



March 20, 2024

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
Attention: Ann E. Misback, Secretary

Re: Quantitative Impact Study on Basel III Endgame Rule - data collection to gather more information from the banks affected by the large bank capital proposal it announced earlier this year

Dear Members of the Board,

The U.S. Chamber of Commerce ("the Chamber") is concerned with the Board of Governors of the Federal Reserve System's ("FRB") quantitative impact study ("QIS") that will inform the joint proposed rulemaking entitled Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity, commonly referred to as "Basel III Endgame." The Chamber has serious concerns about the process and transparency of this rulemaking, especially given the failure to produce a timely and credible quantitative impact study to justify the proposed increase in capital requirements.

As a threshold matter, in order to have a procedurally effective and useful comment period, the agencies generally must identify, make available, and explain the data, studies, analysis, assumptions, and methodology underlying a proposed rule. The failure to do so prevents meaningful public commentary and is a serious procedural failure.

Here, the Basel III Endgame proposal was released on July 27, 2023. Immediately following the proposal's release, it was resoundingly criticized for its lack of meaningful supporting data or analysis. Indeed, the agencies acknowledged at the time the proposal was released that they planned to "collect additional data to refine [their] estimates of the rule's effects" during the comment period, which will "inform finalization of the rule."¹ Finally, nearly three months after the proposal's release, the FRB initiated the QIS on October 20, 2023.

The FRB should have completed its QIS before issuing the proposed rule and should have relied on the results from that QIS to inform its rulemaking process, including what changes to minimum capital requirements, if any, are appropriate for the stability of the U.S. banking system. The Chamber in May 2023 raised this point: "We urge the Board to provide an opportunity for the public to examine its Holistic Capital Review—including the data and

¹ Federal Reserve Board - Open Board Meeting - July 27, 2023
<https://www.federalreserve.gov/aboutthefed/boardmeetings/20230727open.htm>

methodology used to reach its findings—before proposing a rule to implement any new capital standards.”²

Additionally in July 2023, Reps. Andy Barr and Bill Foster, the Chairman and Ranking Member of the Subcommittee on Financial Institutions and Monetary Policy of the U.S. House Financial Services Committee, requested “details of your [FRB Vice Chair for Supervision Michael Barr’s] 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.”³ Yet, in January 2024, Vice Chair for Supervision Barr stated that the full results of the QIS would *not* be released, only the FRB’s analysis of those findings. In other words, the FRB will only release selective findings, and not necessarily explain the methodology used to reach its conclusions.

The FRB should be transparent about the methodology it uses in any findings it intends to publish – simply put, the math matters.

This opaque approach raises serious questions about the transparency of the FRB, its rulemaking authority, and the legal sufficiency of the administrative process behind this proposal. By withholding the full findings from the public and shrouding in secrecy the data informing its rulemaking process, the FRB is undermining the credibility, validity, and necessity of the Basel III Endgame rule. To date, the public has not seen what Vice Chair Barr has referred to as “the holistic capital review.”⁴ This concern was also raised by 38 U.S. Senators in a letter addressing Basel III Endgame, “... the results of that review have never been publicly disclosed outside of a speech by the Vice Chair summarizing the results. It remains imperative that the results of that review and any other underpinning analysis conducted by the Federal Reserve be released. Evidence of need must be demonstrated to warrant decisions of such profound magnitude, consequence, and enduring economic impact.”⁵

In addition, collecting supporting data during, rather than before, the comment period also fails to support an effective rulemaking process – the purpose of the comment period is for the public to review and have a meaningful opportunity to comment on the proposal, including any supporting evidence and analysis – not for the agency to finish doing work that should have been completed before issuing the proposal.

It is important to note that it is unclear from the public’s perspective whether Vice Chair Barr solicited input from other FRB Governors when developing the methodology for the QIS. After the three bank failures in spring 2023, Vice Chair Barr issued a report on the failures without input from other FRB Governors. “Although the report was published as a report of the Board of Governors, it was the product of one Board Member, and was not reviewed by the other members of the Board prior to its publication. Troublingly, other Board

² https://www.centerforcapitalmarkets.com/wp-content/uploads/2023/05/U.S.-Chamber-Commerce-Comments_SVBCapitalReview_FederalReserve-Final.pdf?#

³ https://punchbowl.news/wp-content/uploads/FILE_5283.pdf

⁴ <https://www.federalreserve.gov/newsevents/speech/barr20230710a.htm>

⁵ https://www.banking.senate.gov/imo/media/doc/basel_iii_banking_gop_letter.pdf

members were afforded no ability to contribute to the report's content. There is a genuine question whether these efforts provide a sufficient accounting of what occurred.”⁶ The Chamber is concerned that this is happening again with the Basel III Endgame QIS and that the QIS is not a result of a collaborative and comprehensive process within the FRB, but instead is a targeted effort by a single Governor to collect tailored data to support a predetermined outcome rather than to engage in a broad and unbiased data collection to inform the rulemaking process.

The Basel III Endgame rule is based on standards developed by the Basel Committee on Banking Supervision (“BCBS”) and the BCBS conducted and released two dozen QIS on the impact of their framework over the past 11 years.⁷ Yet, over that same period of time, the FRB has undertaken one public QIS without consultation from other agencies and after issuance of a proposed rule that is considerably stricter than the recommendations of BCBS. If the BCBS can produce multiple studies on the impact of their standards, then certainly the FRB – with more than 500 researchers, including more than 400 Ph.D. economists⁸ – can conduct a timely QIS on a rule that far exceeds the BCBS standards.

FRB Chair Jerome Powell and Vice Chair Barr have both stated that the findings of the QIS will be released to the public for comment prior to issuance of the final rule; but the public does not know what form the QIS findings will be released in or what responsibility the FRB has to address stakeholder comments on the QIS. Simply releasing summary results without any detail on how the rule would be impacted is insufficient. Rather, the FRB should provide the results along with a fully re-proposed rule and cost-benefit analysis that explains each provision of the rule, how it is related to the results of the QIS, and how it meets a cost-benefits test.

If the Basel III Endgame rule is implemented as proposed, without a transparent evidence-based approach, the final rule will restrict access to loans and credit to small businesses and low- and medium-income Americans, stifle lending to main street businesses, and slow the growth of the U.S. economy. Fundamentally, to the extent the agencies have used the FRB’s QIS process to collect and analyze data on which to base the Basel III Endgame rulemaking, the agencies must repropose the rule in light of (and disclosing) these additional analyses in order to allow commenters an opportunity to respond. Accordingly, given its serious procedural and substantive deficiencies, the rule should be withdrawn, and the repropose rule should be accompanied by data that fully justifies and supports any increase in capital requirements and studies the downstream effects of increased capital requirements on American businesses and consumers. The Chamber urges the FRB to focus on transparency and collaboration in the formulation of this rule, and future banking regulations.

Sincerely,

⁶ <https://www.federalreserve.gov/newsevents/speech/bowman20230625a.htm>

⁷ <https://www.bis.org/bcbs/qis/index.htm>

⁸ [The Fed - Meet the Researchers \(federalreserve.gov\)](https://www.federalreserve.gov)

Tom Quaadman

A handwritten signature in black ink, consisting of stylized initials and a long horizontal flourish extending to the right.

Executive Vice President
Center for Capital Market Competitiveness
U.S. Chamber of Commerce