

ANDY BARR  
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COMMITTEE ON FINANCIAL SERVICES  
SUBCOMMITTEE ON  
FINANCIAL INSTITUTIONS AND  
MONETARY POLICY  
CHAIRMAN  
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FINANCIAL INSTITUTIONS  
COMMITTEE ON FOREIGN AFFAIRS  
SUBCOMMITTEE ON THE INDO-PACIFIC  
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COMPETITION BETWEEN THE U.S. AND THE  
CHINESE COMMUNIST PARTY



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October 19, 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:

I write to express extreme disappointment in your response to Ranking Member Foster and my earlier letter dated July 7, 2023, requesting a detailed quantitative analysis of your “holistic review.” We made the request prior to the release of your July 27, 2023 Notice of Proposed Rulemaking (NPRM) modifying bank capital requirements in anticipation of better understanding of the analysis being used to construct the regulatory proposal. Your response dated September 5, 2023, fails to answer any of our questions and is a mere restatement of proposals you and other federal regulatory agencies recently put forward.

To be clear, the Subcommittee on Financial Institutions and Monetary Policy is the touchpoint for banking regulators under the Committee on Financial Services (Committee)’s jurisdiction interaction with Congress. This includes matters as important as a fundamental rewrite of capital rules, or what is commonly referred to as Basel III Endgame, along with your recent proposals on G-SIB surcharges, long-term debt, resolution plans, and evidently more to come. It is unacceptable that the Vice Chairman for Supervision of the Federal Reserve is leading those changes in an opaque manner, including failing to respond in a fulsome manner to a bipartisan request from Congress.

The so-called Basel III Endgame proposal’s impact and economic analysis section falls far short of what is needed to carefully examine the proposal. There is little analysis and no substantive cost-benefit analysis. Instead, the proposal asserts, without adequate substantiation, that the benefits could outweigh costs.

Moreover, in addition to the Basel III Endgame proposal, several other proposals for changing bank regulations along other dimensions were released within weeks of each other. It is imperative that you analyze the interplay among all of the changed margins, how the proposals will work together or not, and what the unintended consequences may be. The Federal Reserve and other federal banking regulators have deep pools of talented analysts, statisticians, and economists, and those resources should be more fully employed in analyzing your proposals.

I reiterate the request that you provide additional details of your holistic review of the federal regulatory capital framework, plans for implementing Basel III Endgame reforms in the U.S. banking system, and the quantitative analyses underpinning your plans.

Specifically, I request the following, much of which reiterates the earlier request that has gone unanswered:

- 1) Please conduct a robust cost-benefit analysis, including expected bank balance sheet adjustments to the proposed changes, the costs of the proposal, and projected benefits, along with models used to generate the projections. The details should be consistent with at least the level of rigor found in the November 2022 Bank of England Consultation Paper on implementation of Basel 3.1 standards.<sup>1</sup>
- 2) Because the Basel III Endgame effectively eliminates the statutorily required tapering of capital, liquidity, and regulatory oversight as a function of bank size, it will impact on the breadth of the banking system and potentially add to growing consolidation of the banking industry. I reiterate the request that you provide a robust analysis of whether your proposal would exacerbate the creation of a barbell banking system, with large too-big-to-fail institutions at the top, a scattering of small community banks at the bottom, and little in between to serve the needs of communities.
- 3) Please provide a robust analysis of whether opportunities for affordable credit in the housing markets, municipal debt markets, agricultural community, and other sectors would be reduced by your proposal, identifying your estimated effects projection methodologies that were used to arrive at your conclusions.
- 4) Please identify how you and other federal banking regulators will “recalibrate” the Basel III Endgame proposal as time elapses between the date the proposal was released and the close of the comment period on the proposal, and how stakeholders will be able to comment on changes in the proposal given that it appears that the proposal will change over time.
- 5) Please identify how you and other federal banking regulators intend to analyze general and systemic effects of the myriad of new proposed rules, including Basel III Endgame, long-term debt, resolution plans, and G-SIB surcharges.

As I and Ranking Member Foster wrote to you in early July, it is important to balance financial stability with economic growth when considering modifications to capital standards. With the economy still adjusting to the fastest pace of interest rate increases in modern history, Americans are concerned about access to credit and costs of credit for mortgages, motor vehicles, small businesses, farms, and everyday living expenses.

I appreciate your attention to this request and ask yet again that you provide the Subcommittee with the information requested above within 30 days. If you have any questions, please do not hesitate to contact Megan Guiltinan ([Megan.Guiltinan@mail.house.gov](mailto:Megan.Guiltinan@mail.house.gov)) in my office.

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<sup>1</sup> Bank of England Consultation Paper | CP 16/22, November 30, 2022, Appendix 7: Aggregated cost benefit analysis (CBA), available at <https://www.bankofengland.co.uk/prudential-regulation/publication/2022/november/implementation-of-the-basel-3-1-standards>, with

Sincerely,

A handwritten signature in blue ink that reads "Andy Barr". The signature is fluid and cursive, with a clear "A" and "B" at the beginning and end.

Andy Barr

Chairman

Financial Institutions and Monetary Policy Subcommittee

Financial Services Committee

Attachment: Letter to Vice Chair for Supervision Michael Barr dated July 7, 2023

Cc: The Honorable Jerome Powell, Chair, Board of Governors of the Federal Reserve System