework could increase the cost of using interest rate swaps and foreign exchange forwards and swaps. Would this increased cost make it more difficult for you to manage currency risk?



How concerned are you that investment-grade private companies would be treated less favorably than investment grade public companies when it comes to their debt and equity issuance?



There is an expectation among corporate treasurers that banks operating globally should have a level playing field with domestic banks across their markets.



Question:
To what extent do you believe that foreign banks operating in the U.S. should be treated the same as domestic banks, and that U.S. banks operating overseas should be treated the same as local banks in those markets?

SEC liquidity proposal

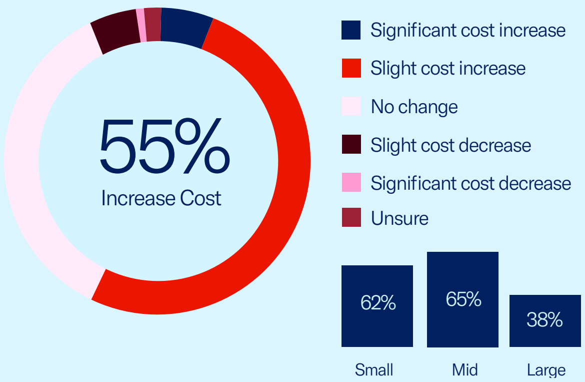
Loans are a critical source of financing for businesses, and open-end funds account for a significant portion of the market for loans. Open-end loan funds provide $100 billion of liquidity and credit to businesses.

The SEC's November 2022 Open-End Fund Liquidity Risk Management Programs and Swing Pricing Proposal would remove the "less liquid" category and reclassify open-end loans as "illiquid" under Rule 22e-4. As a result, securities taking longer than seven days to settle, such as loans and other fixed income securities, would be subject to a 15% limit. Therefore, funds holding these assets may be required to close or reduce their holdings to conform with the new 15% limit.

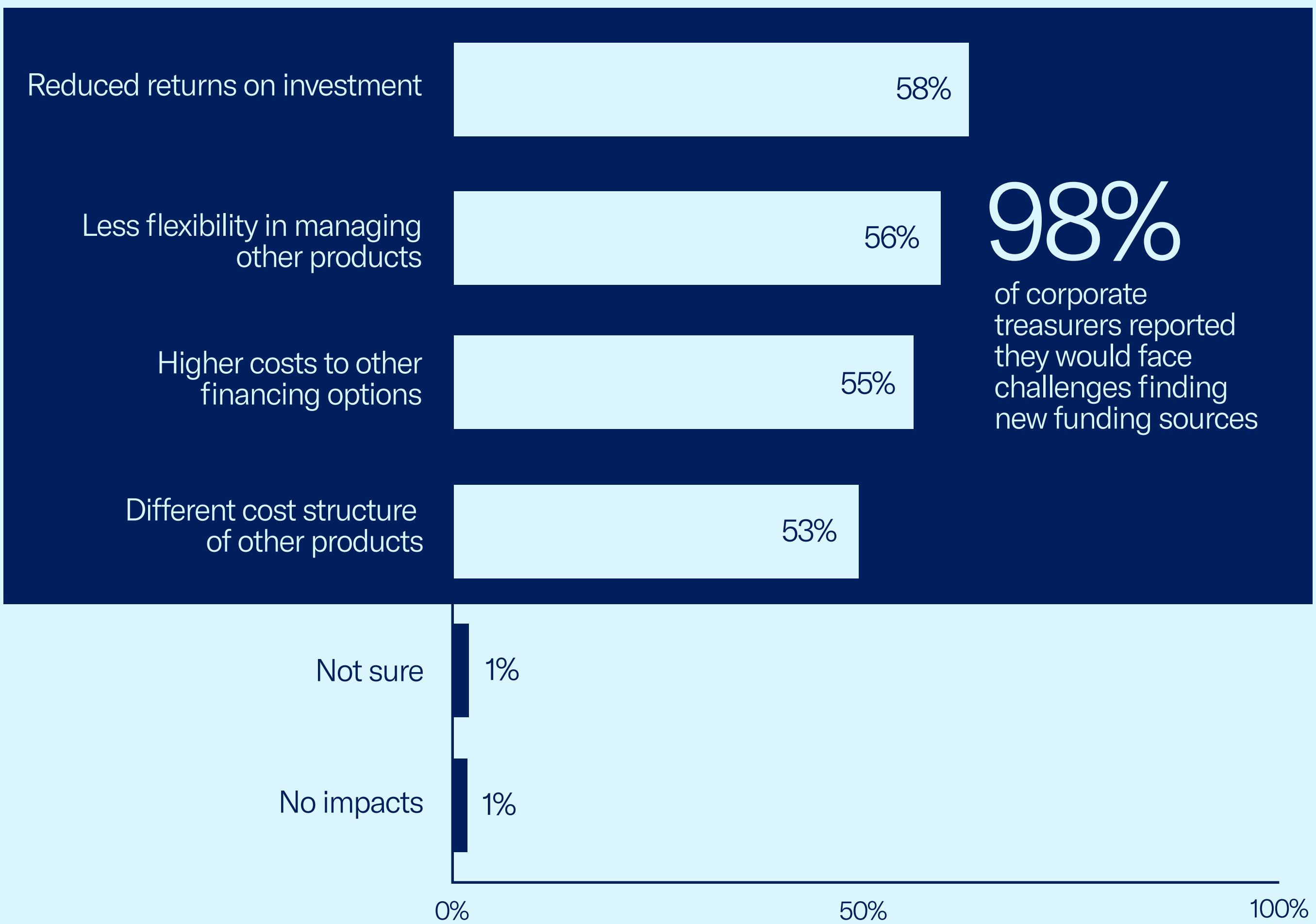
Corporate treasurers expressed concerns that the SEC's proposal will increase their cost of borrowing, with 55% saying the rule could increase their costs if loan funds are deemed illiquid. Similar to concerns over Basel III, small and midsize businesses are more likely than large businesses to be concerned about the rule's impact.

If loan funds were to be deemed illiquid, nearly all U.S. businesses would face challenges in sourcing capital, with more than half reporting their costs would go up.

Do you expect your cost of issuing debt to increase or decrease if loan funds are deemed illiquid?



Since new issuances may take more than seven days to settle, the elimination of the “less liquid” category may mean open-end funds would no longer be able to be participants in this market. What impacts would your company face to find new sources of borrowing?



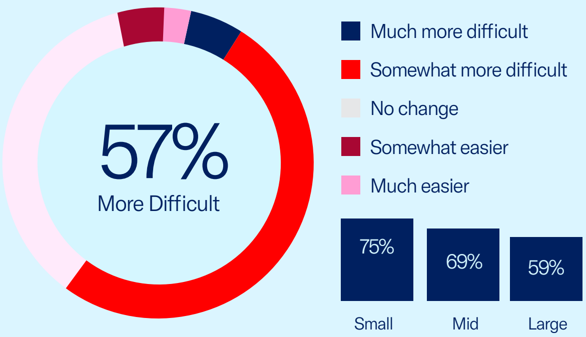
SEC Money Market Fund Rule

Businesses benefit from money market funds (MMFs) in two ways: as an investment tool for working capital and as a market for the instruments they issue to finance short-term funding needs. The SEC recently adopted changes to the rules governing MMFs; this survey was conducted while the SEC's rulemaking was still an outstanding proposal. Although businesses are still contemplating the impact of the new rule, the responses included here were based on specifics of the SEC proposal before it was finalized on July 12, 2023.

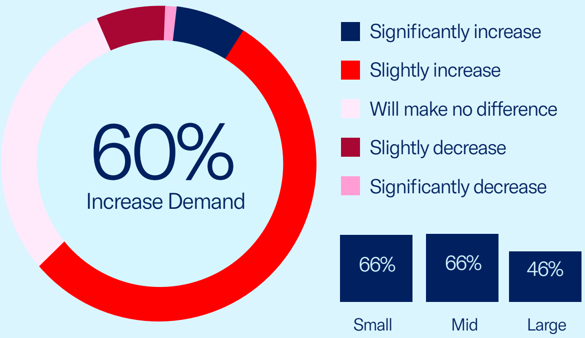
The SEC proposal included increasing the requirement for MMFs to hold minimum daily liquid assets from 10% to 25% and weekly liquid assets from 30% to 50% to provide a buffer in case of rapid investor redemptions during times of market stress. These liquid assets do not generally offer as high of a return, making MMFs less helpful for businesses and less attractive to investors. While the SEC's final rule dropped requirements for MMF swing pricing, it maintained the proposed daily liquid assets requirement.

Fewer options to access MMFs would damage the short-term funding operations for a majority of U.S. businesses, resulting in higher inventory and utility expenses.

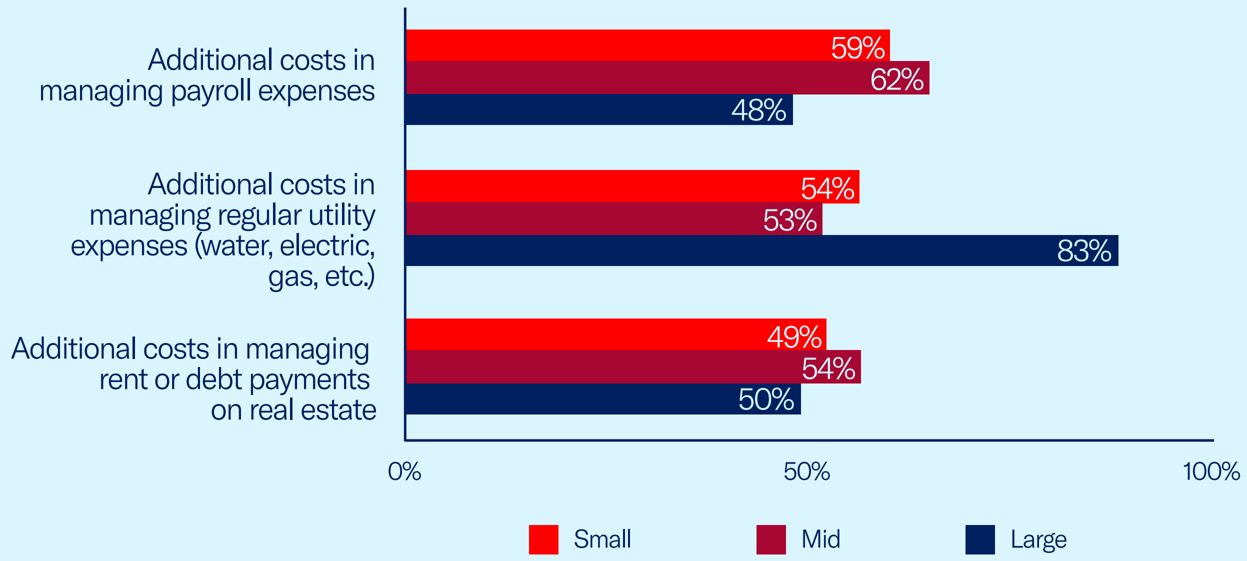
To what extent would fewer options to invest in money market funds affect your ability to manage short-term funding needs?



Do you believe the SEC's proposed changes to requirements for daily liquid assets and weekly liquid assets will lead to an increase or decrease in market demand for securities that the MMF is not required to hold?



How would a decrease in your ability to manage short-term funding affect your business?



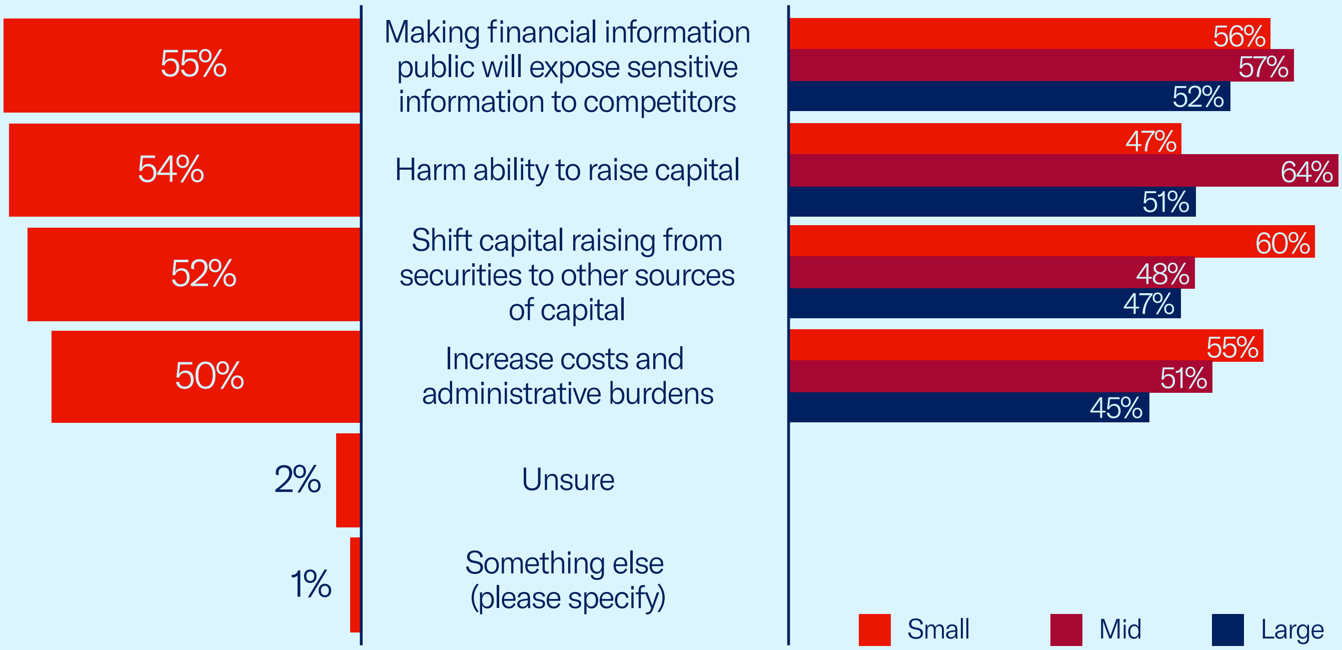
SEC Rule 144A and Rule 15c2-11

In September 2021, the SEC reinterpreted its Rule 15c2-11 to require broker–dealers trading securities to collect, review, and publish issuer data for fixed-income securities, including 144A securities made available to qualified institutional buyers. The new interpretation would force private companies to publicly disclose financial information on 144A securities. In November 2022, the SEC issued no-action relief that delays this new requirement to January 2025.

Businesses expressed concerns that forced disclosure of sensitive financial and other information under Rule 144A would harm their ability to raise capital and put them at a competitive disadvantage over their competitors not required to disclose such information. Once again, these concerns were especially heightened among SMEs.

Nearly all U.S. companies indicate that increasing 144A disclosures would create additional burdens and risks.

If no-action relief expires without a permanent fix to the 144A problem, what will be the impact to your company?



U.S. Chamber of Commerce
Center for Capital Markets
Competitiveness

The U.S. Chamber of Commerce Center for Capital Markets Competitiveness's (CCMC) mission is to advance America's global leadership in capital formation by supporting diverse capital markets that are the most fair, transparent, efficient, and innovative in the world. CCMC advocates on behalf of American businesses to ensure that legislation and regulation strengthen our capital markets allowing businesses—from the local flower shop to a multinational manufacturer—to mitigate risks, manage liquidity, access credit, and raise capital.