

THE FEDERAL RESERVE'S SEMI-ANNUAL MONETARY POLICY REPORT

HEARING BEFORE THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTEENTH CONGRESS SECOND SESSION MARCH 6, 2024

Serial No. 118–78

Printed for the use of the Committee on Financial Services



www.govinfo.gov

U.S. GOVERNMENT PUBLISHING OFFICE

56–348 PDF

WASHINGTON : 2026

HOUSE COMMITTEE ON FINANCIAL SERVICES

PATRICK MCHENRY, North Carolina, *Chairman*

FRENCH HILL, Arkansas, <i>Vice Chairman</i>	MAXINE WATERS, California, <i>Ranking Member</i>
FRANK D. LUCAS, Oklahoma	SYLVIA R. GARCIA, Texas, <i>Vice Ranking Member</i>
PETE SESSIONS, Texas	NYDIA M. VELÁZQUEZ, New York
BILL POSEY, Florida	BRAD SHERMAN, California
BLAINE LUETKEMEYER, Missouri	GREGORY W. MEEKS, New York
BILL HUIZENGA, Michigan	DAVID SCOTT, Georgia
ANN WAGNER, Missouri	STEPHEN F. LYNCH, Massachusetts
ANDY BARR, Kentucky	AL GREEN, Texas
ROGER WILLIAMS, Texas	EMANUEL CLEAVER, Missouri
TOM EMMER, Minnesota	JAMES A. HIMES, Connecticut
BARRY LOUDERMILK, Georgia	BILL FOSTER, Illinois
ALEXANDER X. MOONEY, West Virginia	JOYCE BEATTY, Ohio
WARREN DAVIDSON, Ohio	JUAN VARGAS, California
JOHN W. ROSE, Tennessee	JOSH GOTTHEIMER, New Jersey
BRYAN STEIL, Wisconsin	VICENTE GONZALEZ, Texas
WILLIAM R. TIMMONS, IV, South Carolina	SEAN CASTEN, Illinois
RALPH NORMAN, South Carolina	AYANNA PRESSLEY, Massachusetts
DANIEL MEUSER, Pennsylvania	STEVEN HORSFORD, Nevada
SCOTT FITZGERALD, Wisconsin	RASHIDA TLAIB, Michigan
ANDREW R. GARBARINO, New York	RITCHIE TORRES, New York
YOUNG KIM, California	NIKEMA WILLIAMS, Georgia
BYRON DONALDS, Florida	WILEY NICKEL, North Carolina
MIKE FLOOD, Nebraska	BRITTANY PETTERSEN, Colorado
MICHAEL LAWLER, New York	
ZACHARY NUNN, Iowa	
MONICA DE LA CRUZ, Texas	
ERIN HOUCHIN, Indiana	
ANDREW OGLES, Tennessee	

Matthew Hoffmann, *Staff Director*

C O N T E N T S

Wednesday, March 6, 2024

	Page
OPENING STATEMENTS	
Hon. Patrick T. McHenry, Chairman of the Committee on Financial Services, a U.S. Representative from North Carolina	1
Hon. Maxine Waters, Ranking Member of the Committee on Financial Services, a U.S. Representative from California	3
STATEMENTS	
Hon. Andy Barr, Chairman of the Subcommittee on Financial Institutions and Monetary Policy, a U.S. Representative from Kentucky	4
Hon. Bill Foster, Ranking Member of the Subcommittee on Financial Institutions and Monetary Policy, a U.S. Representative from Illinois	4
WITNESSES	
Hon. Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System	5
Prepared Statement	7
APPENDIX	
ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD	
Hon. Andy Barr: Comments on the Basel III Endgame Proposal	62
Hon. Frank D. Lucas: Joint Agriculture Trade Association letter	112
The American Public Power Association (APPA) and National Rural Electric Cooperative Association(NRECA)	114
Joint Energy Trade Association letter	117
Hon. Brad Sherman: California Public Employees' Retirement System (CalPERS)	119
The New York Times: "The Fed Has Targeted 2% Inflation. Should It Aim Higher?"	125
Hon. Maxine Waters: Employ America	129
Groundwork Collaborative	146
RESPONSES TO QUESTIONS FOR THE RECORD	
Written responses to questions for the record from Representative Patrick T. McHenry	148
Written responses to questions for the record from Representative Andy Barr	151
Written responses to questions for the record from Representative Warren Davidson	164
Written responses to questions for the record from Representative Scott Fitzgerald	167
Written responses to questions for the record from Representative Andrew R. Garbarino	171
Written responses to questions for the record from Representative French Hill	175

IV

	Page
Written responses to questions for the record from Representative Young Kim	179
Written responses to questions for the record from Representative Frank D. Lucas	181
Written responses to questions for the record from Representative Blaine Luetkemeyer	183
Written responses to questions for the record from Representative John W. Rose	186
Written responses to questions for the record from Representative Brad Sherman	189
Written responses to questions for the record from Representative William Timmons	191

THE FEDERAL RESERVE'S SEMI-ANNUAL MONETARY POLICY REPORT

Wednesday, March 6, 2024

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, DC.

The committee met, pursuant to notice, at 10:05 a.m., in room 2128, Rayburn House Office Building, Hon. Patrick McHenry [chairman of the committee] presiding.

Present: Representatives McHenry, Lucas, Sessions, Posey, Luetkemeyer, Huizenga, Wagner, Barr, Williams of Texas, Hill, Loudermilk, Davidson, Rose, Steil, Timmons, Norman, Meuser, Fitzgerald, Garbarino, Kim, Flood, Nunn, De La Cruz, Houchin, Ogles, Waters, Velázquez, Sherman, Meeks, Lynch, Green, Himes, Foster, Beatty, Vargas, Gottheimer, Gonzalez, Casten, Pressley, Horsford, Tlaib, Torres, Garcia, Williams of Georgia, Nickel, and Pettersen.

Chairman McHENRY. The committee will come to order.

Without objection, the chair is authorized to declare a recess of the committee at any time.

The hearing is titled, "The Federal Reserve's Semi-Annual Monetary Policy Report," an inventive title. We use "semi-annually" here on the committee.

Without objection, all members will have 5 legislative days within which to submit extraneous materials to the chair for inclusion in the record.

I will note at the outset that this hearing has a hard stop of 1 p.m., which will be strictly observed, and I see Chairman Powell smile. It is just 3 hours.

I will now recognize myself for 4 minutes to give an opening statement, and welcome back, Chair Powell.

OPENING STATEMENT OF HON. PATRICK T. McHENRY, CHAIRMAN OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM NORTH CAROLINA

Since you last appeared before the committee in June 2023, the conversation in Washington surrounding inflation has shifted significantly. To be clear, it is not because an inflationary fire has been extinguished. From the most recent data available, food costs are up 21 percent since President Biden took office, energy costs are up nearly 32 percent, shelter costs are up more than 19 percent, and you will pay 37 percent more for a dozen eggs in America today.

As you stated in January, people are still paying more for the basics of life, and the prices they are paying are still high. Families are not happy about it, as you know and as our colleagues know, but according to the Biden Administration and many of my Democratic colleagues, they should be thrilled. In an attempt to score political points, many in Washington have decided the best strategy is to tell people what they are feeling is not actually accurate. They claim Bidenomics has brought down costs and their partisan so-called American Rescue Plan put our economy back on the right track. Of course, we know the opposite is true since inflation skyrocketed soon after the American Rescue Plan was enacted, which was predicted by several former Obama Administration economic officials.

Instead of working to solve the underlying issues causing high prices, the administration has played the blame game, citing corporate greed and so-called shrinkflation. Some Democrats have even trained fire on you, Chair Powell, blaming interest rate hikes, which were necessitated by Democrats spending for the high costs, and brazenly calling on you to make cuts prematurely. It is highly inappropriate for lawmakers to attempt to influence monetary policy. Chairman Powell, I have faith that you will not allow politics to cloud your judgment in the fight to tackle inflation. As I have always said, you are a steady hand, and I believe you are committed to the Federal Reserve's independence, as am I. Just as you have rejected the outside pressures of politically motivated agendas, I hope you will be just as attuned to the threats of politicization when the calling is coming from inside the House.

Vice Chairman Michael Barr's so-called holistic review of capital requirements and the fatally flawed Basel III Endgame proposal represents a concerning trend of partisan proposals taking priority over supervision. This has real-world impacts as we saw 1 year ago this month when the Supervision & Regulation arm of the Federal Reserve (Fed) was late catching up to the effects of the acceleration of interest rates on the banking system. Americans were understandably shaken by last year's banking turbulence. As we continue to monitor potential instability, including bank exposure to commercial real estate, it is critical that the Fed keep its eye on the ball. This does not include enacting new, far-reaching, and, ultimately, harmful regulatory policy, though.

As you know, members on both sides of the aisle on this committee and in Congress have made clear that the Basel III Endgame proposal would be catastrophic for families, communities, and small businesses. Regulators should withdraw it and start over. I think that is the proper course with something as deeply flawed as the current proposal. Additionally, given that other significant proposals would have to fit holistically together, regulators cannot simply proceed with them as separate modules or using a cut-and-paste approach. Most importantly, as the Basel III Endgame proposal is discarded or altered, I strongly urge you and other regulators not to finalize the long-term debt proposal. Instead, Chairman Powell, I would encourage you to stick to the task at hand and follow the data. The stakes are way too high to put politics over sound policy.

With that, I yield back, and I will now recognize the ranking member of the full committee.

OPENING STATEMENT OF HON. MAXINE WATERS, RANKING MEMBER OF THE COMMITTEE ON FINANCIAL SERVICES, A U.S. REPRESENTATIVE FROM CALIFORNIA

Ms. WATERS. Thank you very much, Mr. Chairman. Good morning, everyone. Welcome back, Chair Powell.

While I am pleased about the progress the Fed and the Biden Administration have made to tackle inflation, we are not out of the woods yet. In fact, even though my Republican colleagues refuse to acknowledge this fact, housing is still the number one driver of inflation. Based on the latest data, housing costs continue to make up nearly 70 percent of overall price increases, outpacing modest wage gains. This means that until we address the underlying housing supply shortage, Americans will continue to pay an increasing share of their income on housing. The affordability crisis will worsen, and inflation will remain too high.

With that said, it is hard to understand why Republicans feign concern about the economy when they are unwilling to address the key driver of inflation: housing. In fact, Republicans have only put forward legislation that makes things worse for millions of Americans, including moving legislation to slash funding for Federal housing programs, including in rural America where homelessness is rising. This abysmal record on housing is par for the course for Republicans. Since they have been in the majority, they have convened only six hearings on housing. On top of launching baseless impeachment efforts, censoring members, and pushing our government to the brink of multiple government shutdowns, it is clear that Republicans are too focused on drama and chaos to deliver anything for the American people. That is not how Democrats roll.

When I was chair of the committee during the 116th and 117th Congress, not only did we hold 55 hearings on housing, but I and my fellow Democrats enacted 12 critical housing bills into law in the last Congress alone that helped to stymie evictions, foreclosures, and homelessness, keeping millions of people stably housed during and after the pandemic. Unlike Republicans, we do not just talk about the issue. Democrats make law. As House Republicans continue to disappoint, committee Democrats are offering evidence-based solutions to keep a fair and affordable housing agenda as the top priority in Congress. That is why I and my Democratic colleagues reintroduced three groundbreaking bills to address the housing crisis and bring down inflation once and for all. This includes Housing Crisis Response Act, the Ending Homelessness Act, and the Downpayment Toward Equity Act. Together, these bills would create nearly 1.4 million affordable, accessible, and resilient homes, reduce housing costs and homelessness, and revive the American Dream of homeownership for all.

So when my Republican colleagues are ready to get serious about our Nation's economy and inflation, Democrats are ready to work with you to pass the bills into law. In fact, tomorrow at noon, I, committee Democrats, and more than 30 housing advocates will join together at a press conference to share just how important ending the affordable housing crisis is to the State of our Union.

So I invite all of my Republican colleagues who say they care about this issue to come on and join us.

I look forward to discussing this critical issue with Chair Powell today, and, Mr. Chairman, I yield back my time.

Chairman MCHENRY. The chair recognizes Mr. Barr, the chairman of the Subcommittee on Financial Institutions and Monetary Policy for 1 minute.

STATEMENT OF HON. ANDY BARR, CHAIRMAN OF THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND MONETARY POLICY, A U.S. REPRESENTATIVE FROM KENTUCKY

Mr. BARR. Welcome, Chairman Powell. Runaway inflation and increased interest rates still have Americans reeling, and while the rate of price increases have come down thanks to monetary tightening, the overall level of prices remain high. The toothpaste is out of the tube, and the average American family still is paying about \$15,000 more for the same goods and services that they were purchasing just 3 years ago before the Biden Administration. So Americans have suffered years of eroding purchasing power in their paychecks.

While I am pleased the Fed is resolved in getting inflation back under control, I am not pleased by the numerous recent unjustified, politicized, and under-analyzed regulatory proposals. The Fed needs to withdraw and re-propose the irredeemably flawed Basel III Endgame proposal, especially given that 97 percent of public comments across the ideological spectrum express disapproval of the proposal. Chair Powell, I urge you to listen to the American people, withdraw the Basel III Endgame proposal, and tell us today what the Fed's plans are moving forward. I yield.

Chairman MCHENRY. The chair now recognizes the ranking member of the subcommittee on Financial Institutions and Monetary Policy, Mr. Foster, for 1 minute.

OPENING STATEMENT OF HON. BILL FOSTER, RANKING MEMBER OF THE SUBCOMMITTEE ON FINANCIAL INSTITUTIONS AND MONETARY POLICY, A U.S. REPRESENTATIVE FROM ILLINOIS

Mr. FOSTER. Thank you, Chair Powell, for being here today, and I had a chance to actually read the monetary policy report from cover to cover, thanks to an exceptionally long airport delay going back home last weekend. The feeling I got again and again is that things are fairly well recovered from coronavirus disease (COVID) and getting back to normal, that we are in the range where ordinary monetary policy and fiscal policy will allow us to satisfy your dual mandate.

Today, unemployment remains near historic lows, core Personal Consumption Expenditures (PCE) inflation is down at 2.8 percent year-over-year compared to a peak of 5.6 percent in 2022, and the major stock indices are hovering around record highs. Gross Domestic Product (GDP) growth continues to beat expectations, and the U.S. economy has added more than 14 million jobs since President Biden took office. The GDP itself is pretty much back on the trajectory that it would have been pre-COVID. U.S. manufacturers alone have added nearly 800,000 jobs, employing more workers

now than any point since 2008. So my lesson from that is that the fiscal response that we engaged in was appropriately tailored, and the soft landing is within sight. Thank you. I yield back.

Chairman MCHENRY. The gentleman yields back. Today, we welcome the testimony of Jerome Powell, chair of the Federal Reserve's Board of Governors. As you know, you will be recognized for 5 minutes for an oral presentation of your testimony.

Without objection, your written testimony will be made a part of the record.

Chair Powell, you are now recognized for 5 minutes.

STATEMENT OF HON. JEROME H. POWELL, CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. POWELL. Chairman McHenry, Ranking Member Waters, and other members of the committee, I appreciate the opportunity to present the Federal Reserve's semi-annual Monetary Policy Report.

The Federal Reserve remains squarely focused on our dual mandate to promote maximum employment and stable prices for the American people. The economy has made considerable progress toward these objectives over the past year.

While inflation remains above the Federal Open Market Committee's (FOMC's) objective of 2 percent, it has eased substantially, and the slowing in inflation has occurred without a significant increase in unemployment. As the labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals have been moving into better balance.

Even so, the Committee remains highly attentive to inflation risks and is acutely aware that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials, like food, housing, and transportation. The FOMC is strongly committed to returning inflation to its 2-percent objective. Restoring price stability is essential to achieve a sustained period of strong labor market conditions that benefit all.

I will review the current economic situation before turning to monetary policy.

Economic activity expanded at a strong pace over the past year. For 2023 as a whole, gross domestic product increased 3.1 percent, bolstered by solid consumer demand and improving supply conditions. Activity in the housing sector was subdued over the past year, largely reflecting high mortgage rates. High interest rates also appear to have been weighing on business fixed investment.

The labor market remains relatively tight, but supply and-demand conditions have continued to come into better balance. Since the middle of last year, payroll job gains have averaged 239,000 jobs per month, and the unemployment rate has remained near historical lows at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers, particularly among individuals aged 25 to 54, and a continued strong pace of immigration. Job vacancies have declined and nominal wage growth has been easing. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. The strong labor market over the past 2 years has also helped to narrow long-

standing disparities in employment and earnings across demographic groups.

Inflation has eased notably over the past year but remains above the FOMC's longer-run goal of 2 percent. Total personal consumption expenditures prices rose 2.4 percent over the 12 months ending in January. Excluding the volatile food and energy categories, core PCE prices rose 2.8 percent, a notable slowing from 2022 that was widespread across both goods and services prices. Longer-Term inflation expectations appear to have remained well anchored as reflected by a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

After significantly tightening the stance of monetary policy since early 2022, the FOMC has maintained the target range for the Federal funds rate at 5.25 to 5.5 percent since its meeting last July. We have also continued to shrink our balance sheet at a brisk pace and in a predictable manner. A restrictive stance of monetary policy is putting downward pressure on economic activity and inflation.

We believe that our policy rate is likely at its peak for this tightening cycle. If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year, but the economic outlook is uncertain, and ongoing progress toward our 2-percent objective for inflation is not assured. Reducing policy restraint too soon or too much could result in a reversal of progress we have seen in inflation and ultimately require even tighter policy to get inflation back to 2 percent. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment.

In considering any adjustments to the target range for the policy rate, we will carefully assess the incoming data, the evolving outlook, and the balance of risks. The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.

We remain committed to bringing inflation back down to our 2-percent goal and to keeping longer-run inflation expectations well anchored. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Federal Reserve will do everything we can to achieve our maximum employment and price stability goals. Thank you.

[Prepared statement of Mr. Powell follows:]

For release at
8:30 a.m. EST
March 6, 2024

Statement by
Jerome H. Powell
Chair
Board of Governors of the Federal Reserve System
before the
Committee on Financial Services
U.S. House of Representatives
March 6, 2024

Chairman McHenry, Ranking Member Waters, and other members of the Committee, I appreciate the opportunity to present the Federal Reserve's semiannual *Monetary Policy Report*.

The Federal Reserve remains squarely focused on our dual mandate to promote maximum employment and stable prices for the American people. The economy has made considerable progress toward these objectives over the past year.

While inflation remains above the Federal Open Market Committee's (FOMC) objective of 2 percent, it has eased substantially, and the slowing in inflation has occurred without a significant increase in unemployment. As labor market tightness has eased and progress on inflation has continued, the risks to achieving our employment and inflation goals have been moving into better balance.

Even so, the Committee remains highly attentive to inflation risks and is acutely aware that high inflation imposes significant hardship, especially on those least able to meet the higher costs of essentials, like food, housing, and transportation. The FOMC is strongly committed to returning inflation to its 2 percent objective. Restoring price stability is essential to achieve a sustained period of strong labor market conditions that benefit all.

I will review the current economic situation before turning to monetary policy.

Current Economic Situation and Outlook

Economic activity expanded at a strong pace over the past year. For 2023 as a whole, gross domestic product increased 3.1 percent, bolstered by solid consumer demand and improving supply conditions. Activity in the housing sector was subdued over the past year, largely reflecting high mortgage rates. High interest rates also appear to have been weighing on business fixed investment.

The labor market remains relatively tight, but supply and demand conditions have continued to come into better balance. Since the middle of last year, payroll job gains have averaged 239,000 jobs per month, and the unemployment rate has remained near historical lows, at 3.7 percent. Strong job creation has been accompanied by an increase in the supply of workers, particularly among individuals aged 25 to 54, and a continued strong pace of immigration. Job vacancies have declined, and nominal wage growth has been easing. Although the jobs-to-workers gap has narrowed, labor demand still exceeds the supply of available workers. The strong labor market over the past two years has also helped narrow long-standing disparities in employment and earnings across demographic groups.¹

Inflation has eased notably over the past year but remains above the FOMC's longer-run goal of 2 percent. Total personal consumption expenditures (PCE) prices rose 2.4 percent over the 12 months ending in January. Excluding the volatile food and energy categories, core PCE prices rose 2.8 percent, a notable slowing from 2022 that was widespread across both goods and services prices. Longer-term inflation expectations appear to have remained well anchored, as reflected by a broad range of surveys of households, businesses, and forecasters, as well as measures from financial markets.

Monetary Policy

After significantly tightening the stance of monetary policy since early 2022, the FOMC has maintained the target range for the federal funds rate at 5-1/4 to 5-1/2 percent since its meeting last July. We have also continued to shrink our balance sheet at a brisk pace and in a predictable manner. Our restrictive stance of monetary policy is putting downward pressure on economic activity and inflation.

¹ A box in our latest *Monetary Policy Report*, "Employment and Earnings across Demographic Groups," discusses differences in labor market outcomes among segments of the population.

We believe that our policy rate is likely at its peak for this tightening cycle. If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. But the economic outlook is uncertain, and ongoing progress toward our 2 percent inflation objective is not assured. Reducing policy restraint too soon or too much could result in a reversal of progress we have seen in inflation and ultimately require even tighter policy to get inflation back to 2 percent. At the same time, reducing policy restraint too late or too little could unduly weaken economic activity and employment. In considering any adjustments to the target range for the policy rate, we will carefully assess the incoming data, the evolving outlook, and the balance of risks. The Committee does not expect that it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.

We remain committed to bringing inflation back down to our 2 percent goal and to keeping longer-term inflation expectations well anchored. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run.

To conclude, we understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission. We at the Federal Reserve will do everything we can to achieve our maximum employment and price stability goals.

Thank you. I am happy to take your questions.

Chairman MCHENRY. Thank you, Chairman Powell, and I should have noted this at the outset, but this is your 25th testimony before the U.S. Congress as chair of the Federal Reserve, and we thank you for your service and your commitment to congressional oversight. Very much appreciate it. I will now recognize myself for 5 minutes for the purposes of questions.

Let us begin with what is top of mind. There are two issues that are top of mind with the Fed: regulatory policy with the Michael Barr proposal on capital and interest rates. We are in a political year, and the lens of a political year falls heavily on all parts of government. There is a lot of debate the past 3 years on high inflation and the impact on American families, and now that inflation is receding, there has been a great deal of speculation about when the Fed would cut rates. Some say that it is going to be a lot of rate cutting this year. Some say none. What say you?

Mr. POWELL. I say that, really, it will depend on the path of the economy. Our focus is on maximum employment and price stability and the incoming data as it affects the outlook, and those are the things we will be looking at. I can go further if you would like.

Chairman MCHENRY. So at what point will the Fed be forced to cut rates? What kind of data would you point to, and do you have any updates there?

Mr. POWELL. What we have said is that the Committee would like to see more data that confirm and make us more confident that inflation is moving sustainably down to 2 percent. We have some confidence of that. Headline inflation has moved down more than 3 full percentage points now to 2.4 percent, as I mentioned in my remarks. We want to see a little bit more data so that we can become confident and so that we can take that step of beginning to reduce policy rates. It is a very important step. We think because of the strength in the economy and the strength in the labor market and the progress we have made, we can approach that step carefully and thoughtfully and with greater confidence and when we reach that confidence the expectation is we will do so sometime this year. We can then begin dialing back the restriction on our policy.

Chairman MCHENRY. Well, let us pivot to regulatory policy. Chair Powell, as you know, there have been serious concerns expressed on both sides of the aisle and across America and across industries about the Basel III Endgame proposal that Vice Chair Michael Barr, has proposed and that the Fed is taking up. The concern is on both process, meaning how the proposed rule was developed, analyzed, released for comment, the general concern of a lack of economic justification for these actions, but also on the substance. The proposal goes much further than the Basel III committee recommended on capital requirements, putting us at a great disadvantage internationally, potentially.

My first question is on substance. Is the Fed listening to these comments that have been nearly unanimous in opposition to this rule, and is the Fed listening to these comments on the impact the rule will have on everyday Americans and what is the status on rulemaking, and what is the plan moving forward?

Mr. POWELL. You are right. We have received voluminous and very substantive comments as well as the quantitative impact

study that we put out. We got those responses in mid-January, and we are carefully analyzing them. We had asked for very specific, detailed, data-based comments, and I am happy to say that we did get that, so we are just now reaching the stage where we can begin to make decisions about how to proceed. We really have not made any decisions yet, but I think I can say a few things. First, we do hear the concerns, and I do expect that there will be broad and material changes to the proposal. I will add that I am confident that the final product will be one that does have broad support both at the Fed and in the broader world.

As far as process is concerned, we are really not at the stage of making decisions about that. That is down the road, at least a bit. I will say the question we get is re-proposal, and I will say that we have not made that decision, but if and when we get to that point and that turns out to be the appropriate thing, we will not hesitate to do it.

Chairman MCHENRY. You will not rule that out? You would not rule that out at this stage of the game, re-proposal?

Mr. POWELL. Not at all. No, I think it is a very plausible option. It will depend on how things lie at the time when we reach that point.

Chairman MCHENRY. Okay. There is a lot of concern about the interplay between different parts of the rule, and if you just change one, what does the economic analysis look like for the new proposal? So it is good to hear that you will be methodical and the Fed will do its traditional role of building consensus around the substantive changes and that is your intention?

Mr. POWELL. That is right. I said this would be a thoughtful, deliberative process. It is more important that we get this right than that we do it fast. We understand that. This is an important rule-making, and it is going to have potential implications for the economy and the people we serve. We are going to take our time and do it right.

Chairman MCHENRY. Thank you, Chairman Powell. The ranking member, Mr. Waters, is recognized for 5 minutes.

Ms. WATERS. Thank you very much, Mr. Chairman. Chair Powell, I want to talk to you about housing, but before I get there, let me address the issue of mergers.

Last week, I wrote a letter, along with 15 committee Democrats, to you as well as the Department of Justice (DOJ), Comptroller of the Currency (OCC), and Federal Deposit Insurance Corporation (FDIC), expressing my strong concern about the lack of progress you have made in updating your bank merger review procedures. This is critical now. We just learned of another mega merger involving Capital One and Discover, which will create the sixth largest U.S. commercial bank with a major role in the credit card market. For too long, experts have raised the alarm that there is a rubber stamping process of bank mergers where virtually all applications are approved. All the while, unbridled market consolidation poses great risk to consumers and entrepreneurs. What is the status of your updates to the merger review process, and does the Fed plan to convene public hearings on the Capital One and Discover merger?

Mr. POWELL. I believe we are in regular contact with the Justice Department on what is going on with their review of merger practices. We are looking at that and considering. I think on the potential merger that you mentioned, we have not received an application, so there is really not much to say yet. It is early days. When we do get that application, though, we are going to evaluate that merger, as always, under the factors laid out under the law, and that is our commitment.

Ms. WATERS. So you do believe that your bank merger procedures are ready to do the work that is necessary when you evaluate this possible merger?

Mr. POWELL. I do.

Ms. WATERS. Are you supportive of organizing community hearings on this merger?

Mr. POWELL. I have not talked about that with anybody. I will say this. We have done that in many large mergers, but that is not a conversation we have had yet. We literally do not even have an application for the merger yet.

Ms. WATERS. Thank you. We will stay in touch with you on that. So turning to the national affordable housing and homelessness crisis where we have seen steady increases year after year in home prices and rent costs, which are a symptom of the chronic under supply of affordable housing. Indeed, more renters and homeowners are now spending more of their income than ever on housing costs. As you know, housing costs continue to be a primary driver of inflation. Do you think the Fed has sufficiently emphasized the role that housing costs play in keeping us from your 2-percent inflation goal? Do you think it is reasonable to believe that monetary policy can accomplish this goal without a fiscal policy response? If you do, how long will it take to get there?

Mr. POWELL. Housing services inflation is one of the three components that we look at that make up the core PCE Index, and it has been coming down from its heights of a couple years back. It is part of the story. I think the overall story is that goods price inflation has turned negative. Goods prices are actually coming down a bit. Housing services inflation, you can see from currently entered-into leases that as leases turn over, the increases are going to be smaller. So in our forecast and in everyone's forecast, housing services inflation comes down, and that leaves non-housing services—

Ms. WATERS. It has been reported that the methodology used to assess housing costs as an indicator of inflation is imperfect namely because it considers costs based on both new and old rent, including for owner-occupied housing on a month-to-month basis. This results in stale data since families' housing costs typically do not change unless they move or their lease is up for renewal. So to address these imperfections in the housing costs indicators, the Bureau of Labor Statistics and Cleveland Fed created an improved methodology based solely on new lease rents, which is referred to as New Tenant Rent Index. Has the Fed incorporated this new indicator into its economic assessments? If not, why not? If so what changes have you had on the level of housing inflation observed by the Fed?

Mr. POWELL. We are well aware of that, and we do incorporate it into our thinking. As I was starting to mention, the fact that market rents are moving up at a much slower pace is the reason why forecasts are for housing services inflation to come down, and that absolutely plays a role in our thinking.

Ms. WATERS. Thank you, and I yield back.

Chairman MCHENRY. The gentlelady yields back. The vice chair, Mr. Barr, is—I am sorry.

Mr. HILL. Wrong vice chair.

Chairman MCHENRY. Wrong vice chair. The gentleman from Arkansas, the vice chair of the full committee, Mr. Hill, is recognized for 5 minutes.

Mr. HILL. Thank you, Chairman. I want to welcome you, Chairman Powell, to the committee. We are glad to have you back and your expertise, and I want to pick up where Chairman McHenry left off on his conversation about Basel III Endgame. You made a good point, saying you are not taking the whole concept of re-proposal off the table as you review the analytics, and you will discuss the interactivity of that rule with other rules. So if you were to re-propose the Basel III Endgame, would the Federal Reserve delay then the long-term debt proposal that is on the table? In other words, would you agree that the Agency should not finalize this long-term debt proposal for bank holding companies until banks have a better understanding of what their capital obligations under Basel III Endgame might be?

Mr. POWELL. We have not made the first decision yet, so I could not say definitively, but, yes, that is a question we would be asking ourselves is what would be the implication for other rules, including the long-term debt.

Mr. HILL. Is the Fed considering changes to the requirement for regional banks to issue long-term debt? Right now, it is stated to be issued at 6 percent of risk-weighted assets in an abundance of caution in case there needs to be a resolution. Obviously, we know the logic for it, but as I understand it, it is being required at both the holding company level and down at the bank level, and that seems redundant to me. Are you aware of that, and have you considered changing that in your discussions?

Mr. POWELL. Yes, that is another area where the comment period ended a little while back, and so once again, we are in the process of evaluating the comments. There will be a thoughtful, deliberative process around that. We welcome comments on these kinds of things, very important the implications for the banks that are affected. We want to understand the effects to make sure we understand them correctly so that we can evaluate what a final rule should look like.

Mr. HILL. Good. Let me turn to the monetary policy outlook. As the chairman noted, consumer prices are 17 percent higher for American households since President Biden was inaugurated back in January 2021, and yet, in spite of that 17 percent increase in costs, real wages have actually fallen 2 percent over that period. So there is no doubt that inflation is the biggest issue facing American households, and in my view, there are three principal causes. Certainly, we had supply disruptions, but we have had unprecedented fiscal policy laxity. You described it in a recent interview as

unsustainable, but we also think that the Federal Reserve, in my view and many people in this committee commented, should have reduced accommodation after the pandemic sooner.

One of the things coincident with that, which is what I want to talk to you about, is that the FOMC announced in August 2020 a flexible average inflation targeting framework right in the middle of the pandemic, which many of us did not understand why the Fed would take that decision then but it would give you flexibility on the 2 percent, saying the Fed could allow inflation to rise above 2 percent and stay there above that level for some time because the Fed had such challenges in getting the price level to 2 percent. That was a major shift in the Fed's approach. Do you think in retrospect of now what we have witnessed over the past 4 years, that was a mistake in hindsight to change that framework, and is it under review?

Mr. POWELL. We said we would do a review on a 5-year basis, and that means we will be starting that review toward the end of this year, so we really have not started. I do think that the question you raised will be one of the questions we look at, but the bigger question really is, that change in the approach was really based on the fact that we had very low interest rates and very low inflation for a long period of time, and policy was always very close to the effect of lower bound, so there was not any firepower for central banks, and so it was a way to keep inflation expectations anchored at 2 percent and not have them slide down.

Now we have entered a different period. The pandemic really may have changed that in a sustained way. We do not know that yet, but the big question we will be asking ourselves is, is the effect of lower bound to be thought of in a different way now, and if it were, that would have ramifications for our framework, but we have not begun the review yet. It will begin at the end of this year and probably end late the next year.

Mr. HILL. Thank you. I yield back, Mr. Chairman.

Chairman MCHENRY. The gentleman yields back. We will now go to the gentleman from New York, Mr. Meeks, for 5 minutes.

Mr. MEEKS. Thank you, Mr. Chairman. Thank you, Chairman Powell, for being here, and I think I am going to pick up a little bit right where we are. Two hundred nineteen, 2020, the entire world was under the unprecedented pandemic with COVID, right? Is that correct—

Mr. POWELL. Yes.

Mr. MEEKS [continuing]. at the time? That changed a lot of things with reference, not just for the United States, but for the entire world, and it affected the economies of countries just about on the planet. That is not also correct?

Mr. POWELL. Yes.

Mr. MEEKS. Supply chains were disrupted. In fact, I can remember many Americans and people around the world could not get toilet paper or paper towels and some of the basics. So the prices, because of supply and demand, skyrocketed, causing the inflation, not only in the United States, but basically all over the world. Is that correct?

Mr. POWELL. Yes.

Mr. MEEKS. Therefore, the Fed had to do certain things because of what we were in at that particular time. We could not just go back and act like the pandemic was not there. We had to do something to try to make sure that we were able to get through the pandemic. Is that not correct?

Mr. POWELL. Yes.

Mr. MEEKS. Now we are at that point where we are about to get through this pandemic, and we can look at the rest of the world, what they did or did not do at that time, but what we did at that time. As a result of that, 3 years post the pandemic, when you look around the world, I think that you were correct with what you stated, that by most accounts, our economy is doing well. In fact, I would say our economy is doing better than most of the other countries in the world. Would you say that is correct?

Mr. POWELL. I would.

Mr. MEEKS. I would say then that some of the other countries of the world maybe should have looked at the policies that we put in place thereafter so that they could get out of it so that they could have a labor market that is strong, where the unemployment rate is near a 50-year low. As you have stated, inflation is also now coming down faster than any place else on the planet just about. Is that not correct?

Mr. POWELL. I think that is right. Yes.

Mr. MEEKS. I think that you also recognized a mismatch between the strength of the economy—that is what we are talking about—and the feel. I think that Ranking Member Waters touched on one of those big issues of housing, which is now, you know, we are still trying to get that under control, and I think the ranking member has some ideas on how we can do that, and that may be something that you need to consider so that we can further get down the inflation rate. The other would be the commodity markets because the cost of food is too high for people, so that is something else that we need to get in control. Is that not correct?

Mr. POWELL. Yes.

Mr. MEEKS. Let me just ask this: Can you say that there is a connection, for example, between conflicts in other areas of the world, like Russia's war against Ukraine and/or the turmoil in the Middle East, and the economic pressures that the United States feels? Does that not also go into the reason why the cost of commodities can be still higher? Is there a connection therein, Mr. Chairman?

Mr. POWELL. Certainly the war in Ukraine caused commodity prices to move up sharply.

Mr. MEEKS. So could you tell what would the connection lead you to believe that there is an urgent need for us, I would think, for, you know—and we are running out of time—for us to do everything that is in our power in Congress to support Ukraine so that we can make sure that and other strategic partners that we can help the commodities market, and that would help lower the cost of some of the commodities, bringing food prices down, if we would just be able to pass certain things that is going to help Ukraine right here in the United States Congress? Is that correct?

Mr. POWELL. Here is where it gets outside of our jurisdiction, so I would not have an opinion on Ukraine funding.

Mr. MEEKS. If we had more grain that was going through, was not blocked by Russia, things of that nature, that generally just say that helps bring the cost down. Cost is higher because of the disruption in the Black Sea that has happened because of this war, so that would help bring the cost down. That is not necessarily the policy just here in the United States, but that is the policy because of what is going on in Russia, and we need to make sure that we do something to prevent that if we really are serious about bringing inflation down. Is that not correct?

Mr. POWELL. It is correct that a full supply of grain would help with commodity prices.

Mr. MEEKS. So, instead of us playing politics with this and acting like it is your fault or anyone else's fault, that we had to go and do what we did because of the unprecedented pandemic. What we did was save the economy then, knowing we got some problems that we had now, and now we are recovering quicker and better than any other country on this planet as a result of your policies and the policies of Joe Biden.

Chairman MCHENRY. The gentleman's time has expired. The gentleman from Oklahoma, Mr. Lucas, is now recognized for 5 minutes.

Mr. LUCAS. Thank you, Mr. Chairman, and, Chairman Powell, thank you for testifying today.

When you were before this committee a year ago, I cautioned against raising capital requirements on commodity derivatives that our agricultural and energy producers use back home to keep prices of food and power stable for consumers. At the time, you said that was a very specific concern, and you were not sure the proposal would even address commodity derivatives, and in fairness, that was before the Basel proposal was officially published.

Unfortunately, we now know that the proposal does impact commodity derivatives, and, in fact, they are among the most penalized financial products that banks offer. I would note for just a moment, I very much appreciate your comments and responses to Chairman McHenry about the nature of the overall proposal. Congress wanted end users to be able to secure their hedges without posting margin to keep the derivatives markets affordable, but I have seen estimates that some of these types of transactions for end users could face 10 times the capital requirement. Chairman Powell, make me feel a little better. Ease my concerns here. Will you and the Fed work to fix this?

Mr. POWELL. Let me start by saying I want to echo the fact that our commodity markets and our capital markets are a huge national asset, and we need them to be functioning well and with as little friction as possible. I now understand that what you are referring to is the things that were done to increase capital requirements for various kinds of derivative activities. I will just say that is an area where we are aware of the concerns, and it is an area that we are taking a very close look at.

Mr. LUCAS. I appreciate that. I was a member of the Dodd-Frank Conference Committee where there was bipartisan support to not disadvantage end users, farmers, ranchers, small businesses. This had broad bipartisan support then and still does today. Unfortu-

nately, the Fed could undermine this longstanding work done by Congress.

I would like to enter a few letters into the record, Mr. Chairman, that discuss the detrimental impact to end users; first, a joint agricultural trade association letter from the American Farm Bureau Federation, the National Cattlemen's Beef Association, among seven others; next, a joint energy trade association letter from the American Gas Association and four others; and last, a letter from the American Public Power Association and the National Rural Electric Cooperative Association.

Chairman MCHENRY. Without objection.

[The information referred to can be found in the appendix.]

Mr. LUCAS. Thank you, Mr. Chairman. Chairman Powell, I would now like to focus on how the proposal is set to significantly disincentivize banks from offering clearing services. In Dodd-Frank, Congress mandated central clearing as a way to reduce risk in the system. The number of banks that can clear derivatives for end users has reduced over time, making it harder for end users to find a bank to offer this service. There are some estimates that the Fed's proposal will increase capital for this activity by 80 percent. I am worried that this will make it even harder for end users to find a bank to clear their hedges.

This also comes at a time when the Securities and Exchange Commission (SEC), our friends at the Securities and Exchange Commission, has just finalized a rule in December that will increase clearing cost in Treasury markets. This will have a real impact on market access and liquidity not just in commodities, but the \$26 trillion Treasury market that plays a critical role in the world economy. Will you work with the Commodity Futures Trading Commission (CFTC) to address this problem?

Mr. POWELL. Again, I will say that we are aware of those concerns, and we are prepared to work with other agencies and also to make sure that our capital proposal appropriately addresses them.

Mr. LUCAS. The strength of central clearing is entirely dependent on banks' willingness to participate, and problems with the Basel Endgame warrant a full re-proposal to give us time to appreciate their consequences, and there are real consequences, as you and I both know, Mr. Chairman. With that, Mr. Chairman, I yield back the balance of my time.

Chairman MCHENRY. The gentleman yields back. The gentleman from Texas, Mr. Green, is recognized for 5 minutes.

Mr. GREEN. Thank you, Mr. Chairman, and welcome again, Mr. Powell. It is an honor to have you before us today. I always enjoy hearing your commentary.

As you know, recession and inflation, these are buzzwords, and they are used in some circumstances to cast a dim light on perhaps the Fed and others who are working to end some of these troubling circumstances we are dealing with. Are you now at a point where you believe that there will not be a recession? There was much talk about recession, and many people worried that we would find ourselves having to negotiate our way out of a recession. What is your position currently on a recession?

Mr. POWELL. So U.S. growth last year was in excess of 3 percent. What we are seeing so far this year is continued solid growth. My expectation and that of other forecasters and of my colleagues is that we will see continued growth at a solid pace. I will say there is no reason to think that the U.S. economy is in some kind of short-term risk of falling into a recession. Having said that, though, there is always a possibility, a meaningful possibility, that an economy will fall into recession. I do not think that possibility, though, is elevated at the current time.

Mr. GREEN. Thank you. I appreciate you saying this because we want to at some point eliminate the great deal of fear associated with just the term "recession." Next point: the December FOMC projections showcase a slightly lower unemployment rate than last June's projections, and slightly higher GDP, suggesting a soft landing remains likely. Are you of the opinion that we are headed to a soft landing, Mr. Powell?

Mr. POWELL. I will just say that what we have seen so far is an economy that is growing at a solid pace. We are seeing a labor market that is still tight, still strong. Wages are moving up, but the labor market is coming into better balance between supply and demand, and inflation has come down sharply, really, since the middle of last year. So those are the conditions we see. They are very attractive conditions, and we are trying to use our policies to keep that growth going and to keep that labor market strong while also achieving further progress on inflation. That is our goal and do I think there is a possibility we can achieve all of that while keeping the labor market strong and the economy growing? Yes, I think there is a possibility. Indeed, that is what we are trying to achieve.

Mr. GREEN. A soft landing can be difficult to identify. We could possibly have a soft landing and miss the point at which the landing took place. How do you define the soft landing such that a member of the public, a layperson, would understand that we have indeed had a soft landing?

Mr. POWELL. We really think about it in the terms I just discussed, which is we want to keep the economy growing. We want the labor market to remain strong. Three-point-seven percent unemployment is pretty near 50-year historical lows, and we want inflation to continue to move down closer and closer to that 2 percent objective. We have made quite good progress on that over just the past year, so we want to continue those conditions, and I do not want to put the label on it. Other people can do that, but I would just say we are using our tools to keep a strong labor market and strong growth, while making further progress on getting inflation down to 2 percent for the benefit of the public. That is the economy that we are trying to achieve, and I think we are on a good path so far to be able to get there.

Mr. GREEN. Well, I concur, but I would ask this as my last question. Will there be some announcement at some point that we have had a soft landing, because we have people who are continually indicating that we are not having a soft landing, there is a possibility of a recession. So will there ever be some official statement that would give people some comfort?

Mr. POWELL. I do not think by us, no. I think we are just going to keep our heads down and do our jobs and try to deliver what

the public is expecting from us. We would not be declaring victory like that.

Chairman MCHENRY. The gentleman's time has expired.

Mr. GREEN. Thank you, Mr. Chair.

Mr. POWELL. Thank you.

Chairman MCHENRY. The gentleman from Texas, Mr. Sessions, is now recognized for 5 minutes.

Mr. SESSIONS. Mr. Chairman, thank you very much. Chairman, welcome back. I think we enjoy this. I hope you do, too. I know there is some bit of trepidation about all the things that are available to us and you to answer. I learned a long time ago on the campaign trail, every problem can be solved on a campaign. Reality is a little bit different. Welcome back despite all that.

I am looking at the Monetary Policy Report, March 1, 2024, and as I review this, I would like to focus on the term that I would say high prices are here to stay because what I have heard you say today in this report, really go to, is you got everything under control, but we are going to keep the high prices. I think the high prices really take a toll on the American people, as you are hearing from our colleagues, no matter whether they be Republican or Democrat. Page 7 of your report, and you do not have to go focus on it, it says, "While core service price inflation has been slowing, but remains elevated." It does. Labor costs, as you know, and energy costs are a driver to your monetary policy. The question that I have is, because you began referencing policy, 2 weeks ago or so, the President announced that he was going to slow down the gifting of opportunities in Texas for natural gas to be able to continue the exploration. This in Texas is a trillion-dollar answer/problem to us because if we do not constantly go find, through these new finds but also through the permitting process, we are in trouble. We are also putting in trouble our contracts that we have with Germany and a lot of other countries.

This is going to mean also that business in America continues to have high prices because, as you know, wages are already high and now energy is high. There is no resiliency to continue this and see the American people win. You talked about policy. So what is your advice to policy about energy and what this administration is doing on the policy perspective?

Mr. POWELL. We have broad, significant, important responsibilities, but we are really not responsible for energy policy, and we try to avoid commenting on it because we are not responsible—

Mr. SESSIONS. But it has a huge impact. On this report, it arbitrarily keeps prices high. It arbitrarily means that business, while they are making money and while households, people do buy that, it is diminishing their long-term advantages to make progress. So you are just going to leave that alone?

Mr. POWELL. Really not appropriate for us to comment on. If I am commenting on energy policy, I should comment on everything. We have a mandate, which is maximum employment and price stability. We take decisions by the legislature and by the administration as a given. We are not in charge of second-guessing them. It is just not our job.

Mr. SESSIONS. Okay. All right. Let us say we are not going to second-guess them. I will. I believe that the energy policies that

this President and the Democratic Party have supported are causing a huge boom in prices staying high. They will not come down: a boom in attacking the energy industry, jobs that are associated with it, our foreign policy as it relates to contracts that we have signed with foreign countries, giving up the natural gas market almost entirely on the world market to Qatar. It has a huge impact on whether we are going to keep prices high or control these prices. It has a huge impact on, I think, your monetary report about how many houses get built, how many jobs get filled, whether we have jobs in place, whether we continue to have more jobs available than workers that are there because overregulation is having a lot to do with the nervousness not only on this panel, but also by the American people.

It would be my hope that you would pass some sort of a memo and tell them you have no opinion but you want them to see what the impact is. I want to thank you for being here. Thank you, Mr. Chairman. I yield back my time.

Chairman MCHENRY. The gentleman yields back. The gentleman from Connecticut, Mr. Himes, is recognized for 5 minutes.

Mr. HIMES. Thank you, Mr. Chairman, and, Chairman Powell, thanks for being with us today. I have a question, but I want to start by not celebrating, but acknowledging what has been a really remarkable soft landing in our economy. I am not celebrating because the American people, consumers, are still feeling the effects of high prices. Wages have not caught up with prices in some instances, but I think that it would be fair to say that observers would never have predicted the conduct of this economy. You, yourself said it in the final press conference of 2023 when you said, "A very high proportion of forecasters predicted very weak growth or a recession." Not only did that not happen, we actually had a very strong year, so I want to acknowledge that and acknowledge your commitment to independent monetary policy.

Because I am still burdened with this idea that truth and facts matter, I want to point out, especially having listened to my good friend, Mr. Sessions, talk about the energy market, truth and facts matter. We are producing more oil and natural gas today than any other country on the planet. We are the world's number one energy producer. I could spend my entire 5 minutes sort of pointing out facts.

The fact I want to point out here, and this comes right out of the report, is that the premise that inflation is Joe Biden's fault, his fiscal policy's fault, first, is faulty because half the fiscal stimulus that occurred in the face of the pandemic happened under the previous President, Donald Trump, and it has faded. This report makes the case, "Core goods prices have been declining as supply bottlenecks ease and import price inflation falls." So, Mr. Chairman, I do not want you to comment on that because it gets a little bit political, but I do think it is important that we keep some foot on the plane of facts.

I do want to ask you a question, though, Mr. Chairman, because I always worry about risks, risks that we see and risks that we do not see. I want to use the remainder of my time to talk about a risk you are very conscious of, which is the overhang in the commercial real estate market.

As you know, the Financial Stability Oversight Council identified commercial real estate as perhaps the most salient risk to the financial system: \$6 trillion roughly in loans, half of that on bank balance sheets. In a “60 Minutes” interview a few weeks ago, you characterized distress in the commercial real estate market as sizable but manageable. Do you still feel like that risk is manageable? Do you feel like you have the visibility and the transparency and the tools to address it? It makes me nervous because this has echoes of 2008–2009 when vacancy rates declined relatively rapidly. We are not seeing that right now. So how do you feel? Does that risk continue to be manageable, and do you have the tools to manage it?

Mr. POWELL. I would say yes to that. I think it is manageable, and we have been working hard to manage it for some time now, really. What it really is, is it is a lot of downtown real estate where there is too much office supply because of work from home and also the kind of downtown retail that is no longer as profitable, and things like that are really at the heart of it. So what we have done is we have looked at banks that have significant concentrations, and we have been in touch with them to make sure that they have a plan to deal with that. There will be losses by some banks. It is not really the big banks. It is really medium-and small-sized banks that have these higher concentrations.

It is going to be with us as a problem we will be working through, I think, for several years. The idea is you have to have enough capital, enough liquidity, and a plan to take the losses that you are probably going to take, and so that is what we are doing. We are very active in this space with small-and medium-sized banks.

Mr. HIMES. So let me ask you about that. Sorry to interrupt, but let me ask you about that. Silicon Valley Bank, wild irresponsibility inside the bank, egregious irresponsibility on the part of corporate treasurers who put so much on deposit. The Fed also had some self-examination to do because the examiners and the supervisors of the bank, quite frankly, were not doing what they should have been, so we might be forgiven for being a bit skeptical of claims on this. What has changed in the context of Silicon Valley Bank that gives you the confidence that supervisors and the examiners will be on top of this?

Mr. POWELL. I see it with my own eyes. I mean, frankly, there is a risk that we would overreact to something as significant as that. It is not like we would not have reacted very, very strongly to what happened with Silicon Valley Bank, and we have. I know that our supervisors are out there, and we are hearing back from media reports that we have been engaged with medium-and small-sized banks principally on this. So I am confident that we are doing the right things there, and I do believe it is a manageable problem. If that changes then I will say so.

Mr. HIMES. Thank you. Thank you, Mr. Chairman. I yield back.

Chairman MCHENRY. The gentleman from Missouri, Mr. Luetkemeyer, is recognized for 5 minutes.

Mr. LUETKEMEYER. Thank you, Mr. Chairman, and thank you, Mr. Powell, for being here today. I would like to associate my remarks or myself with Mr. Hill’s remarks earlier with regards to the

FDIC proposed long-term debt requirements that are based on the risk weighting of assets. I think it is an ill-thought-out proposal, and hopefully, your position on FSOC, you will be able to advise them and hopefully guide them that this is going to be held up until we actually get a Basel III rule.

In October 2023, the Board issued a proposal to update the Debit Interchange Fee Cap in Regulation II. This is very concerning given the data from both the Government Accountability Office (GAO) and Fed's own studies show that Reg II has significantly harmed access to free checking and other banking services for the country's poorest citizens. Yesterday, I introduced the Secure Payments Act, which will prohibit a final rulemaking until the Fed, among other things, studies the impact of the Board's proposed rule, completes a quantitative impact analysis specifically as it relates to affordable banking services for low-income Americans, and reports those findings to the Congress.

I understand the Fed acted here because you feel you are facing litigation, but I urge the Board to proceed with extreme caution with any type of price control proposals, especially since the first iteration was so clearly harmful. Chairman Powell, knowing of the hardship caused by this policy on low-income consumers, does it give you any pause to continue down this road?

Mr. POWELL. As you know, this rule is out for comment. We extended the comment period to May 12, so we do not have all the comments yet. We will evaluate them carefully and make an assessment. I mean, the law does assign us a specific job, which is to assess whether an interchange fee received by a large debit issuer for processing a debit card transaction is reasonable and proportional to issuer costs. This is the obligation that Congress has bestowed upon us, not something we sought but that is our obligation under the law, and we do not know what else to do than to keep doing it for as long as that is our assignment, and that is all we think we are doing, but I think that the concerns that have been raised will be things that we think about.

Mr. LUETKEMEYER. Well, hopefully, you will study this, and I understand that from the previous types of rules along this line, they were very detrimental to a lot of low-income folks. As you know, the price reductions that were promised during the Durbin Amendment, for instance, the profits actually went to the large retailers rather than going to the consumers as they were talked about. Ninety-eight percent was one of the studies that showed that the retailers kept all the money instead of lowering prices as they were telling us that were going to happen, so I am very concerned about that.

So what is the legal basis for updating your regulation? You have talked about it a little bit that you believe that there is something in the law that says that you need to be doing this updating all the time, or should you be studying it before you actually propose a rule and make all these things more appropriate?

Mr. POWELL. Well, again, I think our reading of the law is that it is not something you do once and leave it there. It is supposed to be reasonable and proportionalable to a certain identified issue or cost, the implication being there if those costs change, then this should change. So that is our reading. I think we do a lot of work.

We waited a long time to change it. It has been many years since we did change it, but we do quite a bit of work to make this assessment, and we will review the comments and the data that we get very quickly.

Mr. LUETKEMEYER. One of the things I hope that you consider is the fact that even though it is supposed to be \$10 billion and up, this stuff all rolls downhill, and as the last study showed, the smaller banks, the community banks are also feeling the effects of this. So be sure to consider that when you start talking and thinking about this. I appreciate that.

Yesterday I had two different foreign banker CEOs in my office, and one of them brought up a subject to me, which is very concerning, with regards to artificial intelligence being able to impact financial institutions in this country and our banking system. I tell people, I say, think about this for a second. You find some individual who is a well-known individual, perhaps Larry Kudlow, Dave Ramsey or Bloomberg, somebody who has got credibility, and suddenly you see an artificially produced advertisement or Facebook post, and this person says, look, we have a hundred banks that have a problem today. Now, that individual did not do this. It is artificially produced. I have seen a commercial already with an individual. You could not tell the difference between that individual and the real thing.

We have just come through the Silicon Valley situation. If you have real-time payments, the Fed now, where you can instantaneously transfer money and you have people scared to death by some well-known individual to an artificial intelligence situation, and I can tell you that China is watching this like a hawk. They are ready to pounce on this situation. I have some bills that actually would solve the problem. Do you think there are some issues here we need to be taking a look at?

Mr. POWELL. Yes, I think we are very focused on AI like, I mean, many government agencies and law enforcement agencies in particular. It is very challenging. You paint one picture. There are lots of pictures you can paint.

Chairman MCHENRY. The gentleman's time has expired.

Mr. LUETKEMEYER. It is interesting because the foreign institutions are watching this.

Chairman MCHENRY. The gentleman's time has expired.

Mr. LUETKEMEYER. Thank you.

Chairman MCHENRY. We will now go to the gentlewoman from Texas, Ms. Garcia, for 5 minutes.

Ms. GARCIA. Thank you, Mr. Chairman, and, Chairman Powell, thank you for being with us this morning. It is always a delight to have you before us.

Chair Powell, the February Congressional Budget Office report estimated that the U.S. economy will grow an estimated \$7 trillion over the next decade, thanks in large part to the surge in immigration created a larger labor force. Immigration also increases demand for goods and services. I know you mentioned in your report that the growth during COVID was held down due to some restrictions in COVID and restrictions on immigration. Can you detail how immigrants have been fueling our national growth, and did

you consider this report from the Congressional Budget Office (CBO) in this current report?

Mr. POWELL. I am very familiar with the CBO report. I have read the demographic projections and I have read the economic projections, so I do understand what they did.

Ms. GARCIA. So you do agree with a \$7 trillion growth in the next decade?

Mr. POWELL. I have no judgment on that. I have not tried to make a parallel assessment, but I am familiar with the assessment. What they are doing is they are saying more people working, a bigger economy, and it makes the economy bigger. It is just arithmetic. If you add a couple of million people to an economy and a percentage of them will work, then there will be more output, and that is what they are showing. I just want to be very, very clear, though, that we do not make immigration policy. We do not comment on immigration policy indirectly or directly.

Ms. GARCIA. Well, I am not asking you do that, but, Mr. Chairman, I am simply asking if you agree that the immigration surge has added to our strong labor force, which is necessary. I think you said that we expect a continued growth at a solid pace, so to be able to continue on a solid pace, then we need that labor force. Would you not agree?

Mr. POWELL. So last year we got a big increase in workers, and it came from two sources. One was participation increased from people who are already here, and, in addition, we got a significant increase in immigration. Many of those people take part in the working economy, and so there was a big increase in labor supply. That will have increased output. It will have all kinds of economic effects. I am just reporting the facts there.

Ms. GARCIA. Right.

Mr. POWELL. I am not going to say anything is needed for the future or good policy indirectly or directly, but, I mean, I think it is just reporting the facts to say that immigration and labor force participation both contributed to the very strong economic output growth that we had last year.

Ms. GARCIA. Right. Is it possible for the Fed to conduct a formal assessment into the positive impact immigrants have on our economy and report it back to Congress?

Mr. POWELL. Not really, no. I think that is a job for the CBO. That is precisely what the Congressional Budget Office does, not what we do.

Ms. GARCIA. Right, but the other question that you have not addressed is, did you consider the CBO's assessment that the growth in the next 10 years would be 7 trillion and about 1 trillion in added revenues. Was that considered in this report because that was the February report, and this, I believe, is through February 29.

Mr. POWELL. I think that the answer to your question is 10-year growth projections by CBO do not have big implications, do not have any implications, really, for the current stance of monetary policy. I will say that the immigration that we saw was a notable factor of the 2023 and 2024 economic outcomes, and, of course, we are aware of that, and it plays a role in our thinking about appropriate policy and the path of the economy.

Ms. GRACIA. Okay. Well, thank you for that. Related to that, I know that the last time that you were here, you and I talked about diversity and diversity inclusion efforts at the Fed. I applauded you and applauded the President for his appointment of Dr. Adriana Kugler. I expect to visit with her this week. What other strategies and programs are you using in the Fed, not only in here, but in all of the branches to ensure that there is diversity and inclusion?

Mr. POWELL. So in terms of intake of people, when Reserve Banks go to hire a new president, those processes are very focused on having a diverse applicant pool, and you see the results of that more and more over the years. That happens. We do not have any role in appointments of Governors, so that is not our job. The administration does that.

Chairman MCHENRY. The gentlelady's time has expired.

Mr. POWELL. I will just say internally we are very focused on having an open and inclusive place to work, and also in hiring, we work hard, you know, to have diversity.

Chairman MCHENRY. The gentlelady's time has expired.

Ms. GARCIA. Thank you. Thank you, Mr. Chairman.

Chairman MCHENRY. The gentleman from Michigan, Mr. Huizenga, is now recognized for 5 minutes.

Mr. HUIZENGA. Chairman Powell, good to see you in person. Mr. Chairman, I have to make a comment here. It is stunning to me that equating an underground economy, which is very different and not a healthy alternative to the regular economy, and basing that on an illegal workforce that is not legally able to work ultimately will fail. That is not a strategy, to my colleagues on the other side. So just ask any farmer who is going to then have somebody, a regulator, come in and fine them for employing people who are not legally allowed to be here in the country. That is one of their greatest fears, so that is just a fallacy of growth within this economy that is not sustainable.

Chair Powell, last fall I sent Vice Chairman Barr a letter expressing my concern over the cumulative impact pending rulemakings governing products and services will have on consumers. This morning, there has been a fair amount of time spent on Basel III, but among the agencies—and here I am including Fed, FDIC, OCC, CFPB—the number of pending or final rules is, frankly, just staggering.

Regulators last year finalized new rules for the Community Reinvestment Act. The Fed is also looking at Reg II, which, in my opinion, would unintentionally undermine recent significant progress in bringing low- and moderate-income consumers into the mainstream banking system. Just yesterday, the CFPB unveiled a rule that would cap late fees for banks, and I just literally walked out of a meeting with my credit unions, who are very concerned about those things that may be in their future as well. So I think it is critical that we do not look at any of these rules in a vacuum and we need to consider their total impact and full scope on that.

So I am going to ask you a question I have asked some of the other regulators. How much do you as the Fed and you personally consult with other agencies on their own rulemaking agenda? Do you coordinate? Do you talk?

Mr. POWELL. I do not lead that area of our business, but I know there is a lot of talking. I am not sure there is coordination.

Mr. HUIZENG. We are in government. There is always a lot of talking. I am concerned about the coordinating. All right. Well, let me ask you this way. When a rule is finalized under another regulator, are you mandated or have any kind of policy to go back and look at your other pending rules under your purview and see if changes need to be made because of these other agencies' rulemakings?

Mr. POWELL. There is no mandate like that. I think where it made sense to do that, though, we would do it.

Mr. HUIZENG. Do you genuinely have some sort of review of that, its consequences?

Mr. POWELL. I do not think there is a formal review, no.

Mr. HUIZENG. Okay. I have heard repeatedly that elements of Basel III overlap with the Fed's annual stress tests. What are you going to do to address that overlap?

Mr. POWELL. So, I mean, we are in just the beginning, actually, of deciding what to do about Basel III, and part of that may be the interaction with stress tests. So I do not have anything for you on that today, but that is certainly an issue that presents itself.

Mr. HUIZENG. I would like to continue that conversation. I do want to touch on the bank failures of last year very quickly. Do you think that the banks that ultimately needed the government bailout lacked sufficient capital, or was it more of a management problem?

Mr. POWELL. With Silicon Valley Bank, could they have used more capital? I mean, they were actually raising capital. It was a capital raise that they announced that triggered the run and everything. So you can argue that it needed more capital, but I would not say that was the proximate cause, really. It was a funding structure that was all about too much concentration of uninsured deposits.

Mr. HUIZENG. Yes. I am asking the question because many of us are very concerned that those failures are being used as an excuse to raise capital standards across the board and because the SEC just released its climate disclosure rule this morning, I am going to touch on the climate-related question for you. The FSOC chair has repeatedly stated that climate change is "an existential threat." Presumably a threat that is existential affects banks and financial institutions of all sizes. Why then have FSOC member regulatory agencies, including the Fed, limited their guidance on climate-related risks only to large financial institutions? Why not everybody?

Mr. POWELL. Well, it is a new thing, and, you know, we are not—

Mr. HUIZENG. It is a heck of a new thing, yes.

Mr. POWELL. We are not climate change policymakers. This certainly needs to be handled by elected representatives and so we are starting this very carefully with large institutions, who are already doing it, by the way. They are doing this because to remain active internationally, they have to be doing it, so we started with them because they understand it. Imposing it on smaller banks, is not something I am for.

Chairman MCHENRY. The gentleman's time has expired.

Mr. HUIZENGA. We will be following up on the Taylor rule.

Chairman MCHENRY. The gentlelady from Michigan is recognized for 5 minutes, Ms. Tlaib.

Ms. TLAIB. Thank you so much, Chairman. Thank you, Chair Powell, for being here. Do you agree with the April Federal Reserve report that compensation incentives contributed to Silicon Valley's bank failure?

Mr. POWELL. I am sorry. I did not get—

Ms. TLAIB. So the April Federal Reserve report, it said that compensation incentives contributed to the Silicon Valley Bank's failure. Do you agree with that?

Mr. POWELL. I would say it is at best a tertiary factor, but it probably had something to do with it, for me not a major—

Ms. TLAIB. So that is no?

Mr. POWELL. That is very small.

Ms. TLAIB. Okay. So it did. Okay. So do you agree the appropriate rules on incentive compensation could have reduced the likelihood of Silicon Valley's failure maybe if they did not take all that money?

Mr. POWELL. No, I really do not think so. I mean, I do not think it is—

Ms. TLAIB. So if they all that money—

Mr. POWELL. I do not think it is a first order question for Silicon Valley. A lot went wrong there.

Ms. TLAIB. Yes.

Mr. POWELL. Incentive comp would be way down the list.

Ms. TLAIB. They actually blame you guys.

Mr. POWELL. Sorry?

Ms. TLAIB. They blame the oversight even though they did not respond to your correspondences.

Mr. POWELL. We took our medicine.

Ms. TLAIB. Yes. Do you think it also has something to do with the fact that Section 956 of the Dodd-Frank rule has not been finalized by you?

Mr. POWELL. No, I do not.

Ms. TLAIB. You do not think it is the reason?

Mr. POWELL. I do not.

Ms. TLAIB. You do not think it is because people made money off of the failure?

Mr. POWELL. I think nothing—

Ms. TLAIB. You do not think money drove them to do what they did?

Mr. POWELL. I did not say that. There are lots of—

Ms. TLAIB. So they made money from it. It was a lottery for them, right?

Mr. POWELL. I do not think that incentive compensation arrangements were at the heart of the Silicon Valley Bank failure, no.

Ms. TLAIB. Okay. Do you support robust rulemaking for executive compensation, Chairman?

Mr. POWELL. I know that the—

Ms. TLAIB. Oh, you do not?

Mr. POWELL. I am sorry?

Ms. TLAIB. Do you support robust rulemaking for executive compensation? Do you believe in Section 956?

Mr. POWELL. Section 956 is the law. As I understand it, the agencies are looking at doing something. It has been 12 or 13 years, right, that nothing has happened.

Ms. TLAIB. Yes, multiple agencies. Yes.

Mr. POWELL. It has been hard to get it done. I lived through the last episodes of trying to get it done.

Ms. TLAIB. Yes. So do you believe in a robust rulemaking process for executive compensation?

Mr. POWELL. I do. I do, yes.

Ms. TLAIB. Oh, great. That is awesome. Will you commit to helping finalize the Dodd-Frank Section 956 this year?

Mr. POWELL. I would not say that—

Ms. TLAIB. It has been 12 years, Chairman.

Mr. POWELL. Yes. No, I would not—

Ms. TLAIB. It played a role in the bank failure, Chairman.

Mr. POWELL. If I can answer. What I would like to do is understand—

Ms. TLAIB. So you do not want to do it this year? I mean, I am being serious. You are saying no.

Chairman MCHENRY. If the member will allow the witness to answer the question. We have had a good day today, and the gentleman is trying to answer the question.

Mr. POWELL. I would like to understand the problem we are solving, and then I would like to see a proposal that addresses that problem.

Ms. TLAIB. Okay. Do you believe people should profit off of bank failure, the executives that made those decisions?

Mr. POWELL. No, not the executives.

Ms. TLAIB. They should not profit?

Mr. POWELL. Well, I would say executives who are responsible for a failed bank should not profit from the failure. Absolutely not.

Ms. TLAIB. So they get to walk away with compensation based on their failure?

Mr. POWELL. You are asking about a—

Ms. TLAIB. It is true it happened.

Mr. POWELL [continuing]. different rule that would have clawback and things like that?

Ms. TLAIB. Yes.

Mr. POWELL. Yes. So that is something I know you have been looking at for a while. That is certainly an appropriate thing to look at.

Ms. TLAIB. Yes, because it is just going to continue to happen is my opinion. It does not have to be yours, but it sure the heck could have helped here if they knew they could walk away with not the bonuses, the compensation. I mean, they made money, a significant amount of money for their bank failure. Last question, Chair Powell. Do you believe that the impacts of climate change pose a risk? Have you been talking about that more?

Mr. POWELL. I certainly believe that climate change is real and poses risks over the longer term, sure.

Ms. TLAIB. So there have been some that say higher interest rates actually makes it more difficult to build out the renewable

energy projects and other investments required to prevent climate impacts. Do you believe that to be true?

Mr. POWELL. I believe that we need to do our job that you have assigned us, which is maximum employment and price stability, and we do it through interest rates. It is not our job to consider the effect on climate change of that, and I think any effect on climate change of that would be kind of miniscule.

Ms. TLAIB. Last question, Chair Powell. Who do you see as the major winners and losers from high interest rates in terms of income groups, age groups, and racial or other demographics?

Mr. POWELL. So the point of high interest rates in the current environment is to bring inflation under control. The people who are hurt the most by inflation, as you know, are people who are on a fixed income, who right away are in trouble when the cost of transportation, food, energy, and when those things go up, they do not have financial resources to deal with it.

Ms. TLAIB. Have you looked—

Mr. POWELL. We are accountable to provide price stability to the American people. Those people benefit the most over time from stable prices.

Ms. TLAIB. Thank you.

Chairman MCHENRY. The gentlelady's time has expired. We will go to the gentlelady from Missouri, Mrs. Wagner, for 5 minutes.

Mrs. WAGNER. Thank you, Mr. Chairman, and thank you, Chair Powell, for your service. I want to associate myself with the comments of my colleague, Mr. Himes. I am concerned about banks' commercial real estate exposure, and I do hope that the Fed is doing everything it can to ensure that the exposure that these banks have will continue to be, in your words, manageable because this is a looming crisis out there given the workplace changes and dynamics.

Chair Powell, in remarks on Bloomberg, Larry Summers, former Treasury Secretary during the Obama Administration, stated that, "It would be much more productive for our central bank to be focused on the question of real estate portfolios in the banks they supervise than some of the more abstract and politically driven arguments about various kinds of capital charges on the largest banks." Do you agree, sir, that it would be more productive for Fed supervisors and regulators to keep their eye on the ball, in this case, commercial real estate and other real estate investments?

Mr. POWELL. I absolutely think we need to keep our eye on the ball on commercial real estate, and, yes, I think we are doing that.

Mrs. WAGNER. I hope so. According to your semi-annual report, the median of members on your Monetary Policy Committee estimate that your target overnight interest rate will average 4.1 percent in 2024. Does that mean that the median number of members anticipate that you will be cutting interest rates sometime this year by as much or more than a full percentage point?

Mr. POWELL. No, it does not mean that. Actually, the Summary of Economic Projections showed a median of this is in the December FOMC, so this is now 3 months old showed three rate cuts this year, so that would be 75 basis points, three quarters of 1 percentage point. You were quoting the next year's number, so you would add that on. That was through 2025, I believe.

Mrs. WAGNER. So are you anticipating that there would be more cuts that are coming?

Mr. POWELL. The way I would say it is we are making economic projections, and so we write down a path of growth, what is happening in the labor market, what happens with inflation, and what goes with those forecasts is an appropriate monetary policy, appropriate interest rates. So we expect inflation to come down, the economy to keep growing, and the labor market to remain strong, and if that is the case, it will be appropriate for interest rates to come down significantly over the coming years.

Mrs. WAGNER. Good.

Mr. POWELL. It is not a plan. What will happen is actually what the economy needs. The economy will do something different from that, and that is what will actually happen.

Mrs. WAGNER. Chairman Powell, 15 Members of Congress, including myself, Ranking Member Sherman, Chairman Barr, and Ranking Member Foster, sent a letter to the prudential regulators regarding the impact that Basel will have on U.S. capital markets' activities. The letter highlighted "critical areas of our U.S. markets, including securities underwriting, securitization, and derivatives that will be severely impacted by the Basel proposal." This was also a common theme represented throughout the comment file on the Basel proposal, over 95 percent of them. Considering that 75 percent of financing in the U.S. is done through our capital markets, which are the deepest and most liquid in the world, why would the Fed continue to pursue this flawed proposal instead of re-proposing a rule that would not have such a drastic impact on the U.S. economy?

Mr. POWELL. In fact, the capital markets concerns you raised are among those that I raised myself in our open Board meeting when we put this out for comment. I did also say—

Mrs. WAGNER. You said you wanted broad support, and obviously, there is dissent among some of your Governors, the FDIC, others. So how are we coming on this and how are we reconciling—

Mr. POWELL. We are working our way through the comments, and we are coming to the point where it will be appropriate for us to begin to evaluate what changes are appropriate. I have said I think those changes will be broad and material, and that is where that is, but we have not made any decisions yet. We just got the comments.

Mrs. WAGNER. In my role as chairman of the Capital Markets Subcommittee, I have seen SEC Chair Gensler push the envelope in terms of rules and regulations that go well beyond the congressional mandate, even encroaching on the jurisdiction of other financial regulators. What is the Fed's response to another agency encroaching on its jurisdiction?

Mr. POWELL. We do not comment on other agencies' regulation. However, to take your hypothetical at face value, if they were to come into our jurisdiction—

Mrs. WAGNER. Oh, it is more than a hypothetical.

Mr. POWELL [continuing]. then we would react.

Mrs. WAGNER. Good. Well, I hope you do. I yield back.

Chairman MCHENRY. The gentlelady from New York, Ms. Velázquez, is recognized for 5 minutes.

Ms. VELÁZQUEZ. Thank you, Mr. Chairman. Right here.

Mr. POWELL. Hi.

Ms. VELÁZQUEZ. Hi. Thank you for being here, Chairman Powell. Property insurance rates are becoming prohibitively expensive or inaccessible for homeowners and developers in my community. The FSOC's annual report identifies property insurance rates as an increasing risk, and I recently raised this issue with Secretary Yellen. Is the Fed monitoring the rising costs of insurance and its impact on macro economy?

Voice. Is this mic off?

Chairman MCHENRY. We will pause the clock. We will have staff take a look at the microphone.

Ms. VELÁZQUEZ. We need to—

Chairman MCHENRY. The clock being frozen is out of respect for Ms. Velázquez, or out of good luck. I am not sure.

Ms. VELÁZQUEZ. The clock.

Chairman MCHENRY. We will get staff to listen. We will just suspend for a moment.

Ms. VELÁZQUEZ. We need to invest in infrastructure for this committee.

Chairman MCHENRY. Yes. Well, we are trying to do electronic voting and—

Ms. VELÁZQUEZ. This is not voting for us.

Chairman MCHENRY. No. It is hard now just to get the microphones to work. Madam Clerk, thank you. Nice. So all the photographers have left, so the awkward photos for Trish will be less awkward.

[Pause.]

Chairman MCHENRY. Any luck?

Voice. Well, we are grabbing a new mic.

Chairman MCHENRY. We are getting a new mic. It may not be better, but it is a different one. All right. Let us just restore her timing.

[Pause.]

Chairman MCHENRY. All right. We will start over. We are going to restore the clock. Thanks for members' indulgence. Ms. Velázquez, you are recognized for 5 minutes.

Ms. VELÁZQUEZ. So, Mr. Chairman, I was asking you about the property insurance rates are becoming prohibitively expensive or inaccessible for homeowners and developers in our community. The FSOC's annual report identifies property insurance rates as an increasing risk, and I recently raised this issue with Secretary Yellen. Is the Fed monitoring the rising costs of insurance and its impact on macroeconomy?

Mr. POWELL. Yes, we are very much aware of increases in insurance, including property insurance, and it has been adding meaningfully to inflation. It is not something we have any control or authority over. The same is true of auto insurance or just insurance generally as prices have gone up a lot.

Ms. VELÁZQUEZ. When we talk about the lack of affordability when it comes to housing, the rising cost of insurance is an important factor that is affecting the availability of affordable housing in

our communities. I hope that there are some discussions among the Feds because it is an increasing risk, and it is going to have a direct impact on our economy. Chairman Powell, I know you spoke with Chairman McHenry a little bit on inflation and interest rates. Can you explain what evidence you are looking for before inflation has returned to 2 percent and interest rates can be cut?

Mr. POWELL. Sure. We are not looking for inflation to go all the way down to 2 percent. That is not what we are looking for. What we want is just more evidence that will give us more confidence that inflation is on a path down to 2 percent sustainably, so that will come in the form of good inflation readings really. We want to see just a bit more evidence so that we can be confident. We do not want to have a situation where it turns out that the 6 months of good inflation data we had last year, that did not turn out to be an accurate signal of where underlying inflation is. So we are just being careful and because the economy is so strong and the labor market is so strong, we think we can and should be careful as we approach that decision.

Ms. VELÁZQUEZ. When you say "evidence," what evidence? Is there anything that—

Mr. POWELL. We would like to see more good, relatively low inflation readings. We are not looking for better inflation readings than we have had. We are just looking for more of them, and what will happen is that as we go forward, the 12-month inflation will continue to drop because it will be lower than early last year.

Ms. VELÁZQUEZ. Thank you. Mr. Chairman, I would like to pick up on where Ms. Tlaib left off and reiterate the importance of the rulemaking on Section 956. This is an issue that I also raised with Vice Chair Barr, Chairman Gruenberg, Acting Comptroller Hsu. I told them, when they came before this committee, that I will be asking for the status update on the rulemaking at every future hearing because it is well past time: 12, 13, 14 years. If you are employed in a company and you are given a task, I will think that you will be fired if you do not get it done, and you have taken 12 long years. So you are the chairman of the Fed. How is the Fed working with other agencies to propose the rule?

Mr. POWELL. There is a lot going on in regulation at the Fed right now. My understanding on 956 is that there have been discussions between the regulatory agencies, and I think it is not three. I think it is more like six agencies that have to agree.

Ms. VELÁZQUEZ. I know.

Mr. POWELL. I have not seen a proposal. I think something is under consideration, but it is not something that has gotten to me yet.

Ms. VELÁZQUEZ. I will ask the next time, and believe me, I will be here.

Mr. POWELL. Great.

Ms. VELÁZQUEZ. Thank you.

Chairman MCHENRY. The gentlelady yields back. The gentleman from Kentucky, Mr. Barr, is now recognized for 5 minutes.

Mr. BARR. Mr. Chairman, good to see you. You have said numerous times that the capital framework is about right, and that banks are well capitalized. Do you still believe this?

Mr. POWELL. I do.

Mr. BARR. Given that you believe that and given the fact that the Basel III Endgame proposal dramatically increases capital requirements on banks, would a re-proposal that implemented Basel III in a capital neutral way, could it do so without jeopardizing financial stability?

Mr. POWELL. It could. I mean, hypothetically, yes.

Mr. BARR. According to Latham & Watkins, 97 percent of the comment letters either opposed, called for a re-proposal, or expressed substantial concerns about the Basel III Endgame proposal, and those negative comments came from across the ideological spectrum and from various interests.

Without objection, I would ask the chair to include that report into the record.

[No response.]

Mr. BARR. Without objection, I would ask the chair to include that report into the record.

Chairman MCHENRY. Without objection.

[The information referred to can be found in the appendix.]

Mr. BARR. Thank you. Mr. Chairman, did you see that report?

Mr. POWELL. I did.

Mr. BARR. Does that concern you that 97 percent of the comments were negative.

Mr. POWELL. We did not do our own count, so I cannot make an assessment, but I would say it is unlike anything I have seen.

Mr. BARR. If the Basel III comment period ended on the same day as the Fed's data collection on the proposal, which is an odd process since the data should have been collected far earlier, analyzed, and the results should have been available for the public to comment on before the comment period ended, why did the Federal Reserve choose to do a quantitative impact study during the comment period for the proposal before closing any ability by the public to comment on the results of the study?

Mr. POWELL. Well, I mean, the movie is not over. We are where we are, and Vice Chair Barr did commit to putting the Quantitative Investment Strategies (QIS) out for comment. We will receive those comments, and those comments will be taken into consideration as we think about the path ahead.

Mr. BARR. Well, speaking of process, you have your excellent general counsel right behind you there, and I do not want to get into privilege here, but have the lawyers at the Fed raised any process concerns or Administrative Procedure Act issues with the Board?

Mr. POWELL. Let me just say that we are committed to doing transparent and reasonable and data-based rulemaking in compliance with the Administrative Procedure Act.

Mr. BARR. Well, of course, giving the public the ability to comment on the quantitative data that has been provided, obviously is consistent with good process. Sir, Governors Bowman and Waller, Vice Chair Hill, and Director McKernan, all dissented on the proposal, and Vice Chair Jefferson expressed concerns with it during his statement. Under your tenure as chair, can you identify any other regulatory proposal which has elicited this much dissent?

Mr. POWELL. No.

Mr. BARR. You have, in the past, acknowledged in front of this committee that you will not move forward with proposals without

consensus, or you have acknowledged that in the past that, and we appreciate that commitment to consensus. Have you achieved consensus yet on the Basel proposal?

Mr. POWELL. Let me say I am confident that we will, but that is a process that, as I mentioned, we are evaluating the comments. We are just coming to the place where we are going to start talking about the path ahead, and I am confident that we will achieve very broad support on the Board.

Mr. BARR. Mr. Chairman, do you agree that the heterogeneity and business model diversity within the banking sector contributes to system wide financial stability?

Mr. POWELL. I strongly do.

Mr. BARR. Do you agree that a concentrated business model in the banking sector would present a potentially systemic risk?

Mr. POWELL. Potentially, yes.

Mr. BARR. This is one of my major concerns with the proposal, Mr. Chairman, because by de facto repealing regulatory tailoring, subjecting Category III and IV regional banks to one-size-fits-all standards that currently only apply to large Global Systemically Important Banks (G-SIBs), discouraging securitization, which is the private sector solution for dispersing risk, eliminating the use of internal risk models, and transitioning the industry and regulators toward only a standardized framework, actually would push the industry into a smaller and more concentrated looking industry, and, as a result would, in my view, actually increase systemic risk and decrease market competition. Do you share that concern?

Mr. POWELL. I think it is a real concern, and, again, I think that is part of what goes into my thinking, certainly, about the proposal and where it needs to go.

Mr. BARR. Well, given all of these concerns, we hope that you can commit to re-proposing the Basel III Endgame, and we strongly urge you to take that into consideration. With that, Mr. Chairman, I appreciate the time.

Chairman MCHENRY. The gentleman from Massachusetts, Mr. Lynch, is recognized for 5 minutes.

Mr. LYNCH. Good morning, Mr. Chairman, welcome. Good to see you again.

I want to go a little deeper onto the commercial real estate issue and the potential impact on regional banks. This morning, Scott Rechler, who is a member of the New York Fed Board of Directors, released a white paper on CNBC this morning, describing the trillions of dollars in commercial real estate loans that will come due over the next couple of years. He described it as a "slow moving train wreck" for our regional banks. He went on to predict that it will force a little over 500 banks, they are about to either fail or consolidate. He also described what he termed as a doom loop where, similar to Silicon Valley Bank, when people lose confidence, when depositors lose confidence in the bank, they pull their money out, and we end up in a bad situation.

Now, I do not believe everything that I read here, but in Congress, we do tend to repeat it, and I just wanted to get a sense from you. I am seeing in my own city of Boston, we have 20 percent vacancy rates in office space. We rely on that for a lot of the tax revenues for the city, but I am just wondering, your thoughts on that

issue. Is there a systemic concern here, or is this isolated, and might lowering the interest rates help some of those banks, because I hear from my developers in our area that no one's lending. So your crack at it?

Mr. POWELL. Sure. I have not seen that report, so I cannot comment on it, but I can comment on commercial real estate. We have had a secular change in the economy, which has left office rentals in many places, office buildings, the demand for them is just significantly lower, at least temporarily, and perhaps for a long time. Also the same is true for downtown, in some places downtown, retail that is associated with office workers. So it is a shock to the system, and we have known this for some time. We have gone through the commercial banks in the United States, and some of the other regulators, we have done it jointly and identified the ones that have high concentration, and are going to need to deal with that. So we have been in contact with those banks and talking to them about how they are going to deal with this, how are they going to absorb these losses. Do they have enough capital, do they have the liquidity, do they have a plan to do this, and is it consistent with their lending practices, and that kind of thing. So it is going to be something we work through over a period of years, and I do think it is slow moving. I think that part of it is right.

You asked about 500 banks. I have no idea about that number, but certainly there would be some banks, probably smaller ones, that have these high concentrations. It is not the very large banks. It is really a manageable thing at the large banks, so I think that is what it is going to be. It is a serious problem and more serious in some locations, and jurisdictions, and with some banks than others, but it is one we will be working through, and I think that is how I would think about it.

Mr. LYNCH. The Silicon Valley Bank situation, Signature, the money moved so quickly in those cases. It was instantaneous. Now, the velocity of money moving out of those banks, really, I think, in some ways contributed to their failures. Are we looking at any anything technologically that might be able to address some of that or mitigate it?

Mr. POWELL. Sure. We also, after Silicon Valley Bank, got in contact with and worked with financial institutions that had high concentrations of uninsured deposits, and many of them have greatly improved their liquidity position, so that is the thing that we are working on. As you probably know, we are also working on some liquidity rules, which will strengthen our framework of liquidity rules, but that is something we have not proposed yet.

Mr. LYNCH. Let me ask you something off topic. So we know that we have frozen assets, Russian assets, of about \$300 billion between U.S. and European banks. Do you want to comment on that? What I would like to see is us give that to Ukraine, to be honest with you. I know that is a very simplistic idea, but I am just wondering if there is any historic example that we could look to, if Congress has to take the necessary steps to redirect that money to Ukraine, so they can feed their people and fight that war.

Mr. POWELL. This whole area of sanctions and foreign assets and things like that is really controlled and directed by the administration, by the elected branch of government. All we are is just a tech-

nical seat around in the back row to help. We do not make those decisions. I would not comment.

Mr. LYNCH. I know you are not big on history. I was just wondering if there was any examples out there that might provide guidance to us.

Chairman MCHENRY. The gentleman's time has expired. The gentleman from Texas, Mr. Williams of Texas, is now recognized for 5 minutes.

Mr. WILLIAMS of Texas. Mr. Chairman, thank you for being here. When I am back in my district in Texas, I am constantly hearing concerns surrounding the fundamentally flawed Basel III—we have talked at length about that today—Endgame proposal. These concerns are not only coming from my banking industry, but also from farmers, ranchers, small business owners, who are concerned about how this proposal will impact the ability to access capital in the future and to all of us, did not raise alarms. Now we have heard about the 97 percent today, public comments on this proposal, and they all came out negative and Americans across all sectors worried about the disastrous implications that will follow this proposal. I tried to make that known to banking regulators, who continue to ignore them. It is time for Federal regulators to take these concerns seriously and, quite frankly, just, I believe, start over. So I urge you and your colleagues to rethink the misguided policy and do what is best for American people, small business, Main Street America, and withdraw the Basel III proposal.

Now, Chairman Powell, given the concerns raised by financial institutions, again, farmers, ranchers, et cetera, and other communities across country, can you elaborate on how the Federal Reserve is responding to and address these comments that are mostly negative and request modification, delay, or complete withdrawal of the proposal of Basel?

Mr. POWELL. Yes, I will. So we are in the process of reviewing the comments. They were quite voluminous. They are very detailed with a lot of data, a lot of analysis and that is just what we wanted, so we got those. It is a lot, it is hundreds of them, and we are going through them. We are just at the point we are about to begin then turning to the question of what changes should we make to the proposal. We have not made any decisions. We have not really gotten to that stage yet. Remember, we only got the comments less than 2 months ago, so it is just we are at that stage, so we are looking at it. As I mentioned, my own view is that there will be material and broad changes to the proposal as we go forward, and we have not really made decisions yet, though. It is just a little bit early for that.

Mr. WILLIAMS of Texas. We are glad you are looking at it. I want to bring up the long-term debt proposed rule, which would require banks to issue enough long-term debt to cover capital losses. Now, Congress worked to pass legislation requiring detaining regulations to the size of financial institution. This is meant to protect banks of all sizes and allow for families and businesses in my district to have options to meet their lending needs. So the Fed's long-term debt proposal would undo any sort of regulatory tailoring and puts into place a new long-term debt issuance requirements on regional banks, which require these banks to issue long-term debt both at

the parent holding company level and the Insured Depository Institution (IDI) level. Now, these regional banks will face increased costs when they are already facing tiring regulatory burdens in this administration, and those are the banks that people do business with.

So Mr. Chairman, do you believe that this proposal rule goes against the requirements of S. 2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act, and will you commit to exploring this issue further with your colleagues?

Mr. POWELL. We are committed to implementing S. 2155. We believe that the regulation and supervision of banks needs to reflect their size and activities, and that is something we will be considering as we go forward with this.

Mr. WILLIAMS of Texas. Okay. Short time I got left. Americans continue to feel the pain from inflation created by the Biden Administration, as everyday cost continues to be expensive. As you know, I am in the car business, and inflation is just running rampant in my industry, and the irresponsible and partisan American Rescue Plan, forced through Congress by Democrats, only made inflation more of a problem. Now American families and businesses have been forced to deal with runaway inflation for 3 full years now, which has caused a major hardship. So quickly, the American Rescue Plan Act (ARPA) injected nearly \$2 trillion of deficit spending to our already struggling economy, and how does this type of inflated spending, combined with economic headwinds, like supply chain shortages, impact the economy, and does not this kind of reckless spending actually fuel the pressures of inflation?

Mr. POWELL. I think there are a lot of causes of the inflation we have seen. We saw this inflation everywhere in the world. So really the reopening of the economy after—with very strong demand and constrained supply, you saw inflation in all the advanced economies. It was a little sharper here at the beginning. I think there is a role for monetary policy in that. There is a role for fiscal policy. There is a role for the pandemic, a starring role for the pandemic. Our job is to deal with it, and that is what we have been doing.

Mr. WILLIAMS of Texas. Well, thank you for always keeping small business and Main Street America in your calculations, and with that, Mr. Chairman, I yield back.

Chairman MCHENRY. The gentleman yields back. The gentleman from California, Mr. Sherman, is recognized for 5 minutes.

Mr. SHERMAN. Mr. Chairman, I want to thank you for recognizing in your opening statement the importance of immigrants in keeping costs down, and I want to thank you and the administration for what has been an excellent 2023 economic report. We have 3.1 percent economic growth, by far the best in the developed world, headline inflation 2.4 percent and that is not a little blip, 1-month number. That is for the whole of 2023 and compares very favorably with the pre-pandemic portion of the Trump Administration when we had inflation of 3.5 percent.

My goal here is to convince you to cut more and sooner for a number of reasons. The first is that I know, if you ask a constituent if they want zero inflation and zero unemployment, you know that we cannot have that, and have concluded that the economy works best with a 2-percent inflation rate target. I have looked

at the history of that 2-percent number. It seems to come from Auckland, from the 1980s, and there are a lot of arguments that your target should be just a little bit higher.

Larry Summers recently produced a study arguing that the cost of money is part of the cost of living. So we have this weird paradox where you are trying to keep the cost of groceries down by raising interest rates, but as the ranking member points out, the big issue is housing, and your measure of inflation seems to treat all Americans as renters, even though two-thirds are homeowners. When interest rates go up, that is an increase in the cost of living for anyone with an adjustable-rate mortgage, anybody looking to buy a house, anybody with a home equity loan. Obviously, we would cut interest rates a little sooner and a little more if your target was something closer to 2.3 percent.

So I will ask you, is there substantial economic analysis that argues that your target rate and the economy would work better if we had a slightly higher target than 2 percent?

Mr. POWELL. Not really, no. What has happened is, you pointed out New Zealand, but what has happened is that 2 percent has become the global standard. It is a pretty durable standard. I do not have any reason to think that it is a problem for the United States to get to 2 percent inflation. We are at 2.4 percent right now, headline inflation.

Mr. SHERMAN. I would ask to add to the transcript of this hearing numerous articles that argue for something between 2.3 and even 3 percent.

[The information referred to can be found in the appendix.]

Mr. SHERMAN. I am not arguing for as high as 3 percent. Let us look at Basel. There is nothing free here. If the standards are too high, we lose economic growth. If they are too low, we have bailouts and bankruptcies, but I think everybody agrees that the standard should be well crafted. You have a system where everybody drafting this is well dressed and focused on Wall Street and you have Basel rules that discriminate against Main Street and for Wall Street. I will give you some examples. It is 65 percent if you are a publicly traded company and make a loan to a publicly traded company. You make a loan to the California Public Employees' Retirement System (CalPERS). They are not publicly traded.

Without objection I would like to put their article into the record.

[The information referred to can be found in the appendix.]

Mr. SHERMAN. They are, in effect, going to have a tougher time getting a loan. The local pizzeria is going to have a tougher time getting a loan. You have Basel III ignoring mortgage insurance, which obviously makes the loan more prudentially sound for the bank and is very necessary for first-time homebuyers and you have a system where if you make investments in long-term bonds on Wall Street and you put them in the held-to-maturity category, you do not have to recognize the losses in mark-to-market. So there, I hope you will look at these in terms of the competition between Wayne Street and Wall Street for bank loans.

Finally, we go to clean energy investment. Can I count on you to personally look at the paradox where Basel III treats clean en-

ergy tax credits much more harshly than low-income housing tax credits for no ascertainable reason?

Mr. POWELL. Yes.

Mr. SHERMAN. Thank you.

Chairman MCHENRY. The gentleman's time has expired. The gentleman from Georgia, Mr. Loudermilk, is recognized for 5 minutes.

Mr. LOUDERMILK. Thank you, Mr. Chairman, and, Mr. Powell, thank you for being here today.

I am concerned with the small dollar credit for businesses. As a former business owner for over 20 years, I can attest that, as the small dollar business credit becomes more expensive and less convenient, businesses are going to turn to credit cards and other alternative financing for business purchases. These inevitably result in even higher costs, which goes down to the consumer, which means that they are going to pay more for the services or the products. In February of this year, total credit card debt reached a record of \$1.7 trillion. According to Intuit Small Business Index Annual Report, average monthly credit card balances were 27 percent higher in 2023 than they were in 2019. What do you view is the driving force behind these record high levels of credit card debt?

Mr. POWELL. Part of it would be growth in the economy, so that will be part of it, just that it is a bigger economy and a bigger number. I am not sure what that is. As you know, people had lots of extra cash during the pandemic from forced savings. They spent that down and now they are borrowing. I am not sure.

Mr. LOUDERMILK. So if there was a rule to force banks to tighten lending, do you think that rule would drive businesses and consumers to alternative forms of credit?

Mr. POWELL. I do. I think, yes, if you raise lending costs for banks, then at the margin, that will make nonbank lenders, right, they will get some of that business.

Mr. LOUDERMILK. If it becomes more complex or less convenient, then businesses will turn to these alternative forms of credit card. I can tell you that from experience.

Mr. POWELL. And have. Yes.

Mr. LOUDERMILK. Yes. Well, I have called for the withdrawal of the Basel III Endgame proposal entirely. Will you commit to an analysis of how bank capital proposals, like Basel, affects small business credit access and the small dollar lending before finalizing such proposals?

Mr. POWELL. Will I commit to that? Let me look into that. I do not want to make a commitment that I will undertake some big study, but we will look at the issue.

Mr. LOUDERMILK. Do you feel it is important that we do have an understanding, the effect it is going to—

Mr. POWELL. I do.

Mr. LOUDERMILK [continuing]. have on folks? Small business is the backbone. It is the bloodline of our economy.

Mr. POWELL. They create the jobs. That is right. I do agree.

Mr. LOUDERMILK. Okay. The chairman asked you for your thoughts on withdrawing or re-proposing the Basel III Endgame

proposal. Have you specifically discussed withdrawing the proposal with vice chairman, Michael Barr, or the other Governors?

Mr. POWELL. So I do not want to get into our internal doings, but I will say that I understand it is a live option. Again, we are not at a stage of being able to even have that discussion yet because we have to decide, first, what changes do we think are appropriate, and that will take a little time, and then the question will be re-proposal. What I said is when we get to that point, if a re-proposal is the right thing to do, we are not going to hesitate at all. It is a perfectly live option.

Mr. LOUDERMILK. All right. In the current environment we have in politics in this country, there is not a lot that you find bipartisan agreement on, but I think you could find some agreement in withdrawing that proposal. Can you explain the importance of broad consensus at the Fed on proposals like the Basel III Endgame (B3E)? Are you concerned with recent trends of disagreement among Board members related to major proposals?

Mr. POWELL. So I think we are going to get to broad consensus at the Fed. I do. I think it is very important. This has been our culture that we try to find common ground, and we have been able to do that in the regulatory space, and I expect we will be here as well. I am committed to that.

Mr. LOUDERMILK. So could it be that we are seeing this level of disagreement because of extreme measures that are being taken now that may not have been taken in the past, I mean, a total difference of opinion and understanding and philosophy regarding free market economy?

Mr. POWELL. I will not speculate, but I will point out that four of the seven Governors, during the open Board meeting at which we put it out for comment, expressed real concerns, very specific concerns about the proposal and said we would look at the comments when they came in, and that is what we are doing.

Mr. LOUDERMILK. All right. Do you feel that they have validity in their concerns?

Mr. POWELL. I was one of the four, so yes.

Mr. LOUDERMILK. With the few moments I have, seconds I have remaining, there is a recent report of Financial Crimes Enforcement Network (FinCEN) working with financial institutions to query legal purchases made by American citizens. Has the Federal Reserve been instructed within the past 3 years by Treasury or anyone else to search Americans' legal transactions?

Mr. POWELL. Not that I know of, no.

Mr. LOUDERMILK. Okay. Thank you. I yield back.

Chairman MCHENRY. The gentleman from Illinois, Mr. Foster, is recognized for 5 minutes.

Mr. FOSTER. Thank you, Mr. Chair, and thank you for being here. As Greg remarked, there is a near-term emergency to get the \$60 billion in military assistance to Ukraine. Separate from that, there remains a longer-term need for reconstruction assistance to Ukraine, which the World Bank estimates somewhere north of \$400 billion.

Now, at the start of the Russian invasion, the free democracies of the world froze roughly \$300 billion in Russian currency assets, primarily at European banks and financial institutions. The Biden

Administration and many of our allies have recently taken the stance that those assets should be leveraged somehow to provide reconstruction resources to Ukraine. I support this concept, and I believe that additional action should be taken to ensure that we hold Russia accountable but there are real concerns on the impact that this might have on central banking system, on the primacy of the dollar, the euro, and so on.

My question is, have you seen just the act of freezing these assets and not seizing them, but simply freezing them, have you seen deleterious effects on the primacy of the dollar, the confidence in the central banking system? Is there any visible downside from the act of freezing that is visible so far in the 2 years since we have done it?

Mr. POWELL. I cannot point to any. I cannot point to any.

Mr. FOSTER. Okay. So that is an interesting observation when we think of taking the additional step of actually seizing them, at least so far, because to my mind, having them frozen is as violent as seizing them outright. So that is interesting that so far we have not seen that.

Now, in terms of the Basel III and so on, there is a frustration I have had over the fact that, directionally, the effects of these are clear, but the magnitude of effects are not. For example, if you talk about the effect on the prices seen by derivative end users of increased capital requirement, directionally, it is clear. If you raise capital requirements, banks will withdraw from these markets. To some extent, other players will step in partly and take up part of the slack, and the spreads will increase and so on. Is the data that you have collected enough for you to actually estimate the magnitude of these effects instead of simply the direction?

Mr. POWELL. I think it is really hard to get down to the micro level and try to assess that because you are right, there would be multiple effects, but you know the direction. You know what the sign is.

Mr. FOSTER. That is right, but if you can avoid financial crisis with a microscopic increase in prices seen by end users, that is one thing if it is a very large difference in the price. So the magnitude matters a lot when you are doing these balancing things, and a lot of it depends on actually you need a model for how the different market players will react, and is that really not going to be in the scope of the analysis that you anticipate from the quantitative.

Mr. POWELL. I believe we have done some work on that, and I think the banks and other participants have done work on that as well, and came up with a range of answers. I mean, there are just an awful lot of variables in these equations, so it is hard to say with any confidence. I mean, that is why the job of deciding the precise level of appropriate capital is a hard one.

Mr. FOSTER. Yes, and now with 10 years, we have had two major crises with both a fiscal and a monetary response. Are there the lessons that you can learn now that, I believe, and it seems like your testimony indicates, that we are kind of approaching back to normal now? We have seen in the crisis of 15 years ago, we saw what many people thought was an inadequate fiscal response, that the fiscal response was less than half of the output gap, and we were limited by political will to do things. Then, of course, you were

limited by the zero bound in what you could do for most of a decade, and we had a long recovery. The comparison to the COVID recovery has been very sharp, and it has quite remarkably put us right back on that track. Are there any lessons that you have sort of drawn about the importance of getting the right balance of fiscal and monetary response to these shocks?

Mr. POWELL. So we think about that a lot, and I have to start by saying it is too soon to really tell because the answers you would give today, the picture looks very different than what it looked like a year ago. In a year from now, we will be looking back, going and saying we have learned so much more, so I think the pandemic is still——

Chairman MCHENRY. The gentleman's time has expired.

Mr. POWELL [continuing]. writing the story of our economy right now. We should just be prepared to be surprised with the next chapter as we were with 2023, the very strong growth, the sharp decline in inflation, while the labor market remained very strong.

Chairman MCHENRY. The gentleman's time has expired.

Mr. POWELL. Very few forecasters had that, but we can talk about it.

Chairman MCHENRY. The gentleman's time has expired. We will now go to the gentleman from Ohio, Mr. Davidson, for 5 minutes.

Mr. DAVIDSON. Thank you, Chairman. Chairman Powell, thank you for being here today and for your testimony.

I would like to start off, first of all, by completely echoing everything Congressman Barr said. A lot of us have talked about Basel III Endgame, and I think Congressman Barr kind of nailed the thought process. I do hope you will withdraw that and take the comments you have heard from here and from so many others about the hazards with the current approach. I would also like to address one of the other practices by the Federal Reserve, and it is the practice of paying interest on excess reserve balances held with the Fed accounts. It is my strong belief that rewarding banks with returns for taking no market risks actually harms our economy, and it discourages financial institutions from lending money into the economy. Instead, they park it at the Fed.

This has little to no impact on very large corporations, but it can have a crippling impact on small and mid-market firms. We especially saw this in the long recovery as Dodd-Frank was implemented in the Obama years, transition to the Trump years. We changed some of that mindset with a lot of other policies, but we saw a strong surging economy. So our countrymen pay a price for this market distortion by the Fed in two ways. First, they are unable to obtain loans at competitive rates because the money is sucked out of the market. Frankly, a lot of them do not even have access to lending except through bank capital, so it forces them into other forms of capital, equity capital and others. Second, they ultimately pay higher rates whenever they have these alternative means of capital.

Today, I have introduced a Prohibition on the IOER Act, which would prohibit the Federal Reserve from paying interest on excess reserves. By eliminating Interest on Excess Reserves (IOER), we can begin to return our economy to the undistorted free market economy it is supposed to have. The alternative is you could simply

raise requirements. We see some of those moral hazards when you do it across the board with approaches like Basel. So what is your case for why you should keep paying interest on excess reserves?

Mr. POWELL. Well, as you know, we do not see the downsides that you are talking about. Banks have a cost of funds and they have what they can earn, and that is what really matters is the spread.

Mr. DAVIDSON. If they wanted to do it, they could simply buy Treasuries on their own, and they could do that independently. I suppose they can independently keep it at the Fed, but they do not even have to put it on their own balance sheets in the same way. They have immediate liquidity with Fed overnight account, so I do not see how that is different than what they could already do.

Mr. POWELL. What I was going to say was banks can earn a much bigger spread by lending to corporates, so their incentive to lend is the same as it always was. This does not affect that. Really, they have a cost of funds and they have the ability to have reserves, but they are not earning a profit on that or a big one. They can earn a much bigger profit by lending to small corporates.

Mr. DAVIDSON. Well, speaking of profit, I mean, the Federal Reserve is not officially supposed to be a for-profit corporation, but you are supposed to pay for your operating costs off of positive cash-flow, and right now, the Fed does not have positive cash-flow. In fact, the Fed has negative cash-flow, so it is not entirely unrelated that the Federal Reserve operated at a \$114.3 billion loss in 2023 and currently is carrying a \$133 billion loss on its balance sheet this year.

So it is not the right approach, I think, to be paying, essentially, that much out in excess reserves to banks that are holding capital in the Fed when they could be deploying it into the market. So right now, the interest you are paying banks in money market funds exceeds the income you are getting on the \$7.6 trillion balance sheet assets that you have to the tune of a \$133 billion asset. So effectively, the Fed is operating at an operating loss. So what is the path back to cash-flow positivity for the Fed?

Mr. POWELL. As you know, for many years during the quantitative easing (QE) large balance sheet period, we have contributed way over a trillion dollars in net earnings to the Treasury Department. So you cannot look at the loss without mentioning that we have been giving effectively \$100 billion a year in profits every year to the Treasury Department. So the other side of that is when we raise rates to do the job you have assigned us to get inflation under control, when we do that, we absorb paper losses. It has no effect on the way we operate the Fed, and if we retained all the earnings we have, then it would not be a problem, but we do not do that. We give that money to Treasury.

Mr. DAVIDSON. Thank you, and I think the last thing is, I just encourage you to halt any effort to develop a central bank digital currency. It does not need to be designed, developed, and it certainly does not need to be established. I yield.

Chairman MCHENRY. The gentlewoman from Ohio, Mrs. Beatty, is recognized for 5 minutes.

Mrs. BEATTY. Thank you, Mr. Chairman, and thank you to our ranking member, and thank you, Director Powell, for being here.

Let me start by saying thank you for the monetary report. I have had a chance to try to peruse it, and there are headings in there that says the labor market remains strong. You would probably agree to that, your report.

[Nonverbal response.]

Mrs. BEATTY. Let us just say that is a yes. Also, it talks about unemployment rates being low by historical standards. You would agree with that?

[Nonverbal response.]

Mrs. BEATTY. It also states that the global pandemic played a huge role with the inflation rate, and inflation rates are on the decline. It is reported in several charts in here and also substantiated by the Federal Reserve of New York and Michigan surveys that I have read. It also talks about job gains and uses the word “robust jobs.”

So I want to thank you for educating us on that, and, Mr. Chairman, I would like the record to show that all of this also resulted during the Biden-Harris Administration. So often we hear in this committee and other committees about what the administration is not doing and what our economy and jobs look like.

Now, let me move on to something that is very dear to me, and I want to thank our ranking member for bringing it up, and that is the lack of affordable housing, which is one of the primary things that I hear about when I am back home. I am on more panels to try to explain what you do, what we do, or oftentimes what we do not do and why we have this. While I know that interest rate hikes have successfully brought down the inflation, rising rates have also had an adverse effect on the cost and the pace of housing construction and costs. Are you concerned about the effects that interest rate hikes are having on the cost of financing new construction and the second part, how do you expect to control for long-term housing inflation that might have a potential rate cut, how it might affect that?

Mr. POWELL. Our policy to bring inflation down is to raise interest rates, and that works through several channels. One of them is, probably the most important, is interest-sensitive spending, and within that, you have housing and durable goods and things like that. So during the early days of the pandemic, the housing industry was about to all go bankrupt, and all of the facilities that we did really supported that industry through their critical time.

When we are going in the other direction, when we are raising rates, housing is definitely affected. We understand that. It is not something we want to have happen. Just it is the reality that housing will slow a lot when you raise interest rates. We have done that, and we are doing it for the longer-run benefit of the people we serve to restore price stability, which is beyond value for people to have price stability. We get it that in the near term, that is higher rates, that is fewer sales, people are locked into low-rate mortgages. We get all of that, but we got to do this because it will benefit the country and people in the longer run.

Mrs. BEATTY. I have a great appreciation for that, but also, when I go back home to the district, what I hear a lot from agencies and individuals who work with advocacy groups, that the effects of interest rate hikes are not borne equally to all American households.

So we hear that, and there is no doubt that low-income and minority communities are hit the highest or the hardest by these monetary policy changes. Black households and business owners have historically faced challenges with homeownership and access to capital, and they are disproportionately impacted by the rate hikes. Do you have anything that you can help me with, with this dilemma, and how we can better achieve economic goals in a more precise and equitable manner?

Mr. POWELL. So I think it is working. You see inflation coming down, and that is why I do think it is likely at some time this year, if the economy proceeds along the path we expect, that we will begin to reduce rates. So that is really the path that we are on, and I do hope it works out that way.

Mrs. BEATTY. I do not have a lot of time, but when you say "economy," what does that mean? Helping poor people and Black people get more jobs, more money?

Mr. POWELL. So our forecast is for continued strong growth, continued strong labor market with wages going up and also with inflation coming down, so that kind of an economy.

Mrs. BEATTY. Okay. My time is up. I yield back. Thank you.

Chairman McHENRY. The gentleman from Tennessee, Mr. Rose, is now recognized for 5 minutes.

Mr. ROSE. Thank you, Chairman McHenry and Ranking Member Waters, for holding this hearing, and thank you, Chair Powell, for being with us today.

I would like to start by discussing the Independent Automated Teller Machine Owners or Operators section of the Bank Secrecy Act Examination Manual. I want to ensure that financial institutions will not be discouraged from providing banking services to the independently owned automated teller machine (ATM) industry. In 2021, you made it clear that the industry does not automatically present a higher risk for illicit finance. I would like to know what efforts have been made by the Federal Reserve to fully communicate that position to financial institutions across the country?

Mr. POWELL. I will have to get back to you on that one.

Mr. ROSE. All right. Thank you.

Mr. ROSE. Well, and so I might just add, listening to independent ATM operators over the time that I have served in Congress, I have come to understand that, unfortunately, and it was in the bank examiner's manual up until just about a couple years ago. These operators were identified as being extraordinarily risky, and that was causing them to be debanked in many cases. So I do hope that you will take a look at that and make sure that we are communicating that to financial institutions and, most importantly, to the regulators.

Chair Powell, Tennessee is home to over a thousand foreign-based businesses that have chosen to invest in our State and create more than 160,000 jobs. These jobs are reliant upon cross-border financing provided by global banks, including foreign banking organizations. The Federal Reserve has long maintained the principles of national treatment and equality of competitive opportunity when regulating foreign banks and assessing them based on their U.S. operations. Are you still committed to these principles?

Mr. POWELL. Yes.

Mr. ROSE. How will these principles be reflected as you move to finalize the Basel Endgame proposal?

Mr. POWELL. We have received a whole separate set of comments from the foreign banks, and we will look at those very much in that spirit and make appropriate changes.

Mr. ROSE. Thank you. Chair Powell, the Basel III Endgame will incentivize firms to transfer credit risks off their balance sheets. One avenue for such a transfer is synthetic securitization, the framework of which must be approved by the Federal Reserve. However, it is my understanding that there is a substantial backlog of reviews and approvals of these securitization frameworks. It is concerning that the Federal Reserve is directing the risk transfer yet also impeding it, in my view. Can you comment or can you commit to reviewing this approval process and taking steps to reduce the backlog of pending securitization applications?

Mr. POWELL. As I understand it, these transactions are becoming popular right now. There is a lot of appetite to do them, and we are not stopping them. We are just being careful because there were similar things that happened about credit risk transfer during the global financial crisis that did not actually work out. So we want to make sure that these structures really do actually durably transfer, and we think that they do, but we just need to be careful because the last experience with these was difficult back in the last crisis. So it is just something that we are not intending to slow these down, and I think we will try to get through it.

Mr. ROSE. Is it a lack of available resources to apply to the approval process, or is it an intentional slow walking to make sure that every I is dotted, every T crossed?

Mr. POWELL. I do not actually know, but what I heard was, what I have been told is, we are not stopping these, but we are going to be careful with them and just be absolutely careful that they really do transfer credit risk in a durable, kind of sustained way, and that is the thing. I do not think it is an intention to go slow or to have a backlog, and so I do not know what the staffing issue is. We will check.

Mr. ROSE. All right. Thank you. As the Federal Reserve continues to consider proposals designed and debated in Europe, such as Basel III, has the Federal Reserve's Supervisory Climate Committee or the Financial Stability Committee had any discussions regarding the adoption of environmental, social, or governance (ESG) risks in capital requirements?

Mr. POWELL. I do not know.

Mr. ROSE. Has there been any discussion in other committees regarding the adoption of the ESG risks in capital requirements?

Mr. POWELL. Any discussion? I really do not know. Let me say that it is not something we are considering, but when you ask me any discussion, I do not know.

Mr. ROSE. It is not a priority in capital requirements?

Mr. POWELL. To put it mildly, yes.

Mr. ROSE. Okay. Thank you. I see my time is running out. I appreciate your answers, and any other light you can shed on those matters, I would appreciate. I yield back, Mr. Chairman.

Chairman MCHENRY. The gentleman from Illinois, Mr. Casten, is now recognized for 5 minutes.

Mr. CASTEN. Thank you, Mr. Chairman, and thank you, Mr. Chairman, for being here today.

I want to start then just with following up on the exchange you had with Mr. Sherman. As I think you know, I led a letter with 106 of my colleagues with concerns about, specifically, the clean energy tax equity provisions in Basel. I appreciate your commitment to look at that. I wonder if I could just put a little bit of a sharper point on it. Can you look at that before the rule is finalized and potentially issue some sort of an addendum to the rule? The concern I have is the number of banks who are a little bit frozen right now waiting for some clarity on that, and I would prefer we not slow down the rate of clean energy investing in our country if we do not have to.

Mr. POWELL. I do not know. I mean, I think there is a proposal, and we are well aware of the commentary and we are going to react appropriately. I do not know that we can pull one thing out of line and deal with it, but also, we are making good progress, and I think we will be back reasonably soon with some answers.

Mr. CASTEN. Okay. Well, time is of the essence. I appreciate anything you can do. Second thing, good thing about going late here, you get to follow up. I want to follow up on your discussion with Congresswoman Garcia here. I really appreciated your comments in the "60 Minutes" interview last month when you mentioned that immigration is a big part of the story, the labor market coming back into balance. Now, generally, and correct me if I am wrong, more immigration is generally going to ease inflationary pressure. All else equal, is that a safe characterization?

Mr. POWELL. It is probably closer to neutral, actually, because people come in, they also spend, so it is not clear that immigrants coming in, they add to GDP.

Mr. CASTEN. Okay. So either we are going to get economic growth and/or downward pressure on wages.

Mr. POWELL. Right. There will be more workers, so wages might go up a little bit less, but at the same time, they are also spending. So we had this conversation. It depends on what you assume, but I think it is better to just assume it is sort of broadly neutral from an inflationary standpoint.

Mr. CASTEN. Okay. So I guess, and maybe you have answered the second question. Given as you all are using the Census Bureau data that is more conservative than the CBO data, and obviously we are all making estimates in the future, can you speak at all to whether your forward views on economic growth and inflation, how sensitive are they to your assumptions about that Census versus CBO data on what the actual level of immigration is to the country right now?

Mr. POWELL. I think the CBO assumptions are meaningfully higher and would affect growth, and would be part of the explanation why growth was strong last year. I mean, it is not the main reason, but it would definitely add to growth this year, and I would not say that we accept one version or the other. We study the CBO numbers carefully. We are just trying to get to the right answer, but, I mean, I think the CBO shows, and they say so, stronger growth, higher growth, more people. I do not know if the per-capita growth goes up, but the absolute level of growth goes up.

Mr. CASTEN. Okay. Last question. I think there is a lot of good news in the monetary report that you all just issued around wage growth. We have seen the lower quartile of earners starting to close some of those historic gaps. We have seen minority groups and women start to close some of those gaps. What I did not see, and I do not know if this is because you all have not done it or I just did not read closely enough, have you seen any gaps regionally within the U.S.? Are there parts of the country that are seeing stronger wage growth than others?

Mr. POWELL. There are. I do not have that off the top of my head. I want to go back, if I can, just when I talked about immigration, I think that the immigration story for last year was part of the positive supply shock and was part of the reason why inflation came down. I was really asking the question over the longer run.

Mr. CASTEN. Fair enough.

Mr. POWELL. There, I think, it is more of it being neutral.

Mr. CASTEN. Fair enough. I appreciate that. I want to just close on this regional piece because the Atlanta Fed, which is the best I could find that looks to do at least some of my census regions, that as I look through, and you look at which regions are consistently running above. I think that New England and the West are consistently showing wage increase above average. The West, South Central, Texas, Oklahoma, Arkansas, Louisiana are consistently, I think, going back to like July 2022, consistently seeing wage growth below average.

I appreciate you are not going to wade into a political question here, but those are all right-to-work States, where it is harder to unionize, where it is harder to organize. What I am wondering is, without asking you to opine on policy, have you all at the Fed done any analysis when there are gains in labor productivity, does that gain in labor productivity, is it more likely to accrue to workers in those States where there is a stronger union presence, easier to organize, and more bargaining power for labor as opposed to capital?

Mr. POWELL. My guess is there is plenty of research around that area, not necessarily the Fed, but we will take a look and come back to you.

Mr. CASTEN. Okay. All right. Thank you.

Mr. CASTEN. I yield back.

Chairman MCHENRY. The gentleman's time has expired. Now we will go to the gentleman from South Carolina, Mr. Timmons, for 5 minutes.

Mr. TIMMONS. Thank you, Mr. Chairman, and thank you, Chairman Powell, for being here today. We continue to appreciate your work and the work of the Federal Reserve on behalf of the American people.

In August 2023, the Federal Reserve, FDIC, and OCC released the Notices of Proposed Rulemaking (NPR) requiring the issuance of long-term debt for Category II, III, and IV banks. As you may know, I, along with many of my colleagues, authored a letter to each agency expressing concerns regarding the lack of tailoring in the proposal and shortcomings in estimating the actual cost of the proposed rules. I am concerned that these shortfalls will negatively impact lending in my district and, when combined with the other ongoing regulatory proposals, could cause further consolidation of

the banking industry. It appears that the Federal Reserve has primarily deferred to the FDIC concerning the proposal. Could you shed light on the Federal Reserve's role within the rulemaking process concerning the long-term debt proposal, and have you provided input regarding the proposal's interplay with Basel III Endgame?

Mr. POWELL. I think we are one of the proposers of the rule just like the other agencies are, and right now, we are looking at the comments that we have gotten. That comment period, I believe, has closed, yes, and so we are very much in reading those comments as the law requires us to do.

Mr. TIMMONS. You are in the middle of it, fair to say.

Mr. POWELL. Yes.

Mr. TIMMONS. Okay. Thank you. I am concerned that the long-term debt proposal's lack of tailoring contradicts the statutory requirements of the Economic Growth, Regulatory Relief, and Consumer Protection Act. Instead of applying tailoring principles, this proposal creates Category II, III, and IV financial institutions identically for the purposes of long-term debt issuances. Additionally, the proposal unduly burdens Category II, III, and IV banks by requiring them to issue long-term debt at both the parent holding company and bank level, which actually could be viewed as reverse tailoring, considering G-SIBs are only required to issue debt at the parent company level. What is the underlying rationale behind this dual requirement, particularly when such a mandate is not imposed on our largest banks, and do you believe that this represents a tailored approach as required by the statute?

Mr. POWELL. So that tailoring question is one of the questions we will be asking ourselves as part of our review of the comments.

Mr. TIMMONS. Thank you. It is my understanding that Category IV banks were not included in the original advance notice of proposed rulemaking for the long-term debt rule released in the fall of 2022. Is that your understanding as well?

Mr. POWELL. I did not catch that.

Mr. TIMMONS. Did the advance notice that was released in the fall of 2022 include Category IV banks? It is my understanding that it did not.

Mr. POWELL. I cannot confirm that, to be honest.

Mr. TIMMONS. Well, I think that is something that you should take into account because the Category II and III banks have had an additional year to foresee this challenge, and so Category IV banks are really behind the eight ball. Yes, so I guess my next question is, do you believe regulatory agencies should provide smaller regional banks longer than the 3-year phase-in period to meet any final long-term debt requirements?

Mr. POWELL. It is a good question. That is one of the comments we gotten, and we will be looking at that.

Mr. TIMMONS. I appreciate it. I just think if we are going to impose these new regulations, giving everyone the same opportunity to comply with them is something worth considering. I guess, one final question: if these proposed regulatory changes had been in effect prior to the fall of Silicon Valley Bank (SVB) and Signature, do you believe the outcome would have been different, because, honestly, I do not think anything would have changed.

Mr. POWELL. It is a hypothetical, but I am tempted to say that if there had been more long-term debt, that was specifically there to absorb losses.

Mr. TIMMONS. They were nowhere near being solvent, but I guess that is something I think you all should take into account whether if these proposed changes to our system that are designed to make it more resilient, would have actually caused SVB and Signature to have a different outcome because, again, it just seems that my colleagues across the aisle let no crisis go to waste. These are changes that would not have, in fact, prevented the calamity that they are justifying the changes based on. Thank you for being here today, and with that, Mr. Chairman, I yield back.

Chairman MCHENRY. The gentleman yields back. The gentleman from Massachusetts, Ms. Pressley, is now recognized for 5 minutes.

Ms. PRESSLEY. Thank you. Due to the Fed's aggressive interest rate hikes, mortgage rates have surpassed 7 percent, rising to 20-year highs, leaving many creditworthy and mortgage-ready homebuyers without a path to homeownership. This is a problem for everyone. It is an urban issue. It is a suburban issue. It is a rule issue. Chairman Powell, I welcome the decision of the Fed to pause rates at the end of last year, but for families in my district and across the country, that is not enough. We need the Fed to start cutting because like the rent, interest rates are too damn high.

Chairman Powell, you have previously indicated that the Fed may cut rates this year. What would you expect the impact of lowering interest rates to be on the housing market specifically, including the rental purchase and construction market?

Mr. POWELL. We know that higher rates, of course, have slowed down the rate of activity. So if at such time as we start to lower interest rates, the housing market will pick up broadly across new home construction and new home sales. As you know, many, many households are in very low-rate mortgages, and they really cannot sell because they would have to refinance into a high-rate mortgage. That will go away over time. So ideally, the housing market would go back into a more normal phase but one with lower inflation in the broader economy.

Ms. PRESSLEY. Right. So just to further reiterate that, interest rate cuts would have a great benefit. Just yesterday, actually, I met with a number of representatives from State housing finance agencies from throughout the country, and they were talking about the barriers to affordable housing projects, given the current interest rate environment. Obviously, higher interest rates have raised costs for affordable housing developers, and many of them have chosen to slow down or halt construction entirely. So fewer homes are being built, which means fewer people are being housed. Would you agree?

So given that we already had a massive shortage of affordable housing supply prior to the pandemic, when interest rates were below 2 percent, the current 5.5 percent rate has been devastating, and the price of homes across the country have remained stubbornly high. It is clear the current State of our housing market is impacting everyone and disproportionately hurting those who need stability the most. Does this concern you?

Mr. POWELL. So our job is to do price stability and maximum employment. We do not target the housing market, and we are doing our jobs. That is what we are doing. It is not something we want to see, but this is the path to restoring price stability.

Ms. PRESSLEY. Does this impact on the housing market? Does it concern you, Chairman Powell?

Mr. POWELL. Does it concern me?

Ms. PRESSLEY. Yes. Fewer homes are being built, so fewer people are being housed.

Mr. POWELL. This is the job we have taken on.

Ms. PRESSLEY. All right. Well, it concerns me greatly. Chairman Powell, the Fed's interest rate hikes have not been sufficient in addressing housing inflation. Do you agree that we need a more robust fiscal response to increase the supply of affordable housing and to lower cost nationwide?

Mr. POWELL. We do not express opinions on things like that. I will say that there is a structural housing shortage in the United States, and that is really the longer-run problem. The problem with high interest rates is a short-run problem. The longer-run problem is lack of supply.

Ms. PRESSLEY. Well, that is why it is critical that Congress passed legislation appropriation bills that will make those necessary investments and housing for all. Given the way that Ranking Member Waters fought for \$150 billion investment in housing in Build Back Better, I know on this side of the aisle, that my colleagues and I are ready and waiting for the Republican majority to take housing inflation seriously. Housing affordability is the number one issue I am hearing about from my constituents. Families in my district and throughout this country need relief now. I truly hope that Fed will listen to them and cut interest rates. Thank you. I yield.

Chairman McHenry. The gentlelady yields back. The gentleman from South Carolina, Mr. Norman, is recognized for 5 minutes.

Mr. NORMAN. Thank you, Chairman Powell. I think other people have noted about the crisis in the office building market across this country. That is the line of work we are in. I can tell you it is real. I can tell you the buildings that are effectively vacant, it is going to have an effect on the taxes paid. It is going to have an effect on rents. As far as affordability and housing, the rates are one thing, but my good friends on the other side of the aisle do not realize that housing has got over 200 components to it. One of the biggest is gas prices, and as long as we are buying gas from countries that hate America and do not manufacture their own housing income and down—I do not know how you define “affordable” anyway—it is going to continue a downward slide. I am from a State, South Carolina, that people are moving in, and we are not going to have the housing starts that we should have because of the policies of the Biden Administration, which is a trainwreck, in this entire economy.

On regulations, on Regulation II, which has the guardrails for credit card fees, and I know the cap, so you are looking at adjusting that. You are getting in the way of banks charging fees according to what their costs are. How does these regulations affect that, particularly Regulation II?

Mr. POWELL. Is this a Fed regulation we are talking about, or is this a CFPB regulation?

Mr. NORMAN. From my record, the Federal Reserve has finalized the routing restrictions and proposed tighter and adjusting the price caps that currently exist. Is that not right?

Mr. POWELL. It does not ring a bell with me. It may well be right. I am not familiar with that.

Mr. NORMAN. If you could look at that. I know that all the credit unions and banks have some concerns on it.

Mr. POWELL. I will come back to you on that.

Mr. NORMAN. Okay. I appreciate it. Do you need a letter from us, so we—

Mr. POWELL. No, we will come back to you.

Mr. NORMAN. Okay. Thank you.

Mr. NORMAN. Community Reinvestment Act (CRA). For those of us who have been involved with banking for a long time, the regulations having a clear set of standards that we abide by and know where to put the money to, how, when we, should we have regulations out that we can read about what is going to be acceptable and what is not?

Mr. POWELL. I am sorry. I did not get your question.

Mr. NORMAN. The changes and regulations for CRA.

Mr. POWELL. Right. What about it? I am sorry. I missed your question. What was the question?

Mr. NORMAN. When are the regulations going to be out that the banks will know what is acceptable for CRA and what is not acceptable?

Mr. POWELL. So the final rule, of course, is out, I think we are working on. There is a lot of work to do. The requirements do not really kick in, most of them, for a couple of years at least, so I think we are working on the follow up regulations.

Mr. NORMAN. Okay. It is really important to allow all the banks because they want to make sure they qualify where the dollars are spent. They need to make sure that it is going into the right spot because the credits will not be applied unless that is it. The Federal, I think, Reserve launched and is operating this now. How is the participation rate going with that?

Mr. POWELL. Slow. Real slow. It is early days. There are network effects. These things, they go slow until they do not, and it was the same way with Automated Clearing House (ACH), you may remember back in the day.

Mr. NORMAN. Right.

Mr. POWELL. So we are at fewer than 500 banks are in there now. We are working away at it. We expect it will take some time, but it is there, and we think it will be beneficial. We had a lot of support from smaller banks to build it, as you know.

Mr. NORMAN. Is the pricing below cost?

Mr. POWELL. I do not believe so, no. Not longer than cost.

Mr. NORMAN. Okay. Okay. That is all the questions I have. Thank you for being here.

Chairman MCHENRY. The gentleman yields back. The gentleman from Nevada, Mr. Horsford, is now recognized for 5 minutes.

Mr. HORSFORD. I want to thank the chairman and the ranking member for this hearing, and to you, Chair Powell, for appearing

before the committee to discuss the recently published monetary policy report.

As we continue our work on behalf of the American people, we have to keep in mind that our mission here is to grow the economy from the bottom up and the middle out. It seems as if there has been a constant series of shocks to the economy, both domestically and globally, and yet, we can all see just how resilient the labor market has been as it has maintained its strength. With the robust gain of 353,000 jobs, the January numbers are a continuation of the trend that Democrats and Congress delivered through historic investments in our workforce, putting people over politics. In light of this relative economic strength, I really want to implore the Federal Reserve to take stock of the holistic economic picture before making decisions on monetary policy, and to pay particular attention to those communities that have been historically left behind during times of accelerated recovery.

I want to add to the questions from my colleague, Congresswoman Pressley, Chair Powell. At a time where it has become increasingly difficult for working people and people of color, in particular, to purchase a home, I worry that rising mortgage rates will put working families even further behind on accessing the wealth and equity that a home provides. So what actions, if any, is the Federal Reserve considering to better understand and to mitigate the impacts that your Basel III proposal may have on minority borrowers who disproportionately rely on high Loan-to-Value (LTV) mortgages due to the generational wealth gap that persist?

Mr. POWELL. We have received comments, including many on the mortgage changes, and we understand the concerns and we are looking very carefully at that. Have not made any decisions, but we will announce them when we have.

Mr. HORSFORD. Are you concerned that the shifts in risk weights will reinforce the decades-long retreat of banks from the mortgage market and push more originations to nonbank institutions?

Mr. POWELL. That is a question that people are raising, and it is something we take very seriously. We will be taking that into consideration as we decide about that recommended change.

Mr. HORSFORD. Could you discuss why you feel it is necessary to include new requirements around operational risk and Basel III in light of recent claims that it will significantly increase the cost of or prevent banks from offering altogether necessary services, such as underwriting in base investment advisory or insurance?

Mr. POWELL. That is one of the concerns that has been articulated about the proposed changes to operating risk. We take those concerns seriously. As I mentioned, we are in the middle of looking at these things and then will soon be in the process of turning to the question of what changes to make.

Mr. HORSFORD. Well, I just would underscore the sense of urgency because the longer there is uncertainty in the market, it creates really negative effects to end users, which are all of our constituents who are looking to see these costs come down.

Let me shift. This Congress, under the leadership of Ranking Member Waters and former Congressional Black Caucus (CBC) Chair Joyce Beatty, I have made it a focus of my efforts to educate my colleagues and the public at large on the far-reaching benefits

of increased diversity in the workplace, in our boardrooms, and in society as a whole. Despite the efforts by some on the other side to take away the very tools of economic opportunity that create inclusive work environments and improve performance, there has been really misguided assault on everything from diversity, equity, and inclusion to other programs following the aftermath of the Supreme Court's ruling on affirmative action. So, Chairman Powell, as you know, your Office of Minority and Women Inclusion has a focus on this. As we anticipate the upcoming release of your annual report on inclusion, would you be able to speak to the necessity of collecting this data that minority- and women-owned businesses are included in the Board's contracting and acquisition opportunities?

Mr. POWELL. I do believe we collect that data, and we monitor that very carefully.

Mr. HORSFORD. Why is it important?

Mr. POWELL. Well, I think diversity in the workplace is an important thing, and you will not know how you are doing it unless you measure it.

Mr. HORSFORD. Just as the McKinsey Institute released in their "Diversity Matters Even More" report, companies that have more diverse management teams actually outperform companies that do not. That goes to the bottom line of our economy, and I wish my colleagues on the other side would stop their assault on diversity, equity, and inclusion, and actually work with us to grow the economy for everyone.

Chairman MCHENRY. The gentleman's time has expired. The gentleman from Wisconsin, Mr. Steil, is now recognized for 5 minutes.

Mr. STEIL. Thank you very much, Mr. Chair. Thank you for being here, Chairman Powell. Appreciate it.

You are navigating a difficult situation where we have had stimulative economic policies from the Biden Administration, in particular, excessive government spending, investment in infrastructure, specific tax credits. At the same time, we are seeing a regulatory environment from the administration that is also restricting economic growth. We have heard a lot about the Basel III Endgame, which you are a chair of. In your opening remarks, you noted that high interest rates are impacting business investment in a negative way. High interest rates are also negatively impacting the housing market.

As we look at Basel III Endgame, I have heard from a wide array of stakeholders, from those that are commenting on increase in bank capital standards, the negative impact that would have on the housing market, as well as from the business community, the impact that would have on their ability to invest in capital infrastructure and increase employment. Does the broad diversity of voices who hold concerns on a Basel III Endgame concern you?

Mr. POWELL. I would say that I have articulated concerns and we are reading those comments, and we are very much in the process of assessing what we need to do to address them.

Mr. STEIL. Thank you, and I appreciate your time on that. Shifting gears slightly, as you may know, the Securities and Exchange Commission held an open meeting today to approve the final climate change rule. It is a significant regulation that I think would

have a significant impact on the economy. Can you comment how the Fed thinks about the economic impact of this new regulation or regulations more broadly and in particular, their impact on both inflation and unemployment?

Mr. POWELL. We do not comment on regulations of other agencies. Sorry.

Mr. STEIL. You will review that if it is put in place, or you will review the economic impact as the empirical data comes forward?

Mr. POWELL. We are not in the business of scoring. I mean, CBO does that. They will look at this and make a careful assessment of the economic impacts and budgetary impacts and that kind of thing.

Mr. STEIL. Thank you. I will shift gears again. One of your two mandates is to maximize employment in addition to maintaining price stability. As you know, government hiring has accounted for a large share of total job creation. More than 600,000 public sector jobs were created last year, and the Federal Government now employs nearly 3 million workers. So when you are examining employment data, how does the Fed view the impact of the public sector employment growth relative to private sector economic growth? In other words, how do the two data points factor into your assessment of how the broader economy is performing?

Mr. POWELL. So the jobs are jobs, right? I think we would tend to look at private sector jobs to get a better assessment. Private sector job creation is a better indicator of kind of the private sector momentum in the economy, but we look at both. I mean, they both count.

Mr. STEIL. Does the dramatic increase in the private sector number of jobs give you any pause or concern as it relates to—

Mr. POWELL. You mean in the public sector?

Mr. STEIL. In a public sector. Sorry, if I misspoke. Yes, the public sector.

Mr. POWELL. The truth is the public sector was unable to hire at the beginning because wages went up a lot in the private sector at the beginning of the pandemic. Inflation and public sector cannot respond to that. So some catch-up hiring going on there. Now that things are settling down to normal, I think there is some catch-up hiring. I am not sure it is an issue we are concerned about.

Mr. STEIL. Okay. I will shift gears in my final minutes just to talk a little bit to get your perspective on the macroeconomic developments that are having an impact on our monetary policy. Specifically, as we think about the potential for a productivity boom from AI to work-at-home to other factors, the data is probably too early to tell whether or not we are having a true productivity view. How does the Fed view the adoption of some of these new technologies, in particular AI, as it relates to labor productivity?

Mr. POWELL. Everyone is looking at AI for that question, and it is hard to say actually. We have had really nice productivity in the last year or so, but it is probably still very much affected by the post-pandemic factors that we are seeing. I think we need to see more to understand whether there is a longer-term boom. AI certainly has the capacity to either augment labor or to replace labor, and that is a key question. We really do not know which of the two

it will do, tons of money being invested in it, and so it is likely to drive significant productivity.

I would say right now technology, but also higher labor mobility, a lot of people quitting during the really tight labor market, and also the rise in startups. A lot of people started companies during the pandemic. Those are the kind of things that do add up to higher productivity over time, so there is hope that we will see some productivity out of this.

Mr. STEIL. Thanks for your comments today. Mr. Chair, I yield back.

Chairman MCHENRY. The gentleman yields back. We will go to the last questioner of the day, the gentleman from New York, Mr. Torres, for 5 minutes.

Mr. TORRES. Thank you, Mr. Chair. Mr. Chair, I have several questions about some of the most common complaints that I have heard about Basel III Endgame. I have an open mind on the subject, but I want to hear your response to some of the arguments that have been leveled against it.

First, the Fed has repeatedly reassured the public that the banking system is well capitalized, yet the Fed is advancing Basel III on the assumption that the banking system is undercapitalized. So the first question is, how do you reconcile the Fed's repeated assurances about a well-capitalized banking system with Basel III's assumption of an undercapitalized banking system? The second question, if the purpose of Basel III is to align U.S. banks with their banking peers elsewhere in the world, why is the Fed imposing requirements that are more stringent than those prescribed by Basel III? In other words, why is the Fed "gold plating?"

The third question is, how do you reconcile Basel III's recommendation for standardization with Congress' statutory requirement for tailoring? Standardization would seem to be in conflict or intention with regulatory tailoring and the fourth and final question, do you think that Basel III could have the unintended consequence of reinforcing the trend toward shadow banking, which would mean less regulation, not more? Is there a sense in which we are transferring risk from the regulated sector of the financial system to the deregulated sectors? So I bombarded you with four questions, and I will give you the time you need to answer them.

Mr. POWELL. I am going to have a hard time reading my handwriting here, but I will start with a "yes" to the fourth one. I will give you that one because that is clearly a risk. We have seen intermediation activity moving out of the regulated system, and this has the risk of doing more of that. So in a word or two, what was one again?

Mr. TORRES. You testified, yes, reassurances about the capitalization of the bank.

Mr. POWELL. So I addressed this in my remarks in the open Board meeting. Higher capital is always going to add to safety and soundness, but there is a cost. So identifying the precise right level is very, very difficult and hard to do it objectively. I have said for years in these rooms that I felt that the level of capital in the U.S. banking system was about right, and I voted for all of these increases during Dodd-Frank. So I think it is a very fair question. We will be looking at that. The second one was?

Mr. TORRES. The concern about gold plating.

Mr. POWELL. About?

Mr. TORRES. Gold plating?

Mr. POWELL. Gold plating, yes. No, it is, and I said this in my public remarks that we are exceeding the minimums with this proposal, and we also exceeded what the other big jurisdictions are doing. That is a question. That is a good question, I will agree.

Mr. TORRES. Okay.

Mr. POWELL. The third?

Mr. TORRES. The third is, I think, more or less standardization versus tailoring.

Mr. POWELL. Standardization of? It was something—

Mr. TORRES. Yes. So Congress passed a statute requiring regulatory tailoring, and do you think Basel III is in compliance with that statute.

Mr. POWELL. I addressed that in my comments, too. I think you are right. We do need to take on board the lessons of Silicon Valley Bank as it relates to the smaller and large banks, but we do not need to throw away the tailoring that is required by the law but also that is appropriate if we are going to have a diverse banking system.

Mr. TORRES. The collapse of SVB was largely a story about liquidity risk and interest rate risk, yet the focal points of Basel III are credit risk, market rate risk, and operational risk. What is your response to the criticism that the Fed should focus its energies on addressing the forms of risks that were responsible for the SVB bank failure rather than focusing on forms of risks that were largely unrelated to it?

Mr. POWELL. I agree with that, but I would say we are working on a package of liquidity measures which directly addresses the Silicon Valley Bank situation. We have also taken a lot of supervisory actions with other medium-and small-sized banks that had a lot of uninsured deposits and a lot of real estate risk, and things like that. So we have been doing quite a lot on the supervisory section that does not require new rules.

Mr. TORRES. Finally, as you know, the crippling cost of housing accounts for a third of inflation. One of the most powerful tools for producing and preserving affordable housing is the Low-Income Housing Tax Credit, which has financed nearly 4 million units of affordable housing. The banking system accounts for 85 percent of LIHTC investments, and there is a concern that Basel III, in its present form, would diminish the availability of LIHTC and the amount of affordable housing development. I am just curious, is that on your radar, and is that something you are willing to examine?

Mr. POWELL. Yes, it is.

Mr. TORRES. With that, I will leave it at that. Thank you.

Chairman MCHENRY. The gentleman yields back. That is the final question of the day. We committed to the chair that we would be done, the hard stop at 1 p.m. It is nice when we can honor our commitments. So I would like to thank Chair Powell for his testimony today.

Without objection, all members will have 5 legislative days in which to submit additional written questions for the witness to the

chair. The questions will be forwarded to the witness for his response. I ask you, Chair Powell, please respond as promptly as you possibly can.

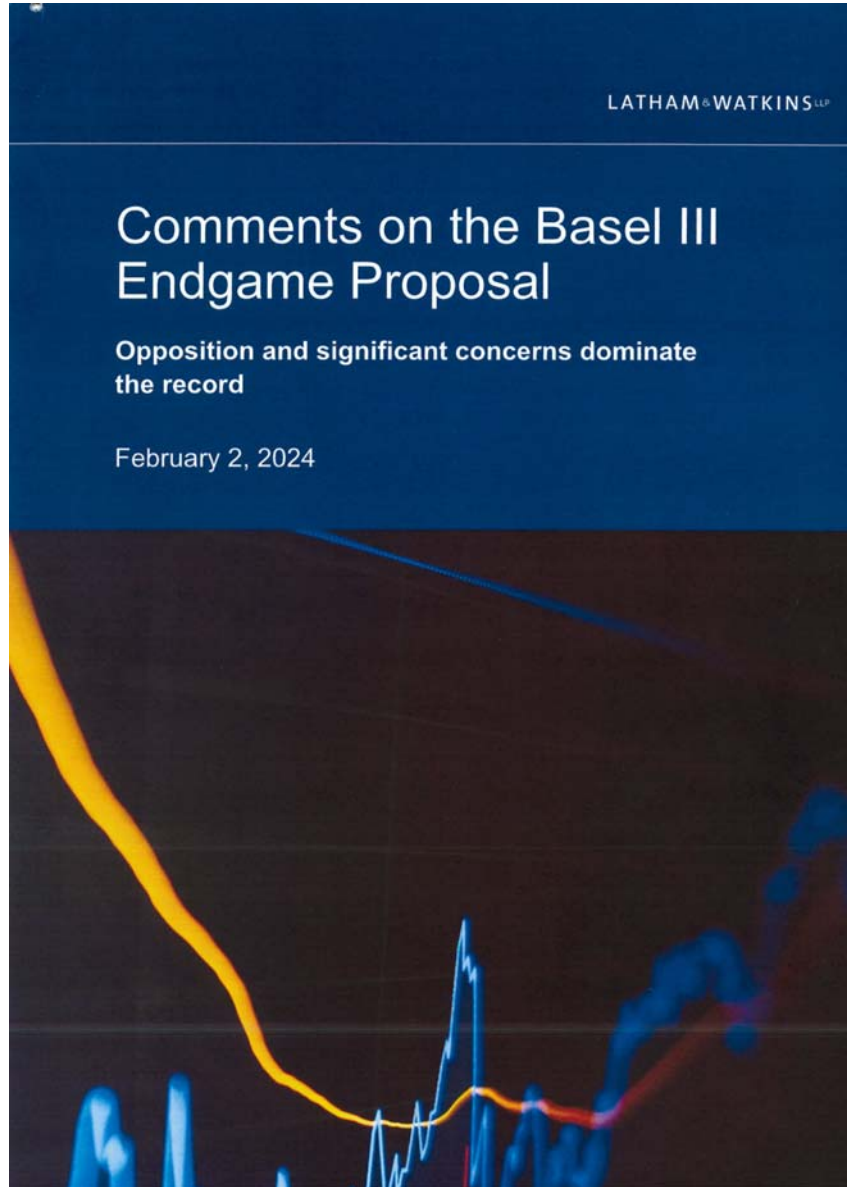
[The information referred to can be found in the appendix.]

Chairman MCHENRY. With that, this hearing is adjourned.

[Whereupon, at 12:56 p.m., the committee was adjourned.]

A P P E N D I X

March 6, 2024





Contents

I. Executive Summary	2
II. Type of Commenter.....	6
III. Analysis of Comments	8
A. Opposition to the Proposal	8
B. Support for the Proposal.....	9
IV. Summary of Principal Arguments by Topic.....	10
A. Adverse Effects on Capital Markets and Derivatives	11
1. Harm to Financial Markets	11
2. FRTB / Market Risk Adverse Effects.....	11
3. CVA Capital Charge Adverse Effects	12
4. Securities Financing Transactions Adverse Effects	13
5. Operational Risk Charge Adverse Effects.....	14
B. Overlap with Stress Testing	15
C. Concerns With Publicly Traded Requirement for Investment-Grade Risk Weighting	15
D. Adverse Effects on Particular Industries and Communities	16
E. Concerns With Treatment of Securitizations.....	17
F. US Banks Already Better Capitalized Than Global Peers	18
G. Removal of Certain Tailoring for Regional Banks	18
H. Legal / Process Concerns.....	18
V. Summary of Principal Comments by Industry/Commenter	21
A. Banking Industry and Regulators.....	21
B. Pension Funds and Other Retirement Groups	23
C. Asset Managers.....	23
D. Manufacturers.....	24
E. End Users of Derivatives	24
F. Agriculture and Energy	25
G. Insurance	26
H. Non-Bank Financial Market Participants, Exchange and Clearing Organizations	27
I. Housing / Real Estate	28
J. Small Businesses	28
K. Members of Congress	29
L. State and Local Representatives.....	29
M. Civil Rights Advocates	30
N. Union Executives	30
O. Academics	30
VI. Conclusion	31
Endnotes	32
Appendix	35



I. Executive Summary

On July 27, 2023, the Board of Governors of the Federal Reserve System (Federal Reserve), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC, and together with the Federal Reserve and the OCC, the Banking Agencies) issued a comprehensive proposal (the Proposal) to overhaul the methods by which large banking organizations must calculate risk-based capital requirements. In part, the Proposal's stated purpose is to effectuate the so-called Basel III Endgame international capital standard endorsed by the Basel Committee on Banking Supervision (BCBS).¹

The Proposal's preamble indicates that if finalized as proposed, the Proposal would materially increase the current capital requirements for banking organizations with US\$100 billion or more in total consolidated assets. It would do so principally by (1) reducing the ability of the largest banking organizations to rely on internal risk models — and eliminating them entirely for credit risk; (2) introducing new, and in many cases, more stringent risk-weightings for many banking assets; (3) imposing new and more significant capital charges on derivatives, securities financing transactions (SFTs), and assets held in the trading book ("market risk" assets); and (4) imposing a new and significant capital charge intended to address operational risks such as cyberattacks, regulatory penalties, and significant litigation costs.

Public comments on the Proposal were originally due by November 30, 2023, but the deadline was extended to January 16, 2024. This report provides an analysis of 356 comment letters that the Banking Agencies received and made available to the public through January 24, 2024, focusing on institutional commenters; comments by national, community, and organizational leaders; and substantive comments by individuals.²

Of the 356 comment letters reviewed, 347 of them — more than 97% of the total — opposed the Proposal in full or raised substantial concerns with parts of it, while nine letters (representing roughly 2% of letters reviewed) supported the rule as proposed. As discussed below, the criticisms of the Proposal are significant and varied, and come from a wide range of commenters from all types of industries — raising concerns with both the Proposal's specifics and its overall push toward higher capital requirements for large banking organizations. In particular, many commenters focused on reduced access to credit (especially for small businesses, homebuyers, and minority communities), harm to renewable energy projects, and harm to the capital markets.

Other commenters alleged that the rulemaking violates procedural requirements set forth in the Administrative Procedure Act (APA), emphasizing the Banking Agencies' reliance on select academic work and nonpublic data and failure to disclose key assumptions underlying the Proposal. In addition to bank commenters, comment letters from diverse large sectors of the economy — including the National Association of Manufacturers, the Business Roundtable, the Coalition for Derivatives End-Users, the Investment Company Institute, and the American Benefits Council — explicitly called for the rule to be re-proposed or withdrawn entirely.

Key observations from reviewing the comments include the following:

- **Most commenters reacted negatively to the Proposal**, with more than 97% of comment letters either outright opposing it and calling for a complete re-proposal, or expressing substantial concerns with the Proposal or its critical aspects. Approximately 86% of negative comment letters were from outside the banking sector.



- **Opposition comes from a diverse array of domestic and international interests,** including the financial services industry, public and private pension funds, retirement accounts, mutual funds, asset managers, manufacturers, the energy sector, agricultural interests, small businesses, medium and large corporations, real estate companies and mortgage stakeholders, market infrastructure providers, exchanges and insurers, and academics. A substantial number of individuals, including members of civil rights organizations, also voiced their opposition.
- **A significant majority of elected officials, both Democratic and Republican,** including 225 of 237 members of Congress and all 66 state and local government representatives who commented, joined comment letters expressing opposition to or serious concerns with the Proposal.³

The Proposal was criticized on a wide range of economic and policy grounds. In general, the most widespread and recurring concerns centered on requiring increased capital from a sector that is already well capitalized as well as likely adverse effects on the overall economy, homeownership, small businesses, minority and underrepresented communities and renewable energy, in addition to harm to the US capital markets.

- **The Banking Sector Is Well Capitalized.** Many commenters questioned why the Banking Agencies were seeking to increase bank capital when many senior US policymakers have consistently stated over the years that bank capital is strong. Many commenters from the banking industry noted their respective strength during recent stresses (COVID-19, inflation, wars, regional bank stresses) as well as their performance during the Federal Reserve's stress tests.
- **Harm to the Overall Economy.** Commenters argued that the substantial increase in capital requirements would harm the overall economy by reducing credit availability and increasing the cost of credit.
- **Harm to Homeownership.** Commenters criticized the Proposal's revised requirements for mortgage risk weighting, which they say would likely harm homebuyers. These requirements would treat mortgages as riskier (and therefore require bank lenders to hold more capital) if they have higher "loan to value," or LTV, ratios. Commenters also took issue with the Proposal's increased capital charges for securitizations.
- **Harm to Small- and Medium-Sized Businesses.** Commenters explained that the Proposal would harm small- and medium-sized businesses, which would be unlikely to have publicly traded securities and therefore could not qualify for lower risk weights on their loans if they were investment-grade. Commenters also emphasized that such businesses are less likely to be able to bear the increased borrowing costs that the Proposal would likely entail.
- **Harm to Minority and Underrepresented Communities.** Commenters from minority and underrepresented communities — including NAACP chapters and members in South Carolina, Georgia, Pennsylvania, Ohio, and the Hispanic Leadership Fund — expressed grave concerns that they would disproportionately bear the brunt of the Proposal's adverse effects on homeownership, small businesses, and consumer credit, given that in general these communities already have reduced access to credit and other financial services.
- **Harm to Renewable Energy Projects.** Commenters from banks and the renewable energy industry emphasized that by quadrupling the risk weight for tax equity investments, the Proposal would severely and adversely disadvantage new clean energy projects.



- **Harm to Capital Markets.** Many commenters from banks and outside the banking industry emphasized the dramatic effects that the Proposal would have on capital markets and derivatives activities, and expressed concerns that these effects would adversely harm their businesses. These criticisms included a focus on:
 - **New Market Risk Rule.** Commenters noted that the Proposal's market risk requirements would significantly increase the amount of capital that banks are required to hold against their market risks, which in turn would have adverse consequences for businesses that rely on banks to help them manage financial risks and engage in capital markets transactions.
 - **New Credit Value Adjustment (CVA) Charge.** Commenters feared that by increasing the amount of capital that US banking organizations would be required to hold for derivatives activities, the Proposal would severely affect the pricing of derivatives and the ability of end users to hedge their business risks.
 - **New Minimum Haircut Floors for Certain Securities Financing Transactions (SFTs).** Commenters noted that no other Basel jurisdiction has chosen to impose the SFT requirements, which impose minimum amounts of collateral banks must receive for stock borrowing and lending and similar transactions. Commenters further emphasized that these floors would result in significantly higher costs for many bank counterparties, including pension funds and asset managers, which would have more limited access to bank products.
- **Operational Risk Capital Charge.** Commenters argued that the Proposal's methodology for calculating the operational risk capital charge was materially flawed and would require capital to be held against potential losses that were significantly greater than any experienced by the banking sector since 2003, including in the aftermath of the 2008 global financial crisis. They also contended that the new charge would unduly burden businesses that rely on fee income, such as investment management services and credit cards.
- **Overlap With Federal Reserve Stress Tests.** Commenters contended that the Federal Reserve's annual stress tests already capture many of the same risks reflected in the proposed new charges for operational risk, market risk, and CVA risk — and therefore the Proposal would result in unnecessary double counting of those risks.
- **Elimination of Tailoring for Regional Banks.** Commenters argued that the Proposal all but eliminates differing capital treatment for large regional banks, so-called Category III and Category IV banking organizations, contrary to the intent of a law Congress passed in 2018 called the Economic Growth, Regulatory Relief and Consumer Protection Act, which requires that such banking organizations not be subject to as stringent enhanced prudential standards (which include capital requirements) as G-SIBs.

Commenters also asserted substantial legal and policy flaws that affected the process by which the Banking Agencies had issued the Proposal, including:

- **Failure to Provide Meaningful Economic Support.** The Proposal assigns risk weights to bank exposures based on minimal economic data or analysis, including without a basis in available historic risk data.
- **Failure to Provide an Objective Standard of Risk.** The Proposal does not justify the new capital charges based on any objective standard of risk.



- **Failure to Disclose Relevant Data and Analyses.** The Banking Agencies did not disclose the data and analyses used to design and calibrate the new capital requirements, depriving the public of an adequate opportunity for comment.
- **Failure to Provide Justification for Picking and Choosing Among Basel III Recommendations.** The Banking Agencies provided no support for choosing to follow the Basel Committee's recommendations on certain aspects of the Proposal, and ignoring it on others.
- **Failure to Conduct a Holistic Analysis of Capital Requirements.** The Proposal fails to account for the interaction between existing capital requirements, such as the Federal Reserve's stress tests, and its new requirements.
- **Constitutional Nondelegation Problems.** Given the lack of substantive standards guiding the Banking Agencies when issuing the Proposal, some commenters observed that the Proposal may be vulnerable to a legal challenge based on excessive delegation of Congress's policymaking authority, or on the Banking Agencies' interpretation of their statutory authority that would imply such an excessive delegation.

A total of nine comment letters — roughly 2% of the total — supported the Proposal. These included two letters from academics (one of which featured 30 signatures, and one of which was from an academic who also signed the first letter), one from Senate Banking Committee Chairman Sherrod Brown joined by 11 Senate colleagues, one from Better Markets, one from Americans for Financial Reform joined by other groups, one from the CFA Institute Systemic Risk Council,⁴ and one from the Center for American Progress. The AFL-CIO was a signatory to another letter, written by 20/20 Vision. These letters made the following principal arguments:

- **Increased Capital Would Reduce Systemic Risk.** The aftermath of the 2008 Financial Crisis showed the economic challenges of relying on emergency government measures after a large bank failure.
- **Increased Capital Would Result in Increased Lending.** With more capital to shield against losses, banks' lending would increase in all economic cycles and would be less likely to slow during economic downturns.
- **Current Rules Underestimate Regional Bank Risk.** The failure of Silicon Valley Bank (SVB) showed that the insolvency of a regional bank that had between US\$100 billion and US\$250 billion in assets could have material effects on the broader economy.
- **Regulators Should Not Rely on Banks' Internal Models.** Large banks' internal models underestimated risk, and therefore the Proposal's expanded risk-based approach and revised approach to market risk are improvements over current rules.

In sum, the Proposal has drawn a large number of detailed and significant comments — almost all of which express reservations about at least some aspects of the Proposal. Under the APA, the Banking Agencies are now required to consider and respond to these comments as they decide whether and how to finalize the proposed rulemaking. In doing so, the Banking Agencies will need to "explain the assumptions and methodology" underlying the Proposal; "and, if the methodology is challenged ... provide a complete analytic defense."⁵ If the Banking Agencies fail to "respond to relevant and significant public comments," any final rule can be set aside by a reviewing court as arbitrary and capricious.⁶

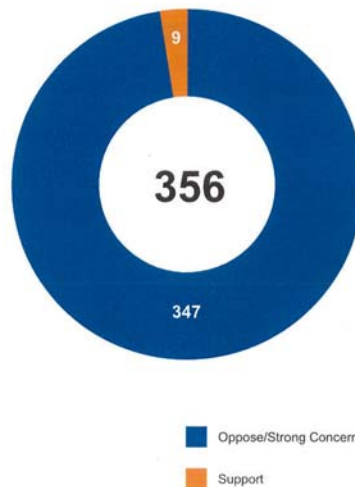


Given the unusually large volume of critical comments received from such a diverse a group of stakeholders, and the significant substantive, policy, and legal problems those commenters have identified in the Proposal, the Banking Agencies face certain challenges. If they decide to press forward to finalize the proposed rule, they will need to provide considered responses to the many serious policy concerns raised by the commenters. Even if the Banking Agencies make significant changes from the Proposal, any final rule could still be vulnerable to challenge under the APA for the reasons identified by commenters. As an alternative, the Banking Agencies may consider withdrawing the Proposal or re-proposing the rule to address the many concerns commenters have raised.⁷

For highlights of the comment record, please see this [summary](#).

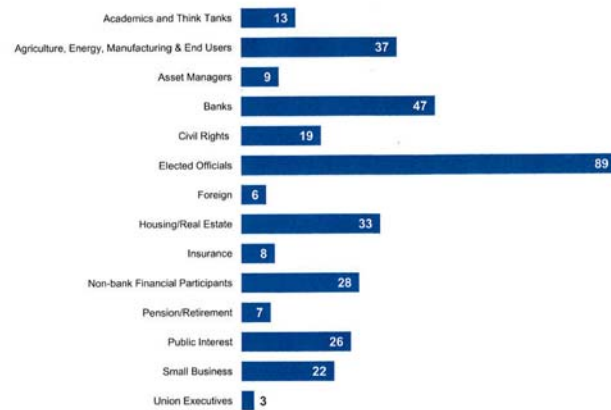
II. Type of Commenter

As illustrated below, letters opposing or expressing strong concerns with the Proposal or at least one of its important aspects dominated the record.

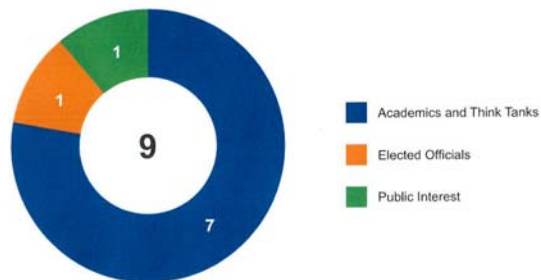




These 347 letters came from a diverse array of commenters:⁸



The nine letters supporting the Proposal were distributed as follows:





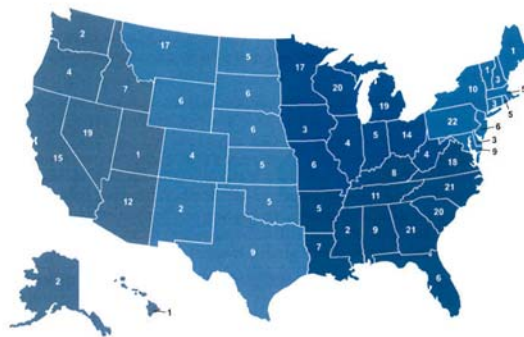
III. Analysis of Comments

A. Opposition to the Proposal

Most Comments Oppose the Proposal. As detailed in Sections IV and V, an overwhelming majority of comment letters — 347, representing over 97% of all comments we reviewed — called for withdrawal of the Proposal or a re-proposal, or otherwise expressed significant concerns with the Proposal or at least one of its important aspects.

Geographic Diversity of Opposition. Opposition to, or doubts about, the Proposal came from all across the United States, as shown by the distribution of comment letters from individuals, the highest concentrations of which were in the Southeast and upper Midwest:

Geographic Distribution of Comment Letters From Individuals



Substantial Foreign/International Concerns. In addition, substantial comments came from non-US organizations or emphasized international adverse effects. The Association of British Insurers noted that the UK insurance industry was a significant counterparty for US investment banks, and urged the Banking Agencies to consider the potential unintended extraterritorial consequences of the Proposal — such as US gold-plated capital requirements forcing a migration of business and attendant risk to European banks.⁹ The Investment Association, the trade association for UK investment managers, echoed that concern.¹⁰ A letter from the Dutch Federation of Pension Funds expressed concerns about the Proposal's effects on the clearing of derivatives and resulting increased transaction costs and systemic risk.¹¹

In the US, the National Association of Manufacturers commented that "lower capital requirements for foreign banks would give foreign manufacturers access to more cost effective bank financing and hedging services, thus impairing the ability of US manufacturers to compete on price."¹² US Senators Cynthia Lummis and Kirsten Gillibrand noted that the Supervisory Chair of the European Central Bank (ECB) had recently stated that current US bank capital requirements were "significantly higher" than those required for equivalent European G-SIBs and argued that the Proposal would only exacerbate this disparity.¹³



B. Support for the Proposal

Nine comment letters, or roughly 2% of all comments we analyzed, supported the Proposal. Two of these were from academics (one with 30 signatures, and one from an academic who also signed the first letter), one was from Senate Banking Committee Chairman Sherrod Brown and 11 Senate colleagues, one was from a public interest organization, and five were from think tanks. Supporters of the Proposal made the following principal arguments:

Increased Capital Would Reduce Systemic Risk. First, supporters contended that the resulting increase in bank capital would make the US banking system safer and reduce reliance on emergency government measures in the event of a large bank insolvency. As one commenter stated, “[C]apital requirements are among regulators’ most powerful tools in ensuring banks can weather periods of stress.”¹⁴ Another contended that “[w]e have seen unprecedented public support and assistance provided in the aftermath of the Global Financial Crisis (GFC) and the COVID pandemic [and] most recently, the use of the systemic risk exception was viewed by regulators as necessary in the case of the failures of Silicon Valley Bank and Signature Bank. ... We believe that the proposal is a meaningful step forward in ensuring that banking organizations maintain a level of regulatory capital that sufficiently reduces the probability that systemwide mechanisms will be invoked, particularly for large, operationally complex institutions with significant market exposures.”¹⁵

Increased Capital Would Result in Increased Lending. Second, supporters asserted that the better capitalized a bank was, the more likely it was to continue lending in all economic cycles.¹⁶ One commenter contended that “[c]ompelling recent data proves this: regulators have required that banks increase their capital materially since the crash of 2008 and the enactment of the Dodd-Frank Act in 2010 and yet, at the same time, those very same banks have increased their lending to the nonfinancial sector of the economy.”¹⁷ Another stated that “[i]t is important to remember that regulatory capital requirements are only one of a plethora of factors that weigh into the availability and cost of credit. ... For some banking organizations, higher capital levels can support higher risk appetites, which in turn can support higher levels of retail lending.”¹⁸

Current Rules Underestimate Regional Bank Risk. Supporting comment letters applauded the Banking Agencies for seeking to extend the rules to firms with between US\$100 billion and US\$250 billion in total consolidated assets, particularly in light of the issues stemming from the 2023 SVB collapse. One commenter saw these regional banks as “complex institutions with multiple business lines and ... size and complexity,” by requiring every such firm “to have enough capital to protect itself against its individual risk, the Agencies are more effectively protecting the entire banking system and the American public.”¹⁹ Another letter underscored this point by emphasizing that “the use of the systemic risk exception was viewed by regulators as necessary in the case of the failures of Silicon Valley Bank and Signature Bank with the Federal Reserve providing systemwide support through the Bank Term Funding Program.”²⁰

Regulators Should Not Rely on Banks’ Internal Models. A group of academics commended the Banking Agencies for seeking to reduce the ability of large banking organizations to use internal models, both generally and with respect to market risk in particular, contending that “since each bank selects its own modeling assumptions, capital ratios are not necessarily comparable across firms ... although supervisors attempt to back-test banks’ internal models to ensure that they do not inappropriately underestimate risk exposure, empirical validation using historical data is often limited by the fact that severe credit risk and operational risk losses occur sporadically.”²¹ Another letter agreed, stating that “[r]esearch has shown that there has been material variability in credit risk measures that result from banks’ use of internal models. ... For something as large and consequential as credit risk, the Agencies should unquestionably require the best-known available measure.”²²



IV. Summary of Principal Arguments by Topic

A. Adverse Effects on Capital Markets and Derivatives

A total of 82 comment letters (approximately 23% of those reviewed) expressed concerns about the Proposal's effects on capital market activities. Their principal areas of focus were the market risk capital requirements applicable to trading activities under the Fundamental Review of the Trading Book (FRTB), the CVA capital requirement for derivatives counterparty credit risk, the proposed minimum haircut floors that would increase required capital for SFTs, and the interaction between the Proposal and the Federal Reserve's stress tests, which set a banking organization's Stress Capital Buffer.

1. Harm to Financial Markets

As a general matter, commenters repeatedly stressed that the substantial capital increases required by the foregoing provisions would harm financial markets. These comments were advanced by the financial services industry, pension funds, asset managers, insurance companies, manufacturers, agricultural concerns, energy companies, end users of derivatives, and related trade associations, as well as members of Congress.



[M]arket liquidity and market-making are fundamental to the efficient operation of financial markets. We are very concerned that this Proposal, in its rush to impose Basel III on US banks, has failed to explore in-depth — let alone pay more than even lip-service to — the potentially detrimental consequences to market liquidity and market-making of imposing higher or ill-conceived capital standards on banks, which in turn could harm funds and their millions of shareholders.”

[Investment Company Institute](#) at page 2 (on behalf of the buy-side industry / registered investment funds)



Equity markets are the public face of finance and are often seen as a barometer of the overall health of the economy. In that sense, a thriving IPO market is perhaps the most direct and tangible evidence of an economy where new businesses have confidence in their future prospects. Making U.S. capital markets less appealing for businesses looking to issue an IPO, as the proposal could do, may reduce the United States' ability to foster innovation and entrepreneurship, and attract global capital.”

[Congressman Brad Sherman \(D-CA\), joined by 14 other Democratic and Republican House members](#) at page 2



In the current economic and geopolitical environment, the Coalition has serious concerns that increased transaction costs associated with prudent risk-management hedging practices by derivatives end-users will result in two materially adverse impacts: (i) even further increased costs will flow through to consumers for goods, services and everyday necessities; and (ii) reduced capacity for derivatives end-users to hedge their commercial risks because the costs to hedge those risks could become prohibitively expensive, which would lead to greater price volatility. These results would be bad for consumers and bad for economic stability and neither result decreases risk to the broader U.S. economy—a flawed and detrimental result of the Proposals.”

[Coalition for Derivatives End-Users](#) at page 3 (on behalf of companies that use derivatives to manage commercial risk)



The impact of this proposal is understated and will impede the ability of America’s banks to provide a range of critical financial services to Business Roundtable member companies, reducing both innovation and economic growth. ... The proposed increase in capital requirements will negatively impact the U.S. capital markets.”

[Business Roundtable](#) at pages 2-3 (on behalf of chief executive officers of large American companies)

2. FRTB / Market Risk Adverse Effects

A total of 47 comment letters (approximately 13% of those reviewed) opposed the revised FRTB / market risk capital requirements, making the following principal arguments:

- The new standardized approach to market risk does not recognize the benefits of diversification, and the new models-based approach incorporates overly conservative stress testing.
- The Banking Agencies have provided no empirical support for the Proposal’s conditions for using the models-based approach for calculating the market risk capital requirements as opposed to its standardized approach.
- Banks could be forced to switch between applying the two approaches for calculating market risk capital, given the arbitrary nature of the eligibility requirements for using the models-based approach, and this would lead to irrational results.
- The Banking Agencies have estimated that the Proposal would increase market risk risk-weighted assets 77% for the largest bank holding companies, with substantial new costs imposed on trading and related activities, even though there is no evidence that large banking organizations undercapitalize their trading and other market-risk activities.



The Proposed Rule's substantial increase in capital requirements for banks' trading books through the Fundamental Review of the Trading Book will significantly increase the costs of critical risk management tools for U.S. manufacturers. When a bank provides a derivative to a customer, it is often required to record the transaction in the bank's trading book as a dealing/market-making exposure. Banks will then mitigate the market risk from customer-driven derivatives through offsetting or hedging activities in order to ensure the bank is risk neutral. The Proposed Rule does not recognize the most efficient hedging activities, thereby forcing banks to utilize less efficient and more costly hedges."

[National Association of Manufacturers](#) at page 3 (representing 14,000 manufacturers)



The Fundamental Review of the Trading Book will significantly raise capital standards for all market making activity. Derivative transactions are among the most penalized, including interest rate derivatives and equity derivatives. Many retirement plans use equity derivatives as an efficient means to gain market exposure."

[American Benefits Council](#) at page 4 (on behalf of sponsors of retirement benefit plans)

3. CVA Capital Charge Adverse Effects

The new CVA capital requirement drew criticism from 51 comment letters (approximately 14% of those reviewed) for the following principal reasons:

- It improperly applies to client-facing legs of derivatives trades cleared through a central counterparty where the bank is acting as the clearing member.
- It departs from current capital treatment under which CVA hedges that do not qualify as eligible CVA hedges are not automatically included in market risk capital requirements.
- The European Union's implementation of Basel III diverged from the Basel agreement on CVA risk and thus provided better capital treatment than the Proposal, which would put US banks and US companies at a disadvantage.
- It is over-calibrated to the actual CVA risk posed and therefore would impose significant burdens on banks in offering derivatives products to their financial and commercial end user clients for hedging purposes.



The Basel III Endgame Proposal requires that CVA capital be calculated for all parties involved in CVA-covered positions — with no exceptions. This adds to the current capital requirements and undermines existing regulatory relief and policy objectives. Thus, the CVA adjustment is problematic in two ways. First, it is likely to result in large banks reducing the hedging transactions they offer because of increased capital requirements. Second, it does not give commercial end-users a customized approach to derivative transactions. This undermines the relief provided to commercial end-users under the final SA-CCR rule and margin clearing exemptions.”

[Kaiser Aluminum Corporation](#) at page 3



Specifically, SWIB utilizes a wide variety of derivatives to manage the risk and exposures of the assets we manage. ... By increasing the amount of capital that U.S. banking organizations must hold for these types of derivatives transactions, the Proposal would limit our liquidity options. ... [S]everal banks have indicated that their capital charges will increase by up to five times, and if even a small portion of that increase is shifted to public pension funds, there will be a material impact on our derivative transaction costs, leading to lower returns for our members.”

[State of Wisconsin Investment Board and the Ohio Public Employees Retirement System](#) at page 7

4. Securities Financing Transactions Adverse Effects

The Proposal’s approach to SFTs was criticized by 30 comment letters (approximately 8% of those reviewed) for the following principal reasons:

- No other major jurisdiction has chosen to implement the minimum haircut floors, and indeed the European Banking Authority has stated that such floors could lead to more risk than the current approach to SFTs.
- The Proposal’s SFT minimum haircut floors would impede the functioning of critical activities within the capital markets, such as reverse repurchase agreements, securities borrowing transactions, and margin loan transactions, and are inconsistent with banks’ core counterparty credit risk management practices.
- Banks determine economic haircuts for these transactions based on a number of factors, including counterparty type, purpose of the transaction, and collateral provided or received. By contrast, the Proposal’s SFT minimum haircut floors, are a blunt, risk-insensitive approach to counterparty credit risk.
- The changes would have negative effects on investors, including imposing substantial new costs on SFTs due to the increased capital requirements for such transactions, discriminating against certain types of investment funds that are similarly situated to other investment funds exempted from the minimum haircut requirement, and assigning collateral haircuts that do not appropriately recognize or account for the risk and volatility attributes of underlying assets.



The net results of these externalities, we believe, are increased costs and more limited access to the banking organization services and products that investors rely on to effectively manage risk and meet their investment objectives. The proposed amendment may also reduce investors' ability to use SFTs, thereby denying them valuable lending revenue from their long-term securities holdings and impair the price discovery and risk hedging opportunities related to short selling."

[BlackRock, Inc.](#), at page 8



The minimum haircut floor for securities financing transactions (SFTs) should not be adopted. No other jurisdiction plans to implement the minimum haircut floor. Moving forward with the minimum haircut floor will therefore hurt U.S. retirement plans' ability to manage liquidity and enhance returns for beneficiaries."

[American Benefits Council](#) at page 5

5. Operational Risk Charge Adverse Effects

A total of 53 comment letters (approximately 15% of those reviewed) expressed concerns with the Proposal's new capital charges for operational risk, making the following principal arguments:

- According to the Banking Agencies, if the Proposal were adopted without change, large US banks would end up holding over US\$300 billion in capital for operational risk, and this charge would account for nearly 90% of the increase in large banks' capital requirements under the Proposal. Yet the Banking Agencies provided no economic basis for this new requirement.
- The Proposal's approach requires pooling risk-weighted assets arising from credit risk, market risk, operational risk, and CVA risk — in effect, assuming that extreme losses relating to credit, market, operational, and CVA risk will all occur at the same time, with a correlation of 1.0. Such a result is without historical precedent, and the Banking Agencies provided no explanation for assuming it would occur.
- The Proposal ignores relevant data in calibrating the operational risk capital requirement, and results in capital charges that are multiples of the largest losses experienced by banks in any year over a recent 20-year period, even including litigation losses associated with the 2008 global financial crisis.
- There is also a material over-capitalization for the risk arising from fee-related income because, unlike the calculation of the interest and financial components of the business indicator for operational risk, the services component does not offset revenues with expenses. There is also no upward limit on the size of the services component.
- The Proposal reflects a belief that unfavorable loss experience is relevant and should raise a bank's capital requirement, but it simultaneously indicates that favorable loss experience is irrelevant and cannot lower the requirement.



A substantial portion of the increase in capital is targeted at 'operational risk,' or the risk of losses associated with lawsuits, fines, cyber-attacks, etc. The analysis provided in the proposal overstates the actual risk, as demonstrated by historical loss data; banks' operational risk losses rarely exceed even 30% of the proposed increase, according to industry reports. Given the significant capital increases for this risk category, we recommend a recalibration of the operational risk charge."

[Reps. Joyce Beatty and 58 Democratic colleagues](#) at page 3

B. Overlap with Stress Testing

A total of 30 comment letters (approximately 8% of those reviewed) asserted that the Proposal would result in double counting with the Federal Reserve's CCAR stress tests, principally because under the Proposal's expanded risk-based approach, risk-weighted assets would reflect operational risk, CVA risk and market risk, all of which the stress tests are designed to capture. Banks would be required to pass on these magnified costs to their clients, thus increasing their clients' costs.



The new market risk component ... known as FRTB, has been calibrated to require large banking organizations to capitalize for market risk assuming a period of market stress. The global market shock component of CCAR also requires large banking organizations to calibrate for market risk assuming a period of market stress. FRTB was calibrated and finalized by the Basel Committee without regard for the U.S. CCAR stress tests. ... Therefore, FRTB is completely additive with the [Global Market Shock] component of CCAR."

[Coalition for Derivatives End-Users](#) at page 10

C. Concerns With Publicly Traded Requirement for Investment-Grade Risk Weighting

A total of 63 letters (approximately 18% of those reviewed) criticized the Banking Agencies for including a requirement that an entity or its parent have publicly traded securities in order to benefit from a lower risk weighting for being investment-grade. They did so principally on the ground that the publicly traded requirement was highly arbitrary and would exclude many investment grade businesses that posed low risk, some of them in regulated industries, including pension funds, investment funds, insurance companies, small- and medium-sized businesses, and agricultural concerns. Not being able to benefit from a lower risk weighting would mean higher costs of credit for such companies.



Simply put, we are very concerned that the Proposal will — unnecessarily — harm our clients. ... We start with the rather puzzling provision in the Proposal that requires bank counterparties — in order to avoid punitive risk ratings — to be both investment grade and have publicly-traded securities. ... Yet, it is well known that with the exception of exchange-traded funds, the vast majority of investment funds do not have publicly traded securities because there is no need for them. ... [T]he publicly-traded security requirement should be deleted. If it isn't, those key clients of ours would be harmed — for no justifiable policy reason — by higher costs for banking products and services, lesser liquidity in key markets, diminished access to essential banking products and services and fewer available counterparties to provide them."

[Franklin Resources, Inc. and Invesco Ltd.](#), at pages 2-3



Although we appreciate the proposal's desire for a simple, objective criterion, the proposal's discrimination against non-publicly traded life insurers is wholly without merit and is inconsistent with the implementation of Basel III Endgame in other jurisdictions such as the United Kingdom and European Union."

[Guardian Life Insurance Company of America et al.](#), at page 2

D. Adverse Effects on Particular Industries and Communities

Many commenters contended that the Proposal's increased capital requirements would have adverse effects on particular industries and communities by increasing the cost of banking services or by incentivizing banks not to offer certain services at all. These points were emphasized in:

- 147 letters raising concerns over effects on the mortgage industry and homeownership (about 41% of those reviewed)
- 135 letters raising concerns about effects on small businesses (about 38% of those reviewed)
- 114 letters raising concerns over effects on members of minority groups and other underrepresented communities (about 32% of those reviewed)
- 44 letters raising concerns about effects on renewable energy firms (about 12% of those reviewed)



“

Our comments focus on the impacts of the revised risk weights for the renewable energy tax equity market and the urgency of addressing this issue. However, there are other issues with the proposal that could substantially impact investment in and support for renewable energy initiatives more broadly. In particular, the new framework for market risk proposals and the additive requirements for derivative transactions could significantly raise the costs for U.S. companies to hedge their business and operating risks. In addition, the narrow scope of the lower investment-grade risk weight may increase borrowing costs for private creditworthy businesses, placing small and growing companies at a competitive disadvantage. These elements of the proposed rule could therefore also compromise the success of U.S. implementation of Basel III without other structural changes being made.”

[American Council on Renewable Energy](#), at page 2 (on behalf of renewable energy developers, buyers, and institutional investors)

“

I know that an increase in capital requirements could exacerbate the existing economic disparities faced by African-Americans. Historically, Black individuals and communities have faced discrimination in banking and lending practices. Higher capital requirements may lead banks to be more risk-averse, making it even harder for Black Americans to access credit, obtain mortgages, or secure loans for businesses and education. Additionally, Black-owned businesses often rely on loans and lines of credit to keep their doors open and plan for expansion. Increased capital requirements could restrict the availability of these critical resources, hindering the growth and success of Black entrepreneurs.”

[Tonza Thomas, State Secretary, Columbus Branch, Georgia NAACP](#) at page 1

E. Concerns With Treatment of Securitizations

Commenters on the Proposal’s treatment of securitization transactions expressed concerns that the Proposal would significantly and adversely affect the US securitization markets. They noted that in the US, a large portion of consumer and small business loans are funded by securitizations, and US banks are an “integral part” of the securitization markets.²³ As a result, many large banking organizations have significant amounts of securitization exposures on their balance sheet, and by materially increasing the amount of capital that these banks would be required to hold against those exposures, the Proposal would make bank participation in the securitization markets much more costly. This would result in less credit availability for consumers and small businesses.²⁴



Under the Proposed Rule, loans made by banks to [bankruptcy-remote special purpose entities] will become more expensive and less available; banks will require higher interest rates on [asset-backed securities (ABS)] before investing in them; liquidity in ABS will be reduced as market-making becomes more expensive and less available; and banks will be hindered in their ability to manage the credit risks arising from their loan portfolios. As a result, credit will become more expensive and less available for consumers and businesses, thus threatening their economic well-being.”

[Structured Finance Association](#) at page 3

F. US Banks Already Better Capitalized Than Global Peers

A total of 85 comment letters (approximately 24% of those reviewed) criticized the Banking Agencies for issuing the Proposal at a time when the US banking industry was already well capitalized, both as an objective matter and in comparison to global banks of the same size and complexity. Many of these letters cited statements by Federal Reserve Chair Jerome Powell and Treasury Secretary Janet Yellen after the collapse of SVB that the US banking system was strongly capitalized when arguing against the Proposal’s increased capital requirements.



Layering on additional standards begs the question of analytical justification for such a large increase. Banks have consistently been deemed to be well capitalized and well positioned to deal with stress. ... Given these noted improvements ... we urge you to maintain the agreed upon Basel III international standards rather than adopting additional stricter policies that would cause undue harm to the United States mortgage industry.”

[National Housing Conference](#) at page 2

G. Removal of Certain Tailoring for Regional Banks

A total of 23 comment letters (approximately 6% of those reviewed) contended that the Proposal all but eliminates differing capital treatment for large regional banks, so-called Category III and Category IV banking organizations, even though in 2018, Congress passed a statute that requires that such banking organizations not be subject to as stringent enhanced prudential standards (which include capital requirements) as G-SIBs. As one letter stated, “[i]nstead of being aligned with S. 2155’s framework, the Proposal flatly ignores the statutory \$250 billion threshold and sets a new threshold of \$100 billion without justifying it or considering how a lower threshold would impact the U.S. financial system. We believe that the Agencies’ blanket application of requirements to all banking organizations is misguided.”²⁸

H. Legal / Process Concerns

A total of 54 comment letters (approximately 15% of those reviewed) expressed concern with legal and process issues related to the Proposal, some of which included a violation of the APA or other legal rules governing agency rulemakings. The principal contentions in these letters were:



- The Proposal assigns risk weights to bank assets and exposures generally based on no data or analysis; ignores voluminous data that could have informed an accurate calibration; and fails to consider alternative, more accurate measures of risk, including some negotiated by Banking Agency staff at the Basel Committee.
- Risk weights assigned to key categories of risk, including credit risk, were not connected to any objective standard of risk and were not supported by empirical evidence or analysis.
- The operational risk charge was similarly not grounded in any objective standard of risk and was based on unfounded assumptions about the risks of certain business activities and the nature of operational risk.
- The Banking Agencies relied on internal data and analyses to calibrate the capital requirements for operational, market, and CVA risks without making such data and analyses available for public comment.
- The Banking Agencies' disparate treatment of the international Basel III reforms was irrational — in some aspects, the Banking Agencies copied the international Basel III agreement without any independent analysis, and in others they deviated from it without explanation.
- The Proposal fails to account for the interaction of different elements of the capital regime and the impact of the broader regulatory and market landscape, such as capital requirements that duplicate those in the Federal Reserve's stress tests.
- The Proposal rests on insufficient economic analysis that is inconsistent with available evidence, and would significantly increase large banks' capital requirements despite evidence that their current requirements are more than adequate.



Given the consequences of the proposal's sweeping changes, one would reasonably expect the agencies to have undertaken a policymaking process that was deliberate, transparent, and based on all available data, and to have carefully considered all relevant aspects of the problems the proposal purports to address and potential alternative approaches to those problems. Unfortunately, the agencies failed to do so."

[Bank Policy Institute, Securities Industry and Financial Markets Association, Financial Services Forum, and the US Chamber of Commerce's Center for Capital Markets Competitiveness](#) at page 2



In light of the Proposed Rule's significant negative impact on manufacturers, the NAM is concerned about the NPRM's lack of data or quantitative analysis in support of the banking regulators' policy choices. In fact, two months after the NPRM was released, the Federal Reserve announced a request for data from banks affected by the Proposed Rule. ... However, waiting until after the release of the NPRM to collect and analyze relevant data calls into question whether the banking regulators considered relevant data in formulating the Proposed Rule as required by the APA."

[National Association of Manufacturers](#) at page 7



“ We are very concerned that the proposal does not include any robust economic analysis evaluating its potential effects on retirement plans. By failing to provide such data and analysis, the banking agencies make it difficult for us, and the public more broadly, to understand and provide responsive comments on the proposal. Further, it is not clear to us how the agencies can design an appropriately calibrated final rule without sufficient analysis of the proposal’s impact on end-users, including retirement plans. The lack of analysis is particularly concerning to us as the proposal is inexplicably different and harsher than the standards being implemented in other jurisdictions, both generally and in particular with respect to retirement plans.”

[American Benefits Council](#) at pages 3-4

“ The Proposal contains hundreds of pages detailing new proposed requirements. ... With such myriad of proposed changes, one would expect that the Agencies would present a detailed and comprehensive economic cost-benefit analysis to demonstrate that the economic benefits of the Proposal exceed the costs of implementing the proposed revisions. This, however, is not the case.”

[Professor Anthony Saunders, New York University Stern School of Business](#) at page 4

Two commenters also addressed the constitutionality of Congress’s delegation of authority to set capital requirements to the Banking Agencies in the first place. One commenter filed a letter arguing that this delegation may violate the constitutional nondelegation doctrine, as that doctrine is understood by a current majority of the Supreme Court.²⁶ An academic comment, meanwhile, emphasized the breadth of this delegation in its support of the Proposal, contending that “Congress intended for the banking agencies to have wide latitude in establishing capital requirements.”²⁷

“ The nondelegation problem here is especially acute in part because of the distinctive ‘multi-layer’ delegations Congress has provided. The relevant agencies are not only empowered to set whatever capital levels they deem to be ‘adequate,’ but Congress has also expressly authorized them to consider any factors they deem relevant when doing so.”

[Texas Public Policy Foundation](#) at page 6



V. Summary of Principal Comments by Industry / Commenter

The Proposal drew extensive negative comments from individual banks and bank trade associations, with many calling for withdrawal and re-proposal for the reasons summarized above. Perhaps more surprising was the wide array of non-bank commenters who expressed significant concerns with the Proposal.

A. Banking Industry and Regulators

Substantial comments criticizing the Proposal, at both a general and highly technical level, were submitted by individual banks (30 letters) and US bank trade associations (15 letters). One comment letter expressing concerns came from the Conference of State Bank Supervisors, and another from a former regulator.

The banking industry made the following substantive contentions, in addition to strongly criticizing as a legal matter the Banking Agencies' rulemaking process under the APA:

- When agreement on the final aspects of Basel III was reached in 2017, it was based on a conclusion, formed over a decade of experience, that no further increases in bank capital were required. Further, there is no evidence that US banks currently hold insufficient capital against the four risks covered in the Proposal.
- The risk weights applicable to each category of risk — credit risk, market risk, CVA risk, and operational risk — were substantially and unjustifiably overstated based on all historical experience.
- With respect to operational, CVA, and market risk, the Proposal fails to acknowledge the existence of the Stress Capital Buffer set by the Federal Reserve, which, in part, was designed to cover the same risks and results in higher capital charges with respect to operational, CVA, and market risk. By not considering all components of the framework that determines bank capital requirements, the Proposal effectively treats the calculation of risk-weighted assets as entirely distinct from the aspects of the framework establishing numerical ratio requirements, but they are not.
- Looking at and revising only one aspect of the bank capital framework, while effectively ignoring the interrelationship with the other, as the Proposal would do, is a flawed and fragmented approach to the design and calibration of the bank capital framework.
- Because of its flaws, if finalized as proposed, the Proposal could result in a significant reduction in GDP and employment. US capital markets would become less liquid and therefore more dependent on non-bank intermediation in normal times and on governmental support when those non-banks step away from financial markets. Although the precise potential impact on capital market liquidity is extremely complex to assess, the effect would likely be significant for several segments of the market, with resulting harm to US businesses, consumers, and Americans saving for retirement.
- The Proposal's requirements are more stringent than the Basel framework's standards as well as the requirements of foreign jurisdictions like the European Union and the United Kingdom, and as a result, the ability of US banking organizations to compete with their foreign peers would be diminished, which would ultimately harm US competitiveness.



In addition to these general concerns, the banking industry submitted a host of technical comments on the principal aspects of the Proposal. Given their breadth, it is possible only to describe the key themes of these comments:

- The lower 65% risk weight for investment-grade corporate exposures should not be limited to companies that have (or with a parent company that has) publicly traded securities outstanding. The Banking Agencies should permit alternative options to accomplish the goals sought to be advanced by the public trading requirement.
- The Proposal should have retained the current 100% risk weight for effective hedge pairs.
- The Proposal should have retained the 100% risk weight "bucket" for non-significant equity exposures and expand the 100% risk weight category to include investments made pursuant to a nationally legislated program, such as renewable tax credit equity financing.
- The Banking Agencies should reduce the "p-factor" under Securitization Standardized Approach from 1.0 to 0.5, and set the p-factor for certain securitization transactions at 0.25.
- The Proposal's provisions on the minimum haircut floor framework for SFTs should be removed because of the significant conceptual and operational issues they create.
- Risk weights for residential mortgage and other retail exposures should be based on a risk-based, empirical analysis such as the advanced approaches; at a minimum, however, risk weights should be aligned to the Basel III agreement and not be gold-plated.
- The Proposal should not have increased the credit conversion factor for unconditionally cancelable undrawn credit card lines.
- The Proposal was incorrect not to have set forth a 20% risk weight for exposures to more-than-well-capitalized banks, short-term bank exposures, and regulated financial institutions.
- The Proposal's approach to operational risk, among other issues, is subject to a bank-specific "internal loss multiplier" (ILM) floored at one, designed to assess whether that bank's individual operational risk loss history differs from the norm. There are two major problems with this approach. First, the Proposal reflects a belief that unfavorable loss experience is relevant and should raise a bank's capital charge but simultaneously indicates that favorable loss experience is irrelevant and cannot lower that very same charge. Second, past operational loss events are not, in fact, a reliable predictor of future operational risk losses.
- The Proposal does not account for the fact that CVA is included only in the Advanced Approaches and the current capital regime does not apply the Stress Capital Buffer to Advanced Approaches capital ratios, and so the risk-weighted assets resulting from the Advanced Approaches generally are not the binding capital requirements for banks with significant trading activities. By including CVA in the Expanded Risk-Based Approach RWAs, to which the Stress Capital Buffer would apply, the Banking Agencies were far over-calibrating for CVA risk.



B. Pension Funds and Other Retirement Groups

Pension fund commenters, which unanimously opposed the Proposal overall, raised a number of concerns. For example, the American Benefits Council, took issue with the Proposal's provisions relating to the market risk and CVA capital charges and its approach to SFTs.²⁸ CalPERS and the ERISA Industry Committee criticized the Proposal's requirement that a company be publicly traded in order to benefit from a lower risk weight for being investment-grade. They argued that pension funds, being highly regulated, were no more risky than companies with public securities outstanding and that the Proposal would raise the costs of financing and engaging in derivatives transactions with no justification.²⁹



As currently written, the Proposal would interfere with our ability to access critical services, manage our assets in ways that create value for our members, and allow us to prudently manage our risk. The cumulative effect of these impacts is that U.S. public pension funds will experience increased costs, as well as additional volatility and risk, despite the fact that our Systems are highly creditworthy, transparent, accountable entities that provide retirement security for millions of Americans."

[State of Wisconsin Investment Board and Ohio Public Employees Retirement System](#) at page 4

C. Asset Managers

Asset managers such as BlackRock, Franklin Templeton, and Invesco as well as trade associations that represent asset managers were also unanimous in opposing the Proposal. Their criticisms cited the Proposal's:

- Capital treatment of exposures to investment funds and other non-publicly traded companies
- Minimum haircut floors for SFTs
- Provisions relating to CVA risk
- Provisions relating to operational risk
- Provisions relating to market risk
- Treatment of certain equity exposures
- Treatment of ETFs and client cleared derivatives transactions under the GSIB Surcharge Proposal³⁰



Under the Proposal, banking organizations would apply a less onerous 65% risk weight for investment grade corporate exposures provided that the company (or its parent) has publicly traded securities outstanding. ... Under this approach, listed closed-end funds (CEFs) and exchange-traded funds (ETFs) would qualify for the preferential risk weights but mutual funds would not."

[Allspring Global Investments](#) at page 2



“ [The effect of the Proposal] would be disproportionate to the potential risk being addressed, erode the capacity for individual investors to achieve desired outcomes, and seriously compromise the buy-side’s ability to hedge investment, market and counterparty risks — and thereby create the unintended consequence of a much more systemically risky environment within the U.S. capital markets.”

[Securities Industry and Financial Markets Association Asset Management Group](#) at page 2

“ [I]t seems entirely inconsistent for the [Banking] Agencies to insist that this Proposal is time-critical and at the same time argue, as they have repeatedly since the March 2023 collapse of Silicon Valley Bank, that banks are well-capitalized.”

[Investment Company Institute](#) at pages 4-5

D. Manufacturers

The National Association of Manufacturers, which represents 14,000 manufacturers, highlighted as particular areas of concern the Proposal’s market risk and CVA provisions, which would raise manufacturers’ costs of hedging; its increased capital charges for securitization exposures, which would adversely affect receivables financings; its more punitive risk weighting for privately held company exposures, even when those companies were the equivalent of investment-grade; its increased capital charge on undrawn commitments, which would raise the costs of working capital lines; and its basing of the operational risk charge in part on fee income, which would raise the costs of important bank products like letters of credit.³¹

“ [The Proposal would] have significant adverse consequences for manufacturers of all sizes throughout the U.S. In particular, it would harm smaller manufacturers who lack access to the capital markets and must rely on bank funding, manufacturers who do not have publicly traded securities, and manufacturers who rely on banks to help them manage financial risks. Inexplicably, the [Proposal] does not consider these significant costs in its economic analysis. ... [M]anufacturers are already bearing a disproportionately large share of the \$465 billion increase in regulatory compliance costs since 2012.”

[National Association of Manufacturers](#) at page 2

E. End Users of Derivatives

A coalition of end users of derivatives took issue with several aspects of the Proposal. This coalition includes 103 individual entities representing US agriculture, consumer goods, energy, hospitality, industrial goods, media, real estate, steel and aluminum production, technology, telecommunications, and transportation, with operations across the United States, and in some cases globally. A full list of the coalition’s members is reproduced in the Appendix to this report, at pages 39-41.



The coalition first took issue with the Proposal's market risk and CVA risk provisions, and with the publicly traded security requirement. Taken together, the coalition argued, these provisions would lead to significant disruptions in the derivatives markets, reduce market liquidity and efficiency, and increase transaction costs for their important hedging transactions.³² Stating that the Proposal was "likely to increase hedging costs, disincentivize prudent risk-management by corporations, and ultimately increase costs and risk and reduce investment in our economy," the coalition asked the Banking Agencies to conduct an appropriate cost-benefit analysis.³³



Coalition members' ability to hedge and mitigate [their] commercial risks is crucial to their business operations and the broader U.S. economy. ... Therefore, we urge the Federal Banking Agencies to undertake a thoughtful approach to design an adjusted and balanced framework that, on the one hand, promotes safety and soundness and resolvability, bolsters financial stability and provides clarity to the markets and, on the other hand, does not diminish large banks' critical role as financial intermediaries.

We are particularly concerned that specific aspects of the trading book components of the Basel III Endgame reforms could lead to reduced bank participation in certain financial markets — which would increase risk to financial stability and the broader U.S. economy by concentrating these products in less transparent markets and would increase costs for end-users."

[Coalition of Derivatives End-Users](#) at pages 2, 18

Nine individual letters came from members of the coalition, including the Kaiser Aluminum Corporation and the American Public Gas Association, and emphasized these concerns.

F. Agriculture and Energy

Agricultural commenters — including the National Council of Farmer Cooperatives, the National Grain and Feed Association and the Commodity Markets Council — also unanimously opposed the Proposal. They expressed concerns with the Proposal's likely adverse effects due to its CVA risk and other provisions, on their ability to hedge risk (in their case, commodity price risk) through derivatives transactions. Given that many agricultural end users are located far outside major financial centers, "especially smaller entities such as grain elevators and family farms," these commenters feared that a reduction in derivatives clearing activities would disproportionately affect the agricultural sector.³⁴ These fears found support in an analysis by a Futures Industry Association study that estimated that the Proposal and G-SIB Surcharge Proposal would increase the six US G-SIBs' capital requirements for client clearing activities by more than 80%.³⁵



The impact of increased capital costs for derivative contracts as a result of the Proposals may create a disincentive for banking organizations to continue to offer DCM clearing services through their FCMs, or act as market-makers in OTC commodity derivative contracts, which would result in less liquidity in commodity derivative markets, and fewer options for end-users."

[National Council of Farmer Cooperatives](#) at page 3



Energy companies and their trade associations focused on several aspects of the Proposal. First, like agricultural commenters, they asserted that the Proposal would have a significant adverse effect on their ability to hedge commodity price risk because its provisions on CVA risk would increase the costs of derivatives transactions. They also stated that the Proposal would, as a general matter, deter large banking organizations from participating in the central clearing of derivatives. Second, firms from the renewables sector criticized the Proposal for increasing the risk weight for bank tax equity investments from 100% to 400%, arguing that the continued growth of the sector was highly dependent on such investments.

“ [T]he number of firms that provide clearing for exchange-traded futures and options has fallen by 50% during the past twenty years. ... The situation is even more dire in the clearing of over-the-counter derivatives. In 2014, there were twenty-two firms that cleared OTC derivatives for clients. Today, there are only twelve, and the top six in terms of market share are US banks that will be directly affected” by the Proposal.

[Energy Trading Institute, Electric Power Supply Association, American Gas Association, American Public Gas Association, and Commodity Markets Council](#) at page 2

“ Tax equity, largely provided by domestic banks, has been a critical financing source for clean energy projects. The Inflation Reduction Act (IRA) extended and expanded the use of federal tax incentives to various renewable and carbon emission reduction technologies as well as the domestic manufacturing of advanced energy equipment. To meet the goals of the IRA, many forecasters estimate that tax equity will need to increase from a roughly \$20 billion annual market today to over \$50 billion.”

[American Council on Renewable Energy](#) at page 7 (on behalf of renewable energy developers, buyers, and institutional investors)

G. Insurance

Insurance companies’ substantive comments unanimously expressed objections to the Proposal. They took issue with its publicly traded securities requirement for investment-grade preferential risk weighting, which some commenters noted would harm mutual insurance companies that were highly regulated and very creditworthy.³⁶ In addition, like manufacturing, energy, and agricultural commenters, insurers believed that the combination of the Proposal’s market risk, operational risk, and CVA risk charge would adversely affect their ability to hedge risk through derivatives transactions. Moreover, both US and non-US insurers urged the Banking Agencies to consider credit insurance policies from financially strong and well-regulated insurance companies to be “eligible guarantees” that could reduce the risk weighting for corporate loans and other exposures, a treatment recognized by other national governments that have implemented Basel III.³⁷



The [proposed] changes to this regulatory landscape will contribute to less innovative, affordable, or beneficial offerings for consumers who rely on life insurance products for future financial stability. The back-end expense and changes in trading due to the incentives the proposal creates would not be beneficial for consumers, regulators, or solvency. Additionally, many of these proposed changes exceed the Basel standards and the rules as enacted in Europe, resulting in "gold-plated" rules that may make US firms less competitive than their global peers."

[American Council of Life Insurers](#) at page 9

H. Non-Bank Financial Market Participants, Exchanges and Clearing Organizations

Non-bank participants in the financial markets — including the London Stock Exchange Group, Cboe Global Markets, and the Options Clearing Corporation — all echoed concerns raised by the comment letters of manufacturers, end users, and agricultural and energy firms about the Proposal's effects on the derivatives markets and the ability of counterparties to hedge their risks due to the negative effects of increased capital charges generally on central clearing and in particular the adverse effect of the CVA risk charge. Another commenter, Tradeweb, asserted that the Banking Agencies should reconsider the minimum haircut floors for SFTs due to the importance of SFTs for critical financial markets.



We echo the concerns raised by many others in the industry about the magnitude of these changes and the significant additional capital necessary to satisfy the requirements. Given the increasingly smaller universe of clearing members coupled with higher demand for clearing, the Agencies must ensure the methodologies used to calculate bank capital requirements not only appropriately measure risk exposures but strike a balance that allows for recognition of capital efficiencies to be maximized and, as a result, foster robust clearing capacity in the economy."

[Cboe Global Markets, Inc.](#) at page 4



Funding markets—including securities borrowing and lending markets, as well as U.S. Treasury securities repo markets—are essential in supporting the efficient flow of credit to firms seeking financing to fund their operations and enhancing the liquidity and functioning of financial markets. The cash securities markets are a foundational aspect of the U.S. capital markets, permitting companies to fund their growth and workers to save for retirement. ... [I]f not appropriately calibrated, the minimum haircut floors could affect the ability of banks to engage in funding transactions and provide liquidity in [these] markets."

[Tradeweb Markets Inc.](#) at page 7



I. Housing / Real Estate

Housing and commercial real estate commenters unanimously expressed deep concern with the Proposal, focusing on its approach to risk weighting of mortgages and its treatment of securitizations. With respect to mortgages, the housing industry echoed complaints from the civil rights community that the proposed risk weightings would disproportionately burden minority homeowners and interfere with the Banking Agencies' Community Reinvestment Act (CRA) goals as set forth in their recent CRA regulations. Commenters further criticized the Banking Agencies for not considering the effects of private mortgage insurance on the proposed risk weightings. With respect to securitizations, commenters noted that the Proposal would significantly increase risk weightings for securitization interests without any meaningful justification, which would provide further disincentives to mortgage lending.³⁸ As for commercial real estate, a commenter noted concerns over potential risks from this sector in the aftermath of the pandemic and asserted that those risks would be exacerbated if loans to the sector became more expensive because of increased capital requirements.³⁹



As we evaluate changes to the financial, housing, and mortgage markets, we must take into account the current climate and landscape of the potential American homeowner. Regulators and Congress must evaluate all solutions to lower the costs of housing and remove barriers to home ownership. However, the current Endgame proposal from the Agencies will add another massive hurdle for consumers look[ing] for mortgage loan products. The specific changes to the risk-weighting for mortgages and servicing rights and the overall increase in capital across the board for the large banking institutions will inevitably mean that the cost of mortgages will increase, especially for lower-income consumers, those already struggling the most to obtain housing."

[National Association of Realtors](#) at page 4

J. Small Businesses

Small business owners, none of whom submitted substantive comments supporting the Proposal, expressed substantial concerns that the Proposal would sharply reduce their access to credit. This concern was particularly felt by minority-owned small businesses, which emphasized their difficulty in accessing financing even under good economic conditions.⁴⁰



We are already struggling to access capital — according to an October 2023 survey of our community, 78% of us [we]re concerned about our ability to access capital, a sharp increase from April 2022 when 77% of small business owners were confident about credit. ... The timing of this proposal couldn't be worse. In fact, the Federal Reserve acknowledged recently that the share of households reporting that it is harder to obtain credit today than one year ago hit a new high in August [2023]."

[Goldman Sachs — 10,000 Small Businesses \(signed by 3,092 small business owners\)](#) at page 1



K. Members of Congress

A total of 237 members of Congress wrote or signed letters commenting on the Proposal. Of these, 225 members (just under 95% of those commenting and over 40% of all sitting Senators and House members) signed letters opposing aspects of the Proposal. The opposition was broadly bipartisan, with 100% of Republicans who commented on the Proposal expressing concerns, and 93% of Democrats — including the Chairs of the Congressional Black Caucus and the Congressional Hispanic Caucus — similarly criticizing aspects of the Proposal. One congressional comment letter, signed by 12 Senators (11 Senate Democrats in total, and one Independent Senator who caucuses with the Democrats), supported the Proposal. By contrast, the 225 members of Congress who wrote or signed letters opposing aspects of the Proposal included: 16 Senate Democrats, one Independent who caucuses with the Democrats, 39 Senate Republicans, 129 House Democrats, and 40 House Republicans. Of the 23 letters submitted by members of Congress expressing concerns, including a bipartisan House letter focused solely on capital markets issues, 11 were led (or co-led) by Democrats, and 12 were led by Republicans. Of these comments:

- A letter signed by 107 House Democrats called for the Banking Agencies to reconsider the proposed 400% risk-weighting for tax equity investments due to its likely effects on clean energy production.⁴¹
- A letter signed by 59 House Democrats requested that the Banking Agencies reconsider the changes to mortgage risk weightings, on the ground that many mortgages for members of minority groups would carry a higher risk weighting.⁴² That same letter also criticized the requirement that a company be publicly traded in order to benefit from a lower risk weight for investment-grade borrowers as likely to harm small businesses and contended that the Proposal's analysis "overstates [the] actual risk" of operational risk events and that the operational risk charge should therefore be recalibrated.⁴³
- A letter from Senator Tim Scott and signed by 38 other Senate Republicans urged the Banking Agencies to withdraw the Proposal, asserting, among other things, that it "lack[ed] any quantitative analysis to suggest that the rule is even necessary."⁴⁴
- A bipartisan House letter expressed concerns with the Proposal's estimated increase of "risk-weighted assets associated with banks' trading and capital markets activities [of] \$880 billion," stating that if the Proposal were finalized as proposed, "there may be a significant impact to the ability or willingness of banks to play various critical roles in our capital markets."⁴⁵

One letter, submitted by Senate Banking Committee Chairman Sherrod Brown and signed by 10 other Democrats and one Independent Senator, supported the Proposal. This letter argued that the Proposal will only "impact[] fewer than 50 banks that operate in the U.S.," that "[c]apital supports access to credit," and that the Proposal would close important loopholes for banks in the US\$100 billion to US\$250 billion total consolidated asset range.⁴⁶

L. State and Local Representatives

Locally elected representatives — including state representatives and senators, mayors, and council members representing 12 states — submitted a total of 66 letters, all of which expressed concerns about the Proposal. Most discussed the disparate impact that the Proposal's increased capital requirements could have on the ability of small businesses and members of minority communities to access credit and meet mortgage requirements due to the higher cost of borrowing.⁴⁷ Several of the comment letters also noted that increased capital requirements could



have a detrimental effect on clean energy and other infrastructure projects.⁴⁸ In addition, a number of commenters questioned the necessity of the Proposal on the basis that economic leaders such as Treasury Secretary Janet Yellen had told the American public that “the American banking system is really safe and well-capitalized [and] ... resilient.”⁴⁹

M. Civil Rights Advocates

Members of the civil rights community, including NAACP chapters and members in South Carolina, Georgia, Pennsylvania, and Ohio and the Hispanic Leadership Fund, expressed grave concerns about the Proposal’s likely effects on minority home ownership and small businesses. Commenters were particularly focused on the effects of the Proposal’s keying mortgage risk weighting off LTV ratios, noting that the 20% down payment requirement for lower risk weighting would exclude many minority homebuyers. With respect to effects on small business, commenters emphasized that Black-owned small businesses had long “faced disproportionate challenges when seeking access to capital and resources, making it even more critical to take their unique circumstances into account when making policy decisions that affect their operations.”⁵⁰

N. Union Executives

The two union executives who commented substantively on the Proposal expressed concerns that its higher capital requirements would result in less lending to infrastructure and other development projects, such as a new computer chip facility in Ohio, and thereby have adverse knock-on effects on employment in the construction industry.⁵¹ On the other hand, a think tank letter supporting the Proposal that argued that increased capital requirements would advance the safety and soundness of the banking sector and reduce systemic risk was joined without individual comment by the AFL-CIO.⁵²

O. Academics

Academic comment letters on the Proposal expressed a variety of views. Those that took issue with the Proposal emphasized its divergence from the Basel III Endgame agreement, which would mean US divergence from other jurisdictions’ implementation,⁵³ as well as an asserted lack of economic evidence, cost-benefit analysis, or consideration of overlapping capital charges addressing similar risks.⁵⁴ Academic letters supporting the Proposal, as noted above, argued that increased capital would reduce systemic risk, permit increased bank lending in all economic cycles, and appropriately reduce reliance on bank internal models.⁵⁵



VI. Conclusion

The record of comments on the Proposal includes a substantial amount of detailed and significant comments — almost all of which express reservations about at least some of the Proposal's aspects. Under the APA, the Banking Agencies are now required to consider and respond to these comments as they decide whether and how to finalize the proposed rulemaking. In doing so, the Banking Agencies will need to "explain the assumptions and methodology" underlying the Proposal; "and, if the methodology is challenged ... provide a complete analytic defense."⁵⁶ If the Banking Agencies fail to "respond to relevant and significant public comments," any final rule can be set aside by a reviewing court as arbitrary and capricious.⁵⁷

Given the unusually large volume of critical comments received from such a diverse group of stakeholders, and the significant substantive and policy and legal problems those commenters have identified in the Proposal, the Banking Agencies face certain challenges. If they decide to press forward to finalize the proposed rule, they will need to provide considered responses to the many serious policy concerns raised by the commenters. Even if the Banking Agencies make significant changes from the Proposal, any final rule could still be vulnerable to challenge under the APA for the reasons identified by commenters. As an alternative, the Banking Agencies may consider withdrawing the Proposal or re-proposing the rule to address the many concerns commenters have raised.



Endnotes

- ¹ At the same time that the Banking Agencies issued the Proposal, they issued a proposal (the G-SIB Surcharge Proposal) under which the method for calculating the capital surcharge for global systemically important banks (G-SIBs) would be revised.
- ² We excluded from our analysis 44 individual and two entity comments that in our view did not meaningfully address the details of the Proposal. In addition, we counted each comment letter as a single unit, even though some represent the views of multiple individuals or entities. Entity comments and substantive individual comments are linked in the Appendix.
- ³ Several agency principals have similarly expressed opposition or serious concerns with the Proposal in written statements and speeches; however, as they did not submit formal comment letters, they are not counted among those reviewed here.
- ⁴ This letter indicated that not all of the Council's members agreed with all aspects of the comment letter.
- ⁵ *Small Refiner Lead Phase-Down Task Force v. EPA*, 705 F.2d 506, 535 (D.C. Cir. 1983).
- ⁶ *Cape Cod Hosp. v. Sebelius*, 630 F.3d 203, 211-12 (D.C. Cir. 2011); see 5 U.S.C. § 706.
- ⁷ On January 16, 2024, Federal Reserve Governor Christopher Waller opined that the Banking Agencies should consider withdrawing the Proposal and starting over, given how much work would be involved in producing an acceptable final rule. See <https://www.americanbanker.com/news/feds-waller-says-capital-plan-should-be-withdrawn#:~:text=Waller%27s%20remarks%20occurred%20on%20the,least%20%24100%20billion%20of%20assets>.
- ⁸ Trade groups are included within the industry they represent; comment letters from banking regulators are included in Banks.
- ⁹ [Association of British Insurers](#).
- ¹⁰ [The Investment Association](#).
- ¹¹ [Dutch Federation of Pension Funds](#).
- ¹² [National Association of Manufacturers](#).
- ¹³ [Sens, Gillibrand and Lummis Letter](#).
- ¹⁴ [Center for American Progress](#). Although supportive of the Proposal, this letter indicated that the Proposal did not go far enough in increasing capital requirements.
- ¹⁵ [CFA Institute Systemic Risk Council](#). This letter indicated that not all of the Council's members agreed with all aspects of the comment letter.
- ¹⁶ [Better Markets](#).
- ¹⁷ *Id.*
- ¹⁸ [CFA Institute Systemic Risk Council](#).
- ¹⁹ [Better Markets](#).
- ²⁰ [CFA Institute Systemic Risk Council](#).



²¹ [Profs. Anat R. Admati, Hilary J. Allen, and 28 other banking and finance scholars.](#)

²² [Better Markets.](#)

²³ [Structured Finance Association.](#)

²⁴ [Id.](#)

²⁵ [Ally Financial Inc., Citizens Financial Group, Inc., Comerica Incorporated, Discover Financial Services, Fifth Third Bancorp, First Citizens Bancshares, Inc., Huntington Bancshares Inc., KeyCorp, New York Community Bancorp, Inc., and Regions Financial Corporation.](#)

²⁶ [Texas Public Policy Foundation.](#)

²⁷ [Profs. Admati, Allen, et al.](#)

²⁸ [American Benefits Council.](#)

²⁹ [CalPERS; The ERISA Industry Committee.](#)

³⁰ [Securities Industry and Financial Markets Association Asset Management Group.](#)

³¹ [National Association of Manufacturers.](#)

³² [Coalition of Derivatives End-Users.](#)

³³ [Id.](#)

³⁴ [National Council of Farmer Cooperatives, Commodity Markets Council, and seven other agricultural associations.](#)

³⁵ [Futures Industry Association.](#)

³⁶ [Guardian Life Insurance Company of America et al.](#)

³⁷ [International Underwriting Association \(IUA\), Lloyd's Market Association \(LMA\), and International Credit Insurance and Surety Association \(ICISA\).](#)

³⁸ [Angel Oak Companies LP.](#)

³⁹ [CRE Finance Council.](#)

⁴⁰ [Jamie! Robinson, Founder/CEO, Grand Rapids Area Black Businesses \(GRABB\).](#)

⁴¹ [Reps. Casten, et al., U.S. House of Representatives \(House Democrats Climate Letter, 107 signatures\).](#)

⁴² [Reps. Beatty, et al., U.S. House of Representatives \(59 Democratic signatures\).](#)

⁴³ [Id.](#)

⁴⁴ [Sens. Scott, et al., U.S. Senate \(39 Signatures\).](#)

⁴⁵ [Reps. Sherman, et al., U.S. House of Representatives \(15 signatures\).](#)

⁴⁶ [Sens. Brown et al., U.S. Senate \(12 Signatures\).](#)

⁴⁷ [Katie Rosenberg, Mayor of Wausau, Wisconsin.](#)



⁴⁸ [Rachel Hood, Michigan State Representative, 81st District; Jim Haadsma, Michigan State Representative, 44th District.](#)

⁴⁹ [Matt Hughes, Mayor Pro-Tempore, Hillsborough, North Carolina.](#)

⁵⁰ [Jamie Robinson, Founder/CEO, Grand Rapids Area Black Businesses \(GRABB\).](#)

⁵¹ [Dorsey Hager, Columbus/Central Ohio Building & Construction Trades Council.](#)

⁵² [20/20 Vision and nine other organizations.](#)

⁵³ [Prof. David Zaring, The Wharton School, University of Pennsylvania.](#)

⁵⁴ [Prof. Anthony Saunders, New York University Stern School of Business.](#)

⁵⁵ [Profs. Anat R. Admati, et al.](#)

⁵⁶ *Small Refiner Lead Phase-Down Task Force v. EPA*, 705 F.2d 506, 535 (D.C. Cir. 1983).

⁵⁷ *Cape Cod Hosp. v. Sebelius*, 630 F.3d 203, 211-12 (D.C. Cir. 2011); see 5 U.S.C. § 706.



Appendix: Basel III Endgame Comment Letters

Academics and Think Tanks

Academics

- [Prof. Anat R. Admati, Stanford University Graduate School of Business](#)
- [Profs. Anat R. Admati, et al. \(30 signatures\)](#)
- [E.J. Antoni, PhD](#)
- [Stephen Matteo Miller, Senior Research Fellow, Financial Markets Working Group, George Mason University](#)
- [Prof. Anthony Saunders, New York University Stern School of Business](#)
- [Prof. David Zaring, The Wharton School, University of Pennsylvania](#)

Think Tanks

- [20/20 Vision, AFL-CIO, American Economic Liberties Project, Americans for Financial Reform Education Fund, Consumer Federation of America, Institute for Agriculture and Trade Policy, Massachusetts Action for Justice, Public Citizen, Rise Economy \(formerly California Reinvestment Coalition\), and The One Less Foundation](#)
- [Advancing American Freedom](#)
- [American Consumer Institute, Taxpayers Protection Alliance, Competitive Enterprise Institute, 60 Plus Association, Frontiers for Freedom, FreedomWorks, International Center for Law & Economics, Americans for Tax Reform, R Street Institute, American Action Forum, Hispanic Leadership Fund, National Taxpayers Union, and Consumer Action for a Strong Economy](#)
- [Americans for Financial Reform Education Fund](#)

- [Americans for Financial Reform, Carrizo/Comecruzo Tribal Nation of Texas, Centre for Citizens Conserving Environment & Management, Climate Action Rhode Island-350, Earth Ethics, Inc., E3G, Friends of the Earth U.S., Indigenous Environmental Network, 1000 Grandmothers for Future Generations, Public Citizen, Revolving Door Project, Sierra Club, The Phoenix Group, The Sunrise Project, 350 Chicago, 350 Eastside, 350 Silicon Valley, 350 Wisconsin, and 350 Yakima Climate Action](#)
- [Americans for Tax Reform](#)
- [Center for American Progress](#)
- [Center for Responsible Lending](#)
- [CFA Institute Systemic Risk Council](#)
- [Committee on Capital Markets Regulation](#)
- [Committee on Capital Markets Regulation \(John L. Thornton, Hal S. Scott, and R. Glenn Hubbard\)](#)
- [The Real Estate Roundtable](#)
- [Texas Public Policy Foundation](#)
- [Woodstock Institute](#)

Agriculture and Energy

Agriculture

- [National Council of Farmer Cooperatives](#)
- [National Council of Farmer Cooperatives, Commodity Markets Council, National Cattlemen's Beef Association, National Grain and Feed Association, American Farm Bureau Federation, National Milk Producers Federation, National Pork Producers Council, American Cotton Shippers Association, and Farm Credit Council](#)



- [National Grain and Feed Association](#)
- [Jeremy Seidnitz](#)
- [Chris Sumpter](#)
- [Jerry Swanson](#)

Energy

- [American Clean Power Association](#)
- [American Council on Renewable Energy](#)
- [American Council on Renewable Energy, American Clean Power, Clean Energy Buyers Association, Solar Energy Industries Association, Arevon, Avangrid, BlueWave, Clearway Energy, Copenhagen Infrastructure Partners, Cordelio Power, Cypress Creek Renewables, DNV Energy USA Inc., Ecoplexus Inc., EDF Renewables, EIP Storage, LLC, Enel North America, ENGIE North America, Eolian, L.P., Form Energy, HASI, Hy Stor Energy, Intersect Power, Invenergy, kWh Analytics, Leeward Renewable Energy, LLC, Longroad Energy, MasTec, Inc., Mississippi Clean Hydrogen Hub, Monarch Private Capital, LLC, NextEra Energy, Nordex USA, Onward Energy, Ørsted, Pattern Energy, PineGate Renewables, LLC, Primergy Solar, LLC, RWE, SB Energy, Siemens Energy, Inc., Terra-Gen, LLC, TPI Composites, Inc., Vesper Energy Development, LLC., and Vestas - American Wind Technology, Inc.](#)
- [American Public Gas Association](#)
- [American Public Power Association and National Rural Electric Cooperative Association](#)
- [Arena Energy, LLC](#)
- [Marcurius Byrd](#)
- [Clean Energy States Alliance](#)
- [Emily Cleveland](#)
- [Coalition for Community Solar Access](#)

- [Energy Trading Institute, Electric Power Supply Association, American Gas Association, American Public Gas Association, Commodity Markets Council](#)
- [International Energy Credit Association](#)
- [Cari Olson](#)
- [Renewable Energy Tax Advisors, LLC](#)
- [San Diego Community Power, Clean Power Alliance, Silicon Valley Clean Energy, San Jose Clean Energy, Sonoma Clean Power Authority, Central Coast Community Energy, MCE, Pioneer Community Energy, Redwood Coast Energy Authority, Peninsula Clean Energy, and Orange County Power Authority](#)
- [Solar Energy Industries Association](#)
- [TurbineHub](#)

Asset Management

- [AllianceBernstein](#)
- [Allspring Global Investments](#)
- [BlackRock, Inc.](#)
- [Franklin Resources, Inc. and Invesco Ltd.](#)
- [Danny Nelson, PFM Asset Management](#)
- [Investment Company Institute \(Eric Pan and Sean Collins\)](#)
- [Investment Company Institute](#)
- [Nuveen Fund Advisors, LLC](#)
- [Securities Industry and Financial Markets Association Asset Management Group](#)

Banks

Foreign Banks

- [Asian Infrastructure Investment Bank \(AIIB\)](#)
- [Barclays](#)
- [HSBC North America Holdings, Inc.](#)



- [Santander Holdings USA, Inc.](#)
- [UBS](#)

Trade Associations

- [American Bankers Association, Alabama Bankers Association, Alaska Bankers Association, Arizona Bankers Association, Arkansas Bankers Association, California Bankers Association, Colorado Bankers Association, Connecticut Bankers Association, DC Bankers Association, Delaware Bankers Association, Florida Bankers Association, Georgia Bankers Association, Hawaii Bankers Association, Idaho Bankers Association, Illinois Bankers Association, Indiana Bankers Association, Iowa Bankers Association, Kansas Bankers Association, Kentucky Bankers Association, Maine Bankers Association, Maryland Bankers Association, Massachusetts Bankers Association, Michigan Bankers Association, Minnesota Bankers Association, Mississippi Bankers Association, Missouri Bankers Association, Montana Bankers Association, Nebraska Bankers Association, Nevada Bankers Association, New Hampshire Bankers Association, New Jersey Bankers Association, New Mexico Bankers Association, New York Bankers Association, North Carolina Bankers Association, North Dakota Bankers Association, Ohio Bankers Association, Oklahoma Bankers Association, Oregon Bankers Association, Pennsylvania Bankers Association, Puerto Rico Bankers Association, Rhode Island Bankers Association, South Carolina Bankers Association, Tennessee Bankers Association, Texas Bankers Association, Utah Bankers Association, Vermont Bankers Association, Virginia Bankers Association, Washington Bankers Association, West Virginia Bankers Association, Wisconsin Bankers Association, Wyoming Bankers Association](#)
- [Bank Policy Institute and American Bankers Association](#)
- [Bank Policy Institute, Securities Industry and Financial Markets Association, Financial Services Forum, and the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness](#)
- [Bank Policy Institute, Financial Services Forum, Securities Industry and Financial Markets Association, American Bankers Association, Institute of International Bankers, and the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness\(September 12, 2023\)](#)
- [Bank Policy Institute, Financial Services Forum, Securities Industry and Financial Markets Association, American Bankers Association, Institute of International Bankers, and the U.S. Chamber of Commerce's Center for Capital Markets Competitiveness\(October 13, 2023\)](#)
- [Bankers Association for Finance and Trade](#)
- [Bankers Association for Finance and Trade and International Trade and Forfaiting Association](#)
- [Consumer Bankers Association](#)
- [Financial Services Forum](#)
- [Financial Services Forum, American Bankers Association, Bank Policy Institute, and Securities Industry and Financial Markets Association](#)
- [Independent Community Bankers of America](#)
- [International Association of Credit Portfolio Managers](#)
- [National Bankers Association](#)
- [Secured Finance Network](#)
- [Wisconsin Bankers Association](#)



US Banks

- [Ally Financial Inc.](#)
- [Ally Financial Inc., The Charles Schwab Corporation, Discover Financial Services, and Synchrony Financial](#)
- [Ally Financial Inc., Citizens Financial Group, Inc., Comerica Incorporated, Discover Financial Services, Fifth Third Bancorp, First Citizens Bancshares, Inc., Huntington Bancshares Inc., KeyCorp, New York Community Bancorp, Inc., and Regions Financial Corporation](#)
- [AgriBank](#)
- [American Express](#)
- [Axos Bank](#)
- [The Bank of New York Mellon Corporation](#)
- [Capital One Financial Corporation, The PNC Financial Services Group, Inc., Truist Financial Corporation, and U.S. Bancorp](#)
- [Citigroup](#)
- [CoBank, ACB](#)
- [Discover Financial Services](#)
- [Florida Capital Bank, N.A.](#)
- [Goldman Sachs Asset Management](#)
- [The Goldman Sachs Group, Inc.](#)
- [JPMorgan Chase & Co.](#)
- [KeyCorp](#)
- [Morgan Stanley](#)
- [The Northern Trust Corporation](#)
- [Regions Financial Corporation](#)
- [State Street Corporation](#)
- [Synchrony Financial](#)
- [Synchrony Financial, Discover Financial Services, and Capital One Financial](#)

- [United Services Automobile Association \(USAA\)](#)
- [U.S. Bancorp](#)
- [Wells Fargo](#)

US Regulators

- [Conference of State Bank Supervisors](#)
- [Edward J. DeMarco, President, Housing Policy Council; former Acting Director of the Federal Housing Finance Agency \(FHFA\); former member of the FSOC](#)

Civil Rights Advocates

- [Stella J. Adams, Housing Chair, Durham Committee on the Affairs of Black People](#)
- [Jaladah Aslam, President, Youngstown Warren Black Caucus](#)
- [Ray Brown](#)
- [Adrian Chester, Board Member, Greater Columbus Urban League](#)
- [Dayton A. Davis, President, Pittsburgh NAACP](#)
- [Shawn Danforth, Helena, MT](#)
- [Lester Dewaine Frye](#)
- [Wane A. Hailes, President / Publisher, The Courier Eco Latino Newspaper; Former President, Columbus, GA Chapter of the NAACP](#)
- [Gary Horton, President, Erie NAACP Unit 2262](#)
- [Angela Lang, Executive Director, Black Leaders Organizing for Communities](#)
- [Chance Lebron, Young Committee Chair of the West Spartanburg NAACP](#)
- [Demetrius McBride, Advocacy Chairperson, Urban League of the River Valley Young Professionals](#)



- [Reverend Dr. W. Perryman Jr., NAACP Toledo Unit 3204](#)
- [M.T. Pyatt](#)
- [Jamiel Robinson, Founder/CEO, Grand Rapids Area Black Businesses \(GRABB\)](#)
- [Renitta Sweet, Communications Chair, Urban League of Greater Atlanta Young Professionals; Former President, Urban League of the River Valley](#)
- [Bishop Talmadge J. Thomas](#)
- [Tonza Thomas, State Secretary, Columbus Branch, Georgia NAACP](#)
- [Eike Weil-Millan](#)
- **Foreign Commenters**
 - [Association of British Insurers](#)
 - [Institute of International Bankers](#)
 - [International Association of Credit Portfolio Managers and International Trade and Forfeiting Association](#)
 - [International Underwriting Association, Lloyd's Market Association, and International Credit Insurance and Surety Association](#)
 - [The Investment Association](#)
 - [World Federation of Exchanges \(Charlie Ryder, Richard Metcalfe and Nandini Sukumar\)](#)
- **General Business and Manufacturing**
 - [AEGIS Hedging Solutions](#)
 - [Business Roundtable](#)
 - [Clarke-Mobile Counties \(Alabama\) Gas District, The Black Belt Energy Gas District \(Alabama\) and The Lower Alabama Gas District](#)
 - [Coalition for Derivatives End-Users](#)
 - [Coalition for Derivatives EndUsers](#)
 - AB InBev
 - Aisera Inc.
 - Alabama Municipal Electric Authority
 - American Farm Bureau Federation
 - American Honda Finance Corp.
 - American Public Gas Association
 - Apexon
 - Arena Energy
 - Ascent Resources
 - AT&T
 - Aukum Group LLC
 - Aviation Facilities Company Management
 - B&B Hotels
 - BASA Resources, Inc.
 - Basin Electric Power Cooperative
 - BayWa r.e.
 - Black Belt Energy
 - BPL Medical
 - Callon Petroleum Company
 - Carroll Electric Membership Cooperative
 - Chatham Financial Corp.
 - Chesapeake Energy Corporation
 - Clarke-Mobile Counties Gas District
 - Commodity Markets Council
 - Comstock Resources
 - Conexa Saude
 - Constructel Visabeira S.A.



- Cprime, Inc.
- Cummins Inc.
- Cyfirma
- Cypress Creek Renewables
- data.world
- Digibee
- Dow Inc.
- Electric Power Supply Association
- Energy Trading Institute
- EQT Corporation
- FirstMeridian Business Services Limited
- Fortress Information Security
- Fuelcomm Inc. d/b/a Stackline
- GC Infrastructure Investors LLC
- GridPoint, Inc.
- Hertz
- HES International B.V.
- Hilton Worldwide Holdings Inc.
- Honeywell International Inc.
- Hydrostor Inc.
- ILS Inc.
- International Business Machines Corporation
- IOG Resources
- Kaiser Aluminum
- Kinder Morgan Inc.
- Liberty Global
- Liberty Latin America Ltd.
- Lower Alabama Gas
- Madhive
- Marriott International, Inc.
- Metiri Group
- MoEngage Inc.
- Moody's
- National Association of Manufacturers
- National Cattlemen's Beef Association
- National Rural Electric Cooperative Association
- NNESP LLC
- NNN REIT, Inc.
- Norgine BV
- Northeast Natural Energy LLC
- Oglethorpe Power Corporation
- Omega Healthcare
- Ovintiv Inc.
- PayPal Holdings, Inc.
- PBF Energy Inc.
- People Corporation
- Public Energy Authority of Kentucky
- Recover Fiber
- Rhythm Energy
- RWE Supply & Trading Americas LLC
- Sabinal Energy
- Seneca Resources Company
- Siemens USA
- Slickdeals LLC
- Snyder Brothers, Inc.
- Southwest Airlines Co.
- Strim



- Sunin
- Terra Energy Partners
- The Association of Corporate Treasurers
- Tienda Inglesa
- Transcendia
- Unico
- U.S. Chamber of Commerce
- U.S. Steel
- Vistra Corp.
- Visual Comfort & Co.
- Vodafone
- Volvo Group North America
- Warner Bros. Discovery, Inc.
- Western Farmers Electric Cooperative
- Whirlpool Corporation
- WildFire Energy
- Xylem
- Yum Brands
- Zaxby's
- [Huntsville Utilities](#)
- [Kaiser Aluminum Corporation](#)
- [Liberty Latin America Ltd.](#)
- [Memphis Light, Gas and Water](#)
- [Municipal Gas Authority of Georgia](#)
- [National Association of Manufacturers](#)
- [National Public Gas Agency](#)
- [Siwek Construction, Flint, MI](#)
- [U.S. Chamber of Commerce](#)

Housing / Real Estate

- [Affordable Housing Tax Credit Coalition, Council for Rural and Affordable Housing, Enterprise Community Partners, Housing Assistance Council, LIHTC Working Group, Local Initiatives Support Corporation/ National Equity Fund, Low Income Investment Fund, National Affordable Housing Management Association, National Apartment Association, National Association of Affordable Housing Lenders, National Association of Home Builders of the United States, National Association of State and Local Equity Funds, National Council of State Housing Agencies, National Housing and Rehabilitation Association, National Housing Conference, National Leased Housing Association, National Multifamily Housing Council, National Rural Housing Coalition, and Stewards of Affordable Housing for the Future](#)
- [Virgie Ammerman](#)
- [Angel Oak Companies](#)
- [Arch Capital Group Ltd.](#)
- [Building Owners and Managers Association International](#)
- [California Association of Realtors](#)
- [CRE Finance Council](#)
- [CRE Finance Council, ICSC, NAIOP, Commercial Real Estate Development Association, Nareit, Real Estate Bar of New York, American Land Title Association, Mortgage Bankers Association, National Association of Home Builders of the United States, National Multifamily Housing Council, and The Real Estate Roundtable](#)
- [Jalen Elrod](#)
- [Enact Holdings, Inc.](#)
- [Fannie Mae](#)
- [Freddie Mac](#)



- [Samuel Grant](#)
 - [Joel Griffith](#)
 - [Historic Tax Credit Coalition](#)
 - [Housing Policy Council](#)
 - [Chris Miller](#)
 - [Mortgage Bankers Association](#)
 - [Mortgage Bankers Association; National Association of Realtors, National Association of Home Builders, Community Home Lenders of America, United States Mortgage Insurers, and the Manufactured Housing Institute](#)
 - [Mortgage Guaranty Insurance Corporation](#)
 - [National Association of Affordable Housing Lenders](#)
 - [National Association of Affordable Housing Lenders, NMTC Coalition, and NMTC Working Group](#)
 - [National Association of Realtors](#)
 - [National Council of State Housing Agencies](#)
 - [National Housing Conference, AmeriHome Mortgage, Bank Policy Institute, Eden Housing, Enact Holdings, Inc., Faith and Community Empowerment, Guild Mortgage, Habitat for Humanity International, Homeownership Council of America, Local Initiatives Support Corporation, Low Income Investment Fund, Manufactured Housing Institute, Mortgage Bankers Association, NAACP, National Affordable Housing Management Association, National Association of Home Builders of the United States, National Association of Realtors, National Community Stabilization Trust, National Multifamily Housing Council, National Council of State Housing Agencies, National Urban League, New American Funding, Pulte Financial Services, ROC USA, UnidosUS, U.S. Mortgage Insurers, and Western Alliance Bank](#)
 - [National Multifamily Housing Council and National Apartment Association](#)
 - [Novogradac Low Income Housing Tax Credit Working Group](#)
 - [Novogradac New Markets Tax Credit Working Group](#)
 - [PMI Rate Pro](#)
 - [Redwood Trust, Inc.](#)
 - [Hasani \(Marlon\) Simmons](#)
 - [U.S. Mortgage Insurers](#)
 - [Lawrence Wright](#)
- Insurance**
- [American Council of Life Insurers](#)
 - [Guardian Life Insurance Company of America, Nationwide, Northwestern Mutual Life Insurance Company, TruStage Financial Group, Massachusetts Mutual Life Insurance Company, New York Life Insurance Company, Securian Financial Group, Inc., and Western & Southern Financial Group](#)
 - [Lloyd's America, Inc.](#)
 - [Marsh McLennan](#)
 - [National Association of Mutual Insurance Companies](#)
 - [Newport Group](#)
 - [New York Life Insurance Company](#)
 - [Reinsurance Association of America](#)
 - [Reinsurance Association of America, The Council of Insurance Agents & Brokers, Wholesale & Specialty Insurance Association, Independent Insurance Agents & Brokers of America, National Association of Mutual Insurance Companies, U.S. Mortgage Insurers, American Property Casualty Insurance Association, and The Surety & Fidelity Association of America](#)



Local Elected Officials

Arizona

- [Consuelo Hernandez, Arizona State Representative](#)
- [Robert Meza, Former Arizona State Senator](#)

Georgia

- [Wendy Davis, Former Rome City Commissioner](#)
- [Joyce Denson, Mayor of Toombsboro, Georgia](#)
- [Dar'shun Kendrick, Georgia House of Representatives](#)
- [Teddy Reese, Georgia State Representative](#)
- [Kim Schofield, Georgia State Representative](#)

Minnesota

- [LaTrisha Vetaw, City of Minneapolis Council Member](#)
- [Hollies J. Winston, Mayor of Brooklyn Park, Minnesota](#)

Michigan

- [Fred Durhal III, Councilmember - District 7, Detroit City Council](#)
- [Tim Greimel, Mayor of Pontiac, Michigan](#)
- [Jim Haadsma, Michigan State Representative](#)
- [Rachel Hood, Michigan State Representative](#)
- [Nora Jackson, Mayor Pro-Tem Jackson, Representative for City of Albion Precinct #3](#)
- [Donavan McKinney, Michigan State Representative](#)

- [Monica Sparks, Kent County Commissioner](#)

Montana

- [John Fleming, former Montana State Representative](#)
- [Jim Smith, former Mayor of Helena, Montana](#)

Nevada

- [Francisco Aguilar, Nevada Secretary of State](#)
- [Natha Anderson, Nevada State Assemblywoman](#)
- [Max Carter III, Nevada State Assemblyman](#)
- [Venicia Considine, Nevada State Assemblywoman](#)
- [Elaine Marzola, Nevada State Assemblywoman](#)
- [Julie Pazina, Nevada State Senator](#)
- [Shondra Summers-Armstrong, Nevada State Assemblywoman](#)
- [Selena Torres, Nevada State Assemblywoman](#)
- [Howard Watts III, Nevada State Assemblymember](#)

North Carolina

- [Julie von Haefen, North Carolina State Representative](#)
- [Matt Hughes, Mayor Pro-Tempore of Hillsborough, North Carolina](#)
- [Michael Wray, North Carolina State Assemblyman](#)

Ohio

- [Toyia Tucker, Columbus City Councilmember](#)



- [Ashley White \(on behalf of Terrence Upchurch, Ohio State Representative\)](#)

Pennsylvania

- [Tina M. Davis, Pennsylvania State Representative](#)
- [Jonathan Kinloch, Wayne County Commissioner](#)
- [Greg Scott, Pennsylvania State Representative](#)
- [Ismail Smith-Wade-El, Pennsylvania State Representative](#)
- [Dr. Monica Taylor, Delaware County Council Chair](#)
- [Dwan B. Walker, Mayor of Aliquippa, Pennsylvania](#)

South Carolina

- [James Blassingame, Sumter City Council Member](#)
- [Jermaine L. Johnson, South Carolina State Representative](#)
- [Kevin L. Johnson, South Carolina State Senator](#)
- [John Richard C. King, South Carolina State Representative](#)
- [Annie E. McDaniel, South Carolina State Representative](#)
- [Russell L. Ott, South Carolina State Representative](#)
- [Seth Rose, South Carolina State Representative](#)
- [Shedron Williams, Former South Carolina State Representative](#)

Virginia

- [Lamont Bagby, Virginia State Senator](#)

- [L. Louise Lucas, Virginia State Senator](#)
- [Fernando Martinez, Former Vice-Mayor of Leesburg, Virginia](#)
- [Andria P. McClellan, Norfolk City Councilmember](#)
- [Delores McQuinn, Virginia State Delegate](#)
- [Tyrone E. Nelson, Commonwealth of Virginia County of Henrico](#)
- [Cynthia I. Newbille, Richmond City Council Member](#)
- [Levar M. Stoney, Mayor of Richmond, Virginia](#)
- [Scott A. Surovell, Virginia State Senator](#)
- [Mary Sue Terry, Former Attorney General of Virginia](#)

Wisconsin

- [Melissa Agard, Wisconsin State Senate](#)
- [Mandela Barnes, 45th Lt. Governor of Wisconsin](#)
- [David Crowley, Milwaukee County Executive](#)
- [Jodi Emerson, Wisconsin State Representative](#)
- [Francesca Hong, Wisconsin State Representative](#)
- [Cavalier Johnson, Mayor of the City of Milwaukee, Wisconsin](#)
- [Greta Neubauer, Wisconsin Assembly Democratic Leader](#)
- [Marcelia N. Nicholson, Milwaukee County Board of Supervisors](#)
- [Joe Parisi, Dane County Executive](#)
- [Katie Rosenberg, Mayor of Wausau, Wisconsin](#)



Non-Bank Financial Market Participants, Exchanges and Clearing Organizations

- [American Securities Association](#)
- [Bloomberg L.P.](#)
- [CBOE Global Markets](#)
- [CME Group](#)
- [Depository Trust & Clearing Corporation](#)
- [Eversheds Sutherland LLP, on behalf of Farm Credit System](#)
- [Eversheds Sutherland LLP, on behalf of Federal Home Loan Banks and the Federal Home Loan Banks Office of Finance](#)
- [Federal Agricultural Mortgage Corporation](#)
- [Futures Industry Association](#)
- [Government Finance Officers Association, National Association of Health and Educational Facilities Finance Authority, National Association of State Treasurers, American Public Power Association, Large Public Power Association, Large Public Power Counsel, Securities Industry and Financial Markets Association, and Bond Dealers of America](#)
- [ICE Data Services](#)
- [Intercontinental Exchange Inc.](#)
- [International Swaps and Derivatives Association, Inc., and Securities Industry and Financial Markets](#)
- [London Stock Exchange Group](#)
- [MarketAxess Holdings Inc.](#)
- [Nodal Clear, LLC](#)
- [Octaura Holdings](#)
- [Options Clearing Corporation](#)
- [Gordon Peery](#)
- [PentAlpha Surveillance](#)
- [Risk Management Association \(Advanced Operational Risk Group\)](#)
- [Risk Management Association \(Bank Crisis Response Working Group\)](#)
- [Risk Management Association \(Securities Lending Council\)](#)
- [Securities Industry and Financial Markets Association and Futures Industry Association](#)
- [Structured Finance Association](#)
- [Tradeweb Markets Inc.](#)
- [Trumid](#)
- [Upstart Network, Inc.](#)
- [Whalen Global Advisors](#)

Pension Funds / Retirement

- [American Benefits Council](#)
- [CalPERS](#)
- [Dutch Federation of Pension Funds](#)
- [ERISA Industry Committee](#)
- [Finseca](#)
- [PGGM](#)
- [State of Wisconsin Investment Board and the Ohio Public Employees Retirement System \(SWIB-OPERS\)](#)

Public Interest

- [Affordable Housing Tax Credit Coalition](#)
- [Avenue Community Development Corporation, Fifth Ward Community Redevelopment Corporation, Houston Habitat for Humanity, and LISC Houston](#)
- [Better Markets](#)
- [Brett Buckner, Managing Director, OneMn.org](#)
- [Ceres and the Ceres Accelerator](#)



- [Ted Dick, Former Executive Director, Montana Democratic Party](#)
 - [The Elective Group](#)
 - [Richard Estrada, Former National Vice President for the Far West, League of United Latin American Citizens](#)
 - [Lela Graham, Executive Director and Co-Founder, Independence Rock Coalition](#)
 - [Ron Harris, Chairman of the Midwestern Caucus of the DNC; Regional Lead, Resilient Cities Network; Former Chief Resilience Officer, City of Minneapolis, MN](#)
 - [Jeff Hart, Policy Advisor, Governor Roy Cooper](#)
 - [Hispanic Leadership Fund](#)
 - [Ericka Jones](#)
 - [Kaylyn Kardavani, Executive Director, New Day Nevada](#)
 - [Gary Mariegard, President of the Board of Directors for the Montana Society of Public Accountants](#)
 - [Rabbi Bonnie Margulis, Executive Director, Wisconsin Faith Voices for Justice](#)
 - [Casey L. Matthiesen, President, Minnesota American Indian Bar Association](#)
 - [William McGee, President, Southern Christian Leadership Conference](#)
 - [Georgina Monsalvo, Arizona Organizing Director, Stand for Children](#)
 - [National Community Reinvestment Coalition](#)
 - [National Fair Housing Alliance](#)
 - [National Taxpayers Union](#)
 - [Donald Perryman, President, United Pastors for Social Empowerment; Pastor, Center of Hope CBC](#)
 - [Isaac Russell, Director of Public Policy, Center for Economic Inclusion](#)
 - [Paul Selberg, Former Executive Director, Nevada Conservation League](#)
 - [Urban Chamber of Commerce](#)
 - [Ana Valenzuela Estrada, President/CEO, Latina Chamber of Commerce in Arizona](#)
- Small Business**
- [Luis Acosta Herrera](#)
 - [The American Free Enterprise Chamber of Commerce](#)
 - [Cara Frank](#)
 - [Adrienne Gaskins](#)
 - [Mayra Jaime](#)
 - [Gloria Larkin](#)
 - [Gaylene Kanoyton](#)
 - [Goldman Sachs 10,000 Small Businesses Voices](#)
 - [John Malia](#)
 - [Jodi Medlar](#)
 - [Niya Murphy, New Networks Consulting](#)
 - [National Cooperative Business Association, CLUSA International](#)
 - [Lisa Nutt](#)
 - [Maria Pico](#)
 - [Lorenzo Sierra](#)
 - [Small Business Investor Alliance](#)
 - [Lamar Smith](#)
 - [Mike Snitz](#)
 - [South Carolina Small Business Chamber of Commerce](#)
 - [Breanna Spaulding](#)



- [Valerie](#)

- [Steve Veverka](#)

Union Executives

- [Ryan Bennett, Business Manager, Financial Secretary/Treasurer, West Michigan Plumbers Fitters and Service Trades U.A. Local #174](#)

- [Dorsey Hager, Columbus/Central Ohio Building & Construction Trades Council](#)

- [Wisconsin Building Trades Council](#)

US Members of Congress

- [Rep. Barr, United States House of Representatives](#)

- [Reps. Beatty, et al., United States House of Representatives \(59 Democratic signatures\)](#)

- [Reps. Casten, et al., United States House of Representatives \(House Democrats Climate Letter, 107 signatures\)](#)

- [Reps. De La Cruz, et al., United States House of Representatives \(13 signatures\)](#)

- [Reps. Foster, et al., United States House of Representatives \(23 signatures\)](#)

- [Reps. Fitzgerald, et al., United States House of Representatives \(17 signatures\)¹](#)

- [Reps. Huizenga, et al., United States House of Representatives \(3 signatures\)](#)

- [Reps. McHenry, et al., United States House of Representatives \(House Republicans – Committee on Financial Services, 29 signatures\)](#)

- [Reps. McHenry and Barr, United States House of Representatives](#)

- [Reps. Meuser, et al., United States House of Representatives \(House Bipartisan Small Business Letter, 4 signatures\)](#)

- [Rep. Sherman, United States House of Representatives](#)

- [Rep. Sherman, United States House of Representatives \(Transcript\)](#)

- [Reps. Sherman, et al., United States House of Representatives \(House Bipartisan Basel Letter, 15 signatures\)](#)

- [Sens. Brown, et al., United States Senate \(12 signatures\)](#)

- [Sens. Gillibrand and Lummis, United States Senate](#)

- [Sens. Hagerty, et al., United States Senate \(7 signatures\)](#)

- [Sen. Manchin, United States Senate](#)

- [Sen. Nunn, et al., United States Senate and House of Representatives \(33 signatures\)](#)

- [Sens. Peters, et al., United States Senate \(5 signatures\)](#)

- [Sens. Scott, et al., United States Senate \(Senate Banking Committee Republicans, 11 signatures\)](#)

- [Sens. Scott, et al., United States Senate \(39 signatures\)²](#)

- [Sens. Sinema and Crapo, United States Senate](#)

- [Sens. Tillis, et al., United States Senate \(9 signatures\)](#)

- [Sens. Van Hollen, et al., United States Senate \(Senate Democrats Letter, 13 signatures\)](#)

- [Sens. and Reps. from Wisconsin, United States Senate and House of Representatives \(10 signatures\)](#)

¹ Two of the signatories' names are redacted.

² One of the signatories' names is redacted.

Contacts



Arthur S. Long
arthur.long@lw.com
+1.212.906.1353
New York



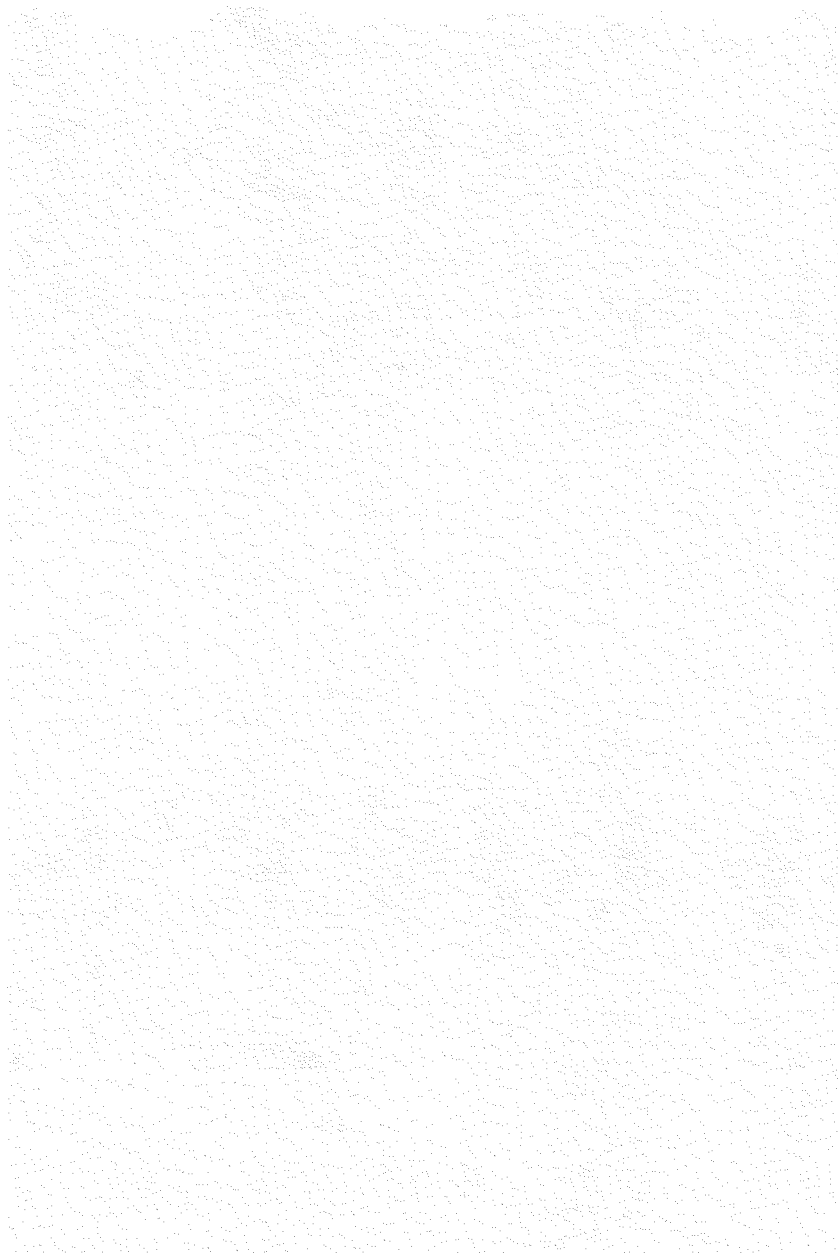
Roman Martinez
roman.martinez@lw.com
+1.202.637.3377
Washington, D.C.



Pia Naib
pia.naib@lw.com
+1.212.906.1208
New York



Jordan R. Goldberg
jordan.goldberg@lw.com
+1.202.637.3341
Washington, D.C.



December 11, 2023

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

The Honorable Martin J. Gruenberg
Chairman
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20499

Mr. Michael J. Hsu
Acting Comptroller of the Currency
The Office of the Comptroller of the Currency
400 7th Street, SW
Washington, DC 20219

Re: Comments on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, Docket ID OCC-2023-0008, Fed. Docket No. R-1813, RIN 7100-AG64, FDIC: RIN 3064-AF29, 88 Fed. Reg. 64028 (2023) and Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), Docket No. R-1814, 88 Fed. Reg. 60385 (2023)

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Comptroller Hsu:

Well-functioning derivatives markets are critical for hedging price risks in the agricultural supply chain. We are concerned that recent bank capital proposals will have unintended consequences for the health of US derivatives markets and make hedging significantly more expensive for all market participants. We urge you to reconsider the proposal and avoid taking actions that will harm end-users in the real economy.

Farmers, ranchers and other agricultural producers use derivatives such as futures and options to make sure that they cover their costs of production. On the other side of the market, companies that process agricultural products into food, fiber and biofuels use derivatives to protect their profit margins from a steep increase in their input costs. Both sides depend on well-functioning derivatives markets to hedge their risks.

Central clearing is a core component of derivatives markets. Central clearing reduces counterparty risk and allows end-users to trade these contracts without fear of loss if their counterparty defaults. Central clearing has been a mainstay of the agricultural futures markets for more than a century, and its importance to financial stability and market functioning was validated by the G20 leaders in the aftermath of the financial crisis of 2008.

The strength of central clearing depends, however, on the participation of banks and other institutions as members of clearinghouses. They provide the majority of the financial resources that support the clearing system, and they guarantee the performance of the trades they clear. This is an expensive business, and we are concerned that two recent capital proposals will make it even more expensive.

For agricultural end-users, hedging is like insurance – it is a cost they are willing to pay for protection against price volatility. But not at any price. If the cost of using cleared derivatives rises too high, they will switch to using uncleared derivatives, or simply abandon hedging. Furthermore, there is already a shortage of firms available to provide clearing services to agricultural end-users, and these proposals could reduce the number even more.

According to data from the Commodity Futures Trading Commission, the number of futures commission merchants that clear exchange-traded derivatives for clients has fallen by 50% over the past 20 years. We see a similar trend in the more specialized business of clearing interest rate swaps and other over-the-counter derivatives. In 2014, there were 22 firms clearing these contracts for clients. Today there are 12.

The two recent capital proposals -- the US Federal Reserve GSIB Surcharge Proposal and the US Basel III Endgame Proposal -- are likely to have a significant impact on the availability of clearing services in the US. Although the proposals only affect banking organizations -- and there are some non-bank financial institutions that provide clearing services -- the majority of the clearing firms in the US are banks. According to CFTC data, two thirds of all customer funds in the US clearing system are held by US banks.

There are many types of commercial entities that use derivatives, including asset managers, pension funds, insurance companies, energy producers and auto manufacturers. We are very concerned that any contraction in the availability of clearing services will have a disproportionate impact on agricultural end-users that are far outside the major financial centers, especially smaller entities such as grain elevators and family farms. We urge you to modify the proposals so that they do not disincentivize banks from providing this important service to their customers.

Sincerely,

National Council of Farmer Cooperatives
Commodity Markets Council
National Cattlemen's Beef Association
National Grain and Feed Association
American Farm Bureau Federation
National Milk Producers Federation
National Pork Producers Council
American Cotton Shippers Association
Farm Credit Council

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

The Honorable Martin J. Gruenberg
 Chairman
 Federal Deposit Insurance Corporation
 550 17th Street, NW
 Washington, DC 20499

Mr. Michael J. Hsu
 Acting Comptroller of the Currency
 The Office of the Comptroller of the Currency
 400 7th Street, SW
 Washington, DC 20219

Re: Comments on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, Docket ID OCC–2023–0008, 88 Fed. Reg. 64028 (2023) and Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), Docket No. R–1814, 88 Fed. Reg. 60385 (2023)

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Comptroller Hsu:

The American Public Power Association (APPA) and National Rural Electric Cooperative Association (“NRECA”) (hereafter “Joint Associations”) respectfully submit these comments in response to the Notice of Proposed Rulemaking on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity (Proposed Rule).

APPA is the voice of not-for-profit, community-owned utilities that power 2,000 towns and cities nationwide. We represent public power before the federal government to protect the interests of the more than 49 million people that public power utilities serve, and the 96,000 people they employ. Public power utilities include utilities owned or authorized by a state, utilities owned by a political subdivision of a state (such as a municipality or utility district), and joint action agencies, joint powers agencies, and similar entities formed to collectively serve other public power utilities.

Public power utilities are load-serving entities with the primary goal of providing the communities they serve with safe, reliable electric service at the lowest reasonable cost, consistent with good environmental stewardship. This orientation aligns the interests of the utilities with the long-term interests of the residents and businesses in their communities.

The National Rural Electric Cooperative Association (NRECA) is the national trade association representing nearly 900 local electric cooperatives and other rural electric utilities. America’s electric cooperatives are owned by the people that they serve and comprise a unique sector of the electric industry. From suburbs to remote farming communities, electric cooperatives power one in eight Americans and serve as engines of economic development for 42 million Americans across 56 percent of the nation’s landscape. America’s electric cooperatives serve 92 percent of all persistent poverty counties in the United States.

Electric cooperatives operate at cost and without a profit incentive. NRECA's member cooperatives include 63 generation and transmission (G&T) cooperatives and 832 distribution cooperatives. The G&Ts generate and transmit power to distribution cooperatives that then provide it to the end of line co-op consumer-members. Collectively, cooperative G&Ts generate and transmit power to nearly 80 percent of the distribution cooperatives in the nation. The remaining distribution cooperatives receive power directly from other generation sources within the electric utility sector. Both distribution and G&T cooperatives share an obligation to serve their members by providing safe, reliable, and affordable electric service.

The Joint Associations have been active participants in previous rulemakings implementing the provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"). Specifically, NRECA commented on rulemakings related to Capital Requirements of Swap Dealers and Major Swap Participants RIN 3038-AD54 and both APPA and NRECA commented on the Standardized Approach for Calculating the Exposure Amount of Derivative Contracts Docket R-1629 and RIN 7100-AF22; Docket ID OCC-2018-0030; RIN 3064-AE80.

The Joint Associations have members that utilize commodity markets and rely on bilateral physical power and natural gas contracts, and enter energy commodity swaps, options, and futures contracts to hedge commodity supply and price risks. Our members enter these commodity instruments as commercial "end users" seeking to hedge supply risks and minimize price variability, not for purposes of speculation.

Under the Proposed Rule, for an entity entering such a transaction with a large bank to receive a favorable risk weight, the entity must be: (1) investment grade; and (2) publicly traded or the parent entity that controls a company that is publicly traded. Rule makers argued that this would provide "a simple, objective criterion that would provide a degree of consistency across banking organizations." In addition, the proposal states that "publicly traded corporate entities are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange."

However, we are concerned that the Proposed Rule will make effective risk management more difficult and more expensive for commercial end-users in the energy industry, including our members, without materially improving risk management for the banking sector. Specifically, we believe that the Proposed Rule as drafted will have serious consequences for our members' ability to find regulated counterparties for the forward contracts, commodity trade options, and energy commodity swaps needed to hedge price and supply risks.

Specifically, because our members are not publicly traded, large bank counterparties would face increased capital requirements for such transactions—transactions that we believe do not create more risk to large banks, simply because the bank's counterparty happens to be a cooperative or a government-owned entity. In turn, large banks will be less willing to participate in such transactions or, at a minimum, increase the charges for participating in such transactions to cover the additional costs imposed by the more stringent capital requirements.

Specifically, we believe the Proposed Rule's two-pronged approach to receive a lower 65 percent risk weight for derivatives transactions is flawed and should be removed or reworked substantially. The criteria for publicly traded companies included in the Proposed Rule is a far more restrictive capital requirement than that of the EU and UK capital frameworks, and places American banks – and their customers – at a material competitive disadvantage. We believe this provision should be removed or revised significantly.

In addition, the proposal states that "publicly traded corporate entities are subject to enhanced transparency and market discipline as a result of being listed publicly on an exchange." We believe this too is a flawed argument. The Joint Associations members are community-owned and governed by

democratically elected officials who are required to operate transparently and in the public's best interest and must abide by laws and regulations instituted by multiple layers of government.

We call into question, the suggestion that, as non-publicly traded entities, co-ops, and government-owned entities are fundamentally more of a credit risk due to their ownership structure. Because co-ops are consumer-owned and operate at cost, it is in the best interests of the co-op to fulfill its financial obligations in the most cost-efficient, risk-averse manner possible. Public power providers operate in a similar vein and are accountable to the communities they serve. There is a reason why more than half of all public power utilities have been in operation for a century or longer – and more than three-quarters have been in operation since World War II.

On the other hand, publicly traded companies operate to maximize shareholder return and it can be argued that this type of ownership structure is vulnerable to the short-term interests of shareholders and shareholder returns at the expense of the firm's long-term financial viability and operation.

If the proposal's bias against non-public traded companies, cooperatives, and government-owned entities is left intact, we believe it will severely and needlessly disrupt the ability of our Joint Association members to participate in risk management hedging transactions with large banks. Adopting precedents in federal law that cooperatives, government-owned entities, and other non-publicly traded companies are less creditworthy and more risky than publicly traded companies is also dangerous and unwarranted.

We ask for you to consider the comments above and revise the Proposed Rule accordingly so that our members can continue to manage commodity risks by using hedging instruments without undue cost or complexity. If the Proposed Rule is adopted as drafted, we fear that there will be a decrease in hedging, increased costs to our consumer members, and increased market volatility in the energy sector, which is already facing many uncontrolled externalities. We urge the US prudential regulators to consider these concerns before finalizing any significant changes to the capital framework.

John Godfrey
Senior Government Relations Director
2451 Crystal Drive, Suite 1000,
Arlington VA 22202

Paul Gutierrez
Legislative Affairs Director
4301 Wilson Blvd
Arlington, VA 22203

December 11, 2023

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

The Honorable Martin J. Gruenberg
 Chairman
 Federal Deposit Insurance Corporation
 550 17th Street, NW
 Washington, DC 20499

Mr. Michael J. Hsu
 Acting Comptroller of the Currency
 The Office of the Comptroller of the Currency
 400 7th Street, SW
 Washington, DC 20219

Re: Comments on Regulatory Capital Rule: Large Banking Organizations and Banking Organizations with Significant Trading Activity, Docket ID OCC-2023-0008, Fed. Docket No. R-1813, RIN 7100-AG64, FDIC: RIN 3064-AF29, 88 Fed. Reg. 64028 (2023) and Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15), Docket No. R-1814, 88 Fed. Reg. 60385 (2023)

Dear Vice Chair Barr, Chairman Gruenberg, and Acting Comptroller Hsu:

The US economy benefits from having one of the most efficient and productive energy industries in the world. Well-functioning derivatives markets contribute to that success by providing energy producers, refiners, suppliers, and utilities with highly effective tools for managing price risk. This contribution could be threatened, however, by recent proposals to increase bank capital requirements. Those proposals include several provisions that will make it much more expensive for banks to clear derivatives for their clients. We are concerned that this increase in costs will negatively impact our ability to use derivatives to manage our risks.

Energy markets are among the most volatile of all markets in the world. Both supply and demand are subject to sudden shocks, and prices can swing violently from one extreme to another. To protect themselves from this volatility, entities throughout the energy value chain, from oil and gas producers to utilities, participate in the derivatives market to mitigate commercial risk. For producers, a hedging strategy can ensure cost recovery even if prices decline. Moreover, utilities are encouraged to hedge by state and local public utility commissions and boards in order to limit commodity price volatility and protect consumers. Utilities use these hedging strategies to keep the lights and heat on, while maintaining affordability. Similar hedging strategies are employed by manufacturing and transportation companies that use derivatives to protect themselves from volatility in case power or fuel prices suddenly rise.

Futures, options and swaps are the building blocks for this type of risk management. They allow end-users to manage price risk on a wide range of energy commodities, including crude oil, gasoline, heating oil, jet fuel, natural gas and electricity. Most of the risk in the energy derivatives markets is channeled into clearinghouses, also known as central counterparties, through the use of central clearing. But even when an end-user opts out of central clearing, the dealers on the other side of the trade rely on the

centrally cleared markets to hedge their risks. In effect, central clearing provides the foundation for risk transfer in the energy derivatives markets, and by extension, the hedging strategies used by energy producers, refiners and suppliers to protect their businesses from price volatility.

The US Federal Reserve GSIB Surcharge Proposal and the US Basel III Endgame Proposal (collectively, “US Bank Capital Proposals”) will make it more expensive for banks to offer clearing to their customers. Although these proposals are not aimed directly at end-users, we believe that the indirect effects will be substantial. This could make hedging unaffordable for many energy end-users, which would expose them to higher risks. Alternatively, if end-users decide to pay more to hedge, the costs will flow through to their customers in the form of higher energy prices.

The increased costs of client clearing also has the potential to harm end-users by reducing the number of banks willing to provide clearing services to end-users in the energy industry. According to data published by the Commodity Futures Trading Commission, the number of firms that provide clearing for exchange-traded futures and options has fallen by 50% during the past twenty years. Of the 47 firms that currently provide clearing for those products, the majority are banks. The proposed increase in capital requirements for these banks seems likely to lead to further consolidation and fewer choices for end users.

The situation is even more dire in the clearing of over-the-counter derivatives. In 2014, there were twenty-two firms that cleared OTC derivatives for clients. Today, there are only twelve, and the top six in terms of market share are US banks that will be directly affected by the proposed increase in capital requirements. Any proposal that puts further pressure on these firms runs the risk of decreasing the availability of clearing services for derivatives, which will negatively impact end-users.

In short, this is already a fragile ecosystem that’s necessary to manage customer bills. Current hedging activity shifts the financial risk away from the customer and onto commercial participants that can manage that risk utilizing the hedging tools described above. If the US Bank Capital Proposals are implemented, the result will be a decrease in entities offering clearing services, a decrease in liquidity (which will increase volatility), a decrease in hedging, and an increase in costs to customers, who ultimately bear these costs. We urge the US prudential regulators to consider these concerns before finalizing any significant changes to the capital framework.

Sincerely,

Energy Trading Institute
Electric Power Supply Association
American Gas Association
American Public Gas Association
Commodity Markets Council



California Public Employees' Retirement System
 Executive Office
 400 Q Street, Sacramento, CA 95811 | Phone: (916) 795-3829 | Fax: (916) 795-3410
 888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442 | www.calpers.ca.gov

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

Hon. Michael Hsu, Acting Comptroller of the Currency
 Office of the Comptroller of the Currency
 400 7th Street SW
 Washington, DC 20219

Hon. Martin Gruenberg, Chairman
 Federal Deposit Insurance Corporation
 550 17th St NW
 Washington, DC 20429

December 22, 2023

Subject: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (Federal Reserve Board Docket No. R-1813, RIN 7100-AG64; OCC Docket ID OCC-2023-0008; FDIC RIN 3064-AF29)¹

Dear Vice Chair Barr, Acting Comptroller Hsu, and Chairman Gruenberg,

On behalf of the California Public Employees' Retirement System (CalPERS), I write to share our concerns with one element of the banking regulators' above-referenced proposal to revise capital rules for large banking organizations and banking organizations with significant trading activity. Specifically, as further discussed below, we urge you to revise the Proposal to more accurately and consistently reflect the actual credit risks posed by highly regulated, transparent, low-risk public pension funds.

CalPERS is the largest public defined benefit pension fund in the United States, managing approximately \$480 billion in global assets. We work constantly to improve our ability, and that of the broader investor community, to identify both investment risks and opportunities in support of our mandate to provide retirement benefits for over two million members. We seek long-term, sustainable, risk-adjusted returns through efficient capital allocation and

¹ *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity*, Office of the Comptroller of the Currency, Federal Reserve System, and FDIC, 88 Fed. Reg. 64028, Sept. 18, 2023, available at <https://www.govinfo.gov/content/pkg/FR-2023-09-18/pdf/2023-19200.pdf>.

stewardship aligned with our fiduciary duty. We are guided by our Investment Beliefs², which recognize that “[l]ong term value creation requires effective management of three forms of capital: financial, physical and human.” CalPERS routinely transacts with a number of large banking organizations subject to the Proposal to obtain an array of financial products and services, including derivatives, so that we may grow and manage our fund on behalf of our beneficiaries.

In particular, CalPERS regularly engages in over-the-counter and listed derivative, repurchase agreement, and securities lending transactions to (1) manage liquidity and cash flows, (2) better manage our market risk, and (3) generate additional income from our collateral. These activities enable us to better manage liquidity for our recurring monthly pension benefit payments and serve to reduce the overall costs of managing the portfolio.

We understand that you believe that “it is critical that we propose and implement the Basel III endgame reforms, which will better reflect trading and operational risks in our measure of banks’ capital needs.”³ In general, the Proposal seems designed to remove some of the flexibility that banking organizations have traditionally enjoyed in determining the risks, and therefore the capital requirements attendant to, their assets.

To that end, the Proposal would generally seek to “replace the current advanced approaches with the new expanded risk-based approach, consisting of the new standardized approaches for credit, operational, and CVA risk, and the new market risk framework.”⁴ The standard approaches would generally not change materially, with the exception of changes to the “market risk” component.

We understand why decreasing banks’ discretion related to their assessments of risk and capital would be a focus for regulators, even before the banking turmoil of March 2023. To that end, we do not have any specific comments on the appropriate overall levels of regulatory capital for banks.

However, we do have specific concerns on the relative risk assessments assigned to highly regulated, transparent, low-risk public pension funds that may not have issued publicly-traded securities.

Question 39 of the Proposal asks if

the agencies [should] consider applying a lower risk weight than 100 percent to exposures to companies that are not publicly traded but are companies that are “highly regulated?” What, if any, criteria should the agencies consider to identify companies that are “highly regulated?” Alternatively, what are the advantages and disadvantages of assigning lower risk weights to

² See <https://www.calpers.ca.gov/page/about/organization/calpers-story/our-mission-vision>

³ Recent Bank Failures and the Federal Regulatory Response before the Senate Committee on Banking, Housing, and Urban Affairs, 118th Cong. 2023, available at <https://www.federalreserve.gov/newsevents/testimony/barr20230328a.htm> (written testimony of Hon. Michael Barr).

⁴ Proposal, at 64168.

highly regulated entities (such as open-ended mutual funds, mutual insurance companies, pension funds, or registered investment companies)?⁵

Similarly, questions 164 and 165 ask for

comments on the appropriateness of the proposed risk weights of Table 1 to § ll.222 for financials, including government-backed financials. What, if any, alternative risk weights should the agencies consider? Please provide specific details and supporting evidence on the alternative risk weights.

[and]

comments on the appropriateness of treating the counterparty credit risks of public-sector entities and the GSEs in the same way as those of government-backed non-financials, education, and public administration. What, if any, alternatives should the agencies consider to more appropriately capture the counterparty credit risk for such entities?⁶

While we understand that there may be sound public policy justifications for treating all government entities, and particularly public pension funds, as having lower credit risk, we believe that there are unintended consequences in the Proposal, which would impose a uniform credit valuation adjustment on public sector entities that is not representative of those entities' risk or creditworthiness.

Highly regulated, transparent, low-risk public pension funds should receive risk weightings that are commensurate with other entities that pose similar credit risks. That is not what the Proposal would do. Instead, highly regulated, transparent, low-risk public pension funds that offer significant transparency and accountability (and exhibit low actual credit risks) would be treated as posing higher credit risks than many issuers of publicly traded securities that have materially higher actual credit risks.

We understand that focusing on whether an entity has publicly traded securities could be "a simple, objective criterion" to assess the credit risks of entities.⁷ As the Proposal explains, tying risk weightings to the issuance and rating of publicly traded securities is intended to ensure that the entities are subject to transparency and market discipline that will "complement a banking organization's due diligence and internal credit analysis."⁸

Specifically, issuers of publicly traded securities provide investors and the public with audited financial statements and relevant disclosures related to their governance, operations, and risks.

⁵ Proposal, at 64054.

⁶ Proposal, at 64156-157.

⁷ Proposal, at 64054.

⁸ Proposal, at 64054.

That information is used by credit rating agencies and investors to assess the creditworthiness of those entities.

Under the federal securities laws, an issuer of publicly traded securities must disclose basic information about its business, risk factors, legal proceedings, financial condition, executive compensation, governance (including the identities and dealings with executives and directors), and accounting matters.

CalPERS provides at least as much transparency into its activities as most publicly-traded companies. For example, each year, CalPERS is statutorily required to publicly release an Annual Comprehensive Financial Report⁹, which includes audited financials that are compliant with the Government Accounting Standards Board reporting requirements.¹⁰ That document also includes information related to the governance, risks, and funded status of the public pension fund.¹¹ CalPERS also releases a statutorily-required¹² Annual Investment Report that provides complete transparency into its holdings.¹³ Webcasts and transcripts of all CalPERS' Board of Administration meetings are publicly available.¹⁴ CalPERS' is subject to the California Public Records Act, which provides the public, investors, and banks with far greater access to documents and information about CalPERS than is generally available regarding issuers of publicly traded securities.¹⁵ CalPERS also publishes all of its investment policies on its website.¹⁶ Put simply, while not being subject to the exact same federal regulatory requirements as publicly-traded issuers of securities, highly regulated, transparent, low-risk public pension funds also have significant statutory and regulatory safeguards that compel the disclosure of that same type of information to the public.

The credit risk profile of CalPERS is also very different from many issuers of publicly traded securities because of its governmental status.¹⁷ Specifically, the State of California provides unique protections to those doing business with (including providing credit to) CalPERS, including that it:

1. statutorily requires CalPERS to fulfill its obligations;¹⁸
2. allows CalPERS to set required employer contribution amounts;¹⁹

⁹ See California Government Code §20228

¹⁰ CalPERS, Annual Comprehensive Financial Report: Fiscal Year Ended June 30, 2023, available at <https://www.calpers.ca.gov/docs/forms-publications/acfr-2023.pdf>.

¹¹ *Id.*

¹² See California Government Code §20238

¹³ See, e.g., CalPERS, Annual Investment Report: Fiscal Year Ended June 30, 2022, available at <https://www.calpers.ca.gov/docs/forms-publications/annual-investment-report-fy-2022.pdf>.

¹⁴ The Bagley-Keene Open Meeting Act requires that CalPERS hold its Board of Administration meetings in public, accept public testimony on decisions coming before the Board, and provide the public access to meeting records. See <https://oag.ca.gov/system/files/media/bk-open-meeting-act-guide-2023.pdf>.

¹⁵ See Government Code § 7931.000, *et. seq.*

¹⁶ See <https://www.calpers.ca.gov/page/investments/about-investment-office/policies>

¹⁷ We note that not all government-related entities may enjoy the credit risk-reducing protections that are afforded to CalPERS, as these may be functions of variable state and local laws.

¹⁸ See California Constitution, Article XVI, section 17

¹⁹ See California Government Code §20814

3. establishes employee contribution rates;²⁰ and
4. has empowered CalPERS to raise employer contributions to meet future liabilities.²¹

In addition, the CalPERS Total Fund Investment Policy approved by the CalPERS Board of Administration places constraints and limitations on leverage, derivatives and securities lending, among other risk-mitigating practices.²²

These unique protections greatly reduce the credit risk to banks doing business with CalPERS, and the Proposal should be revised to accurately reflect this reality.

Lastly, we note that by hinging risk weightings on whether an entity has issued publicly traded securities, the Proposal would also perversely punish entities – including public pensions – that may be statutorily restricted from selling publicly traded securities.

Again, we understand that the Proposal provides for lower risk weightings for issuers of publicly traded securities that are rated “investment grade” precisely because those issuers are subject to heightened transparency and accountability. While CalPERS does not currently offer publicly traded debt securities, if it did, because of the transparency and accountability features detailed above, its securities would undoubtedly be rated investment grade. Nevertheless, the Proposal would punish CalPERS – and its two million beneficiaries – because it does not issue publicly traded debt securities. That error should be remedied.

Proposed Revision

We urge you to revise the Proposal to treat highly regulated, transparent, low-risk public pension funds like CalPERS similarly to investment grade-rated entities. While there are many ways to potentially define “highly regulated, transparent, low-risk public pension funds,” some factors to consider include:

- Whether the public pension fund provides at least annual disclosure of audited financials that are prepared in accordance with GASB reporting standards;
- Whether the public pension fund provides at least annual disclosure of its holdings and related risks;
- Whether the public pension fund provides at least annual disclosure of its executive team²³ and directors²⁴;
- Whether the public pension fund is subject to a public records disclosure requirement akin to the California Public Records Act;
- Whether the public pension fund is statutorily required to fulfill its obligations; and

²⁰ See California Government Code §7522.30 and Title 2, Division 5, Part 3, Chapter 8, Article 1 thereof

²¹ See California Government Code §20203

²² See Sections V, VI and XVI of <https://www.calpers.ca.gov/docs/total-fund-investment-policy.pdf>

²³ See <https://www.calpers.ca.gov/page/about/organization/executive-officers>

²⁴ See <https://www.calpers.ca.gov/page/about/board/board-members>

- Whether the public pension fund has the authority to raise sufficient assets to meet obligations, such as by raising contribution rates.

Further, as a precaution, we would not object to a requirement that in order to receive the lower risk weighting, a bank should have a reasonable basis to believe that if the public pension fund were to offer securities to the public, that they would be rated investment grade.

Conclusion

We appreciate your mandate to promote the safety and soundness of the banking system upon which we rely. However, by exclusively hinging assessments of credit risk on whether the entities have publicly traded securities, the Proposal would create an artificial distinction between entities with similar actual risk profiles. Worse, it would inexplicably punish highly regulated, transparent, low-risk public pensions that have not issued publicly traded securities, even if they objectively offer greater transparency and pose lesser credit risks than some private entities that have issued such securities.

We urge you to revise the Proposal to ensure that the risk weightings for highly regulated, transparent, low-risk public pension funds are comparable to those for investment grade-rated issuers of publicly traded securities.

Thank you for your consideration. If you have any questions or would like to follow up, please contact Brian Leu at (916) 795-4666 or Brian.Leu@calpers.ca.gov.

Sincerely,



Marcie Frost
Chief Executive Officer

The New York Times: “The Fed Has Targeted 2% Inflation. Should It Aim Higher?”

By Jeff Sommer
March 24, 2023

There’s rarely a convenient time for the Federal Reserve to openly debate whether its 2 percent inflation target makes sense. This isn’t that time, but the Fed better get ready.

More urgent matters preoccupy the Fed right now. It is simultaneously stanching a crisis in the banking system while tightening financial conditions to squelch inflation.

On Wednesday, the central bank raised its benchmark Federal funds rate a quarter point to a range of 4.75 to 5 percent. It also assured the markets that “the U.S. banking system is sound and resilient.”

The last thing the Fed needs at this moment is further complexity in its public messaging. “We will get inflation down to 2 percent, over time,” Jerome H. Powell, the Fed chair, said at a news conference on Wednesday.

Two percent is supposed to be the sweet spot for inflation, low enough for consumer comfort but relaxed enough for the economy to flourish, according to Fed doctrine settled years ago. The Fed isn’t reconsidering it in public now.

Yet the inflation target is an important issue, one that scholars and Fed watchers are quietly discussing because it could become crucial soon. The Fed itself projects that inflation will drop to about 3.3 percent by the end of this year and to 2.5 percent next year. Well before that happens, it’s worth re-examining the 2 percent target: how the Fed arrived at it, whether it still makes sense and whether current rules allow sufficient flexibility in decision making.

Inflation needs to come down, unquestionably. But with the financial tightening already underway, inflation may wane in a sustained way in the next few months. At that point, the cost in lost jobs and economic growth could be cruel and excessive if the Fed tightens further in an attempt to drive inflation down to 2 percent, a target that is, after all, an arbitrary one.

Laurence Ball, a Johns Hopkins economist, reminded me of that in a conversation this past week. While Paul A. Volcker is now renowned for vanquishing inflation as Fed chair in the 1970s and 1980s, when he left office in August 1987, inflation was still above 4 percent.

“If 4 percent was good enough for Volcker,” Professor Ball said, “it should be good enough for us.”

The New Zealand Example

The 2 percent inflation target is something of a historical accident. It has roots in New Zealand, which passed a law in 1989 establishing the independence of the country's central bank, and, in addition, said the bank should target inflation. But what should the target be? Officials started with 0 to 1 percent, which seemed too low, and shifted to 2 percent.

There was no particular magic or science to the 2 percent number, but it stuck, and it spread to other Anglophone countries in short order: Britain, Canada and Australia adopted it. So did Sweden.

Eventually, the Federal Reserve did, too, but with great reluctance.

Mr. Volcker never embraced an inflation target. He wanted inflation to be as low as possible and saw no reason to restrict the Fed's flexibility by indicating publicly what low meant at any specific time. And Alan Greenspan, who succeeded Mr. Volcker as Fed chair, resisted setting a target for years.

He commissioned Fed economists to study the merits of a target in his first year in office, Joseph E. Gagnon told me. Mr. Gagnon, a senior fellow at the Peterson Institute for International Economics in Washington, was one of those economists.

"It was a big project," he said. It involved computer simulations of the effects on the economy of interest rate increases needed to bring inflation below 2 percent. "We told him we could do it, but it would be costly and would mean another recession," Mr. Gagnon recalled.

Mr. Greenspan rejected inflation targets then, Mr. Gagnon said. "He didn't want to be blamed for causing another recession."

The U.S. Moves Toward 2%

Behind closed doors, in a pivotal 1996 Federal Open Market Committee meeting, Mr. Greenspan said the Fed's goal was "price stability."

A transcript of the meeting shows that he defined that goal this way: "Price stability is that state in which expected changes in the general price level do not effectively alter business or household decisions," he said.

That definition seems about right to me. He's saying it's OK if prices rise a little. Only when those increases feel out of control — as they have over the last year or two, and as they did in the 1970s and early 1980s — has inflation mattered to me, as a citizen and as a consumer. But where is that decisive level of inflation, exactly? I have no idea, nor did Mr. Volcker back in the 1980s.

Inflation seemed under control in August 1987, when it was still above 4 percent. The true answer, I think, is, “It depends.”

But economists, by their nature, like to put numbers on things. And in that crucial 1996 meeting, a distinguished economist and Fed official named Janet E. Yellen — now the Treasury secretary, and, before that, a Fed chair herself — pressed Mr. Greenspan to “please put a number on” his estimate of price stability.

The transcript shows that he said “zero” was the proper target if “inflation was correctly measured.” But it is difficult to measure inflation accurately, as everyone in the room acknowledged. So Ms. Yellen said, “Improperly measured, I believe that heading toward 2 percent inflation would be a good idea, and that we should do so in a slow fashion, looking at what happens along the way.”

That, essentially, was that.

Other Fed members agreed, and the 2 percent target became enshrined in Fed policy, though only in a clandestine way. Mr. Greenspan did not want his hands tied. “I will tell you that if the 2 percent inflation figure gets out of this room, it is going to create more problems for us than I think any of you might anticipate,” he said, according to the transcript.

In those days, Mr. Greenspan and the Fed favored a style of communication that even he described as opaque. In testimony before Congress in 1987, he was droll but on the mark. “Since I’ve become a central banker, I’ve learned to mumble with great incoherence,” he said. “If I seem unduly clear to you, you must have misunderstood what I said.”

It wasn’t until 2000 that the Fed began issuing regular “forward guidance” after its meetings, projecting where it expected that the economy and inflation would be headed. By now, Mr. Powell’s news conferences have become routine. But it’s worth remembering that it wasn’t until 2011, well into Ben S. Bernanke’s tenure as Fed chair, that the central bank broke with the Volcker and Greenspan tradition of extreme circumspection and held its first regularly scheduled news conference.

In 2012, it finally embraced the 2 percent target openly and formally, and made it part of the Fed’s practice of “forward guidance.” Come what may, over the long run, the Fed would veer toward its North Star, the 2 percent inflation target.

A Flexible Target

But by August 2020, the Fed had revisited the 2 percent target and widened its range in subtle ways. Because of that adjustment, the Fed doesn’t need to hit 2 percent exactly. It can “average” 2 percent “over time.”

The central bank “absolutely needs to move inflation toward 2 percent” but it has some flexibility, Bill Dudley, a former president of the Federal Reserve Bank of New York, told me.

The Fed’s long-range policy statement says that it doesn’t need to get there immediately, and it has room for judgment in its timing.

But until 2021, inflation had been extremely low for a long while, often well below 2 percent. The Fed saw deflation, not inflation, as the main threat. That’s why the Fed kept short-term interest rates near zero and bought Treasuries and mortgage-backed securities. It wanted to stimulate the economy, not slow it down.

Now, the Fed is operating in reverse, with quantitative tightening, along with interest rate increases — and, lately, the still unknown effects of bank failures — all acting to constrict the economy and reduce inflation.

Mr. Gagnon, Professor Ball and the M.I.T. economist Olivier Blanchard are among those who have called for an increase in the Fed inflation target to 3 or 4 percent, though they all acknowledge that as a matter of public relations, it may be better to avoid doing that right now.

Mr. Dudley said the Fed should stick with its target, at least until its next, once-every-five-years revision of its long-run strategy and goals. That’s coming up soon, though. On its own announced schedule, the Fed could start revisiting them next year and reach a formal agreement in 2025.

In the meantime, I’d say the Fed should aim high. Inflation needs to come down, but if it means throwing a lot of people out of work later this year, the Fed already has the flexibility to move slowly and mercifully. It may be wise to do so.

Available online at: <https://www.nytimes.com/2023/03/24/business/inflation-federal-reserve-interest-rates.html>. Accessed March 8, 2024.

A version of this article appears in print on March 26, 2023, Section BU, Page 5 of the New York edition with the headline: Fed’s Inflation Target May Be Too Low.

December 8, 2023
Research Reports
research@employamerica.org



Employ America Research Report

Three Motivations for Interest Rate Normalization: a Playbook for Fed Policy in 2024

Preston Mui
Senior Economist,
Employ America

Skanda Amarnath
Executive Director,
Employ America

This is the second of a two-part series. In [the first piece](#), we took stock of the changing trajectory of the Fed's 2023 policy goals. While policymakers were never fully convinced of the arguments in favor of a hard landing, they still saw a [recessionary increase in unemployment](#) as a requirement for disinflation at the beginning of this year. In the months since, the Fed has backed away from this view, and has expressed increasing confidence in the possibility of a soft landing. In this piece, we look forward to the Fed's game plan in 2024 as [longtime advocates](#) for [supply-side disinflation](#) and a [soft landing for the labor market](#). Now that the Fed shares these goals, what risks lay ahead and what steps must they take to preserve the hard-earned recovery in the labor market? We present a path for the Fed in 2024.

Introduction and Executive Summary

With one FOMC meeting left in 2023, the Fed is expected to end its rate hiking cycle. Although the natural next question is how soon and how quickly the Fed will cut rates, officials have been reluctant to talk about the plan for rate cuts in 2024. "I'm not thinking about rate cuts at all right now", Mary Daly [said in November](#). Neel Kashkari is also mum on the topic, [saying](#) "there's no discussion amongst me and any of my colleagues about when we're going to start preparing to cut rates." [Earlier this month](#), Powell said "it would be premature to conclude with confidence" that rates are sufficiently high to bring inflation down, and even went so far as to say that further rate hikes are not off the table.

However, it is hard to see the Fed continuing to hike barring serious deterioration in the inflation outlook. With 12-month core PCE inflation already under 3.5%, the inflation trajectory looks much softer than the Fed's projections from earlier this year. The few Fed officials who have addressed the question about rate cuts, such as [Williams](#), [Bostic](#), and [Waller](#), have all emphasized that the inflation trajectory will guide the timing and pace of any rate cuts in 2024.

Despite Fed officials' reticence to address the question, we think it's time to start game-planning the soft landing. The Fed's position looks to be the inverse of the 2010s. Inflation and interest rates are normalizing to 2% from *above*, rather than *below*. The labor market recovery has been *strong*, rather than *anemic*, like the post-GFC recovery. Put plainly, the challenge in 2024 is: **stave off any recession risks that might threaten either the economy's current path of supply-driven disinflation or the hard-earned post-pandemic labor market recovery.**

In this piece, we will lay out three main **policy motivations** for interest rate normalization and analyze the **strategic implications** of each for a successful 2024 soft landing. From the outset, we would like to emphasize the distinction between two different justifications for rate cuts in 2024:

1. policy easing to reverse realized deterioration in labor or financial markets, and
2. **interest rate normalization** that would transpire even in the absence of visible financial or labor market deterioration.

This piece primarily focuses on the latter, as the strength of the case for larger and faster interest rate reductions when labor and financial markets are showing distress is already well-understood.

The Three Dimensions of Interest Rate Normalization			
<u>Motivation</u>	(1) Nonlinear Downside Risk <i>Financial Stability Unemployment</i>	(2) Be Consistent On Inflation <i>Convergence To 2% Target</i>	(3) Supply-Side Interactions <i>Hikes Hurt The Supply Side Too</i>
<u>Strategic Implication</u>	(1) Frontload Cuts • Start at a faster pace of cuts • End at a slower pace of cuts • Best case for 50bp "normalization cut" is at the outset of normalization	(2) Proportional Cuts (Even If With A Lag) • Taylor Principle: 1% of disinflation = 1.5% interest rate decline • 150bp of disinflation in 4-5 quarters = 25bps of cuts per meeting	(3) Don't Predetermine The Scale of Normalization • Stay data-dependent and maintain optionality • Normalization may unlock supply-side benefits or reveal new upside inflation risks.

Policy Motivations

1. **Think preemptively about nonlinear financial stability and unemployment risks.** The labor market is still robust, but that can change quickly. When unemployment rises, it usually rises rapidly. Events that threaten financial stability—like the case of Silicon Valley Bank earlier this year—can happen before the Fed is aware. From a risk management perspective, achieving a soft landing requires *preempting* these events.
2. **Be Consistent on Inflation.** The Fed's strategy of raising the rate path in response to upside inflation surprises was legible to market participants. Now, the Fed finds itself in the opposite position, as inflation has come in much softer than expected. To maintain legibility and credibility, the Fed should use soft inflation surprises as an opportunity to renormalize interest rates from above.
3. **The Supply Side Matters.** The Fed tends to present supply-side dynamics as though they are upstream from monetary policy, but a mounting body of evidence shows that tight monetary policy constrains the supply side. One lesson of the most recent inflationary episode is that capacity constraints represent a real inflationary threat. As monetary policy works to combat inflation in 2024 by constraining investment, the Fed needs to consider the effect this policy may have on inflation in the long-run.

Strategic Implications

1. **Risk Management → Front-load rate cuts.** The longer interest rates stay high, the longer the economy faces elevated financial stability and unemployment risks. These nonlinear risks dissipate as interest rate normalization advances. The pace of interest rate normalization should therefore begin swiftly but slow as the normalization process advances. The most justified time to pursue a larger 50 basis point "normalization cut" is at the outset.
2. **Inflation consistency → Lag if you must, but follow inflation down.** Just as Fed policy followed inflation on the way up, it should follow inflation on the way down, even if it ultimately transpires with a lag. Normalized labor market outcomes and normalized inflation outcomes warrant normalized interest rate outcomes. Even traditionally hawkish models for monetary policy would make this recommendation: if core PCE were to return to target over the next 4-5 quarters (a 150 basis points reduction), a Taylor-like rule with a coefficient of 1.5 on inflation would call for a cumulative 225 basis points reduction in interest rates (an average of roughly one 25 basis point cut per meeting in 2024).

3. **Dynamic supply-side forces → Maintain optionality and stay data-dependent.** The dynamic effects of Fed policy on investment and future supply—and thereby future inflation—are highly uncertain. While the Fed may not care about the level of investment and growth on the supply-side for their own sakes, it should be very attentive to the dynamic effects of present monetary policy on inflation dynamics beyond 2024. We won't know how supply will respond to normalization until it happens, so the Fed should maintain flexibility to respond in a data-dependent way by not unduly predetermining the ultimate scale of normalization cuts.

Each of these motivations and implications will be discussed pair-wise in three sections below.

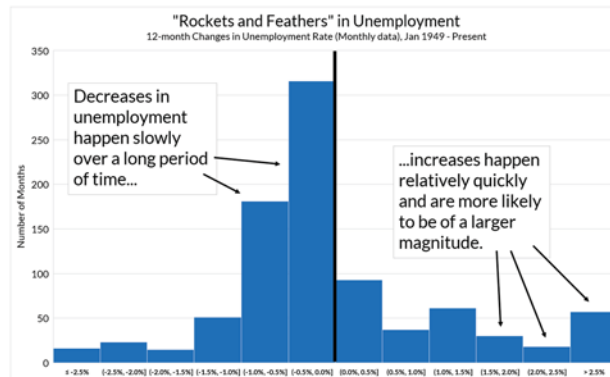
Risk Management, Unemployment, and Financial Stability

Policy Motivation: think preemptively about nonlinear financial stability and unemployment risks.

[The Fed has signaled](#) that they think they can bring down inflation without a recessionary rise in unemployment. The clearest statement of this comes from the latest Summary of Economic Projections (SEP), where the unemployment projection for the end of 2024 has been revised down to 4.1% (from 4.5% in June and 4.6% in March).

The unemployment rate, currently 3.7%, up from this year's historic low of 3.4%, came close to that projection in October at 3.9%. Prime-age employment appears to be plateauing in recent months. Quit and hire rates are essentially at pre-pandemic levels. As we've been documenting [for the last few months](#), there has been a considerable slowdown in the labor market, and it's not clear if there is more to give on the labor market before it starts backsliding.

To be clear, we are not saying that there are sure-fire signs that a recession is around the corner. What we are saying is that the **balance of risks between inflation and unemployment has flipped, relative to a year ago** (the Fed has somewhat acknowledged this shift as well, describing the risks as "more balanced"). The key dynamic to keep in mind is that gradual increases in unemployment are rarely contained. For all the talk of ["rockets and feathers"](#) in inflation, the same can easily be said for unemployment. Increases in unemployment are generally rapid, whereas decreases are much more gradual.



Source: Bureau of Labor statistics, author's calculations.

What this means for the Fed is that they need to be proactive in staving off labor market risk. They can't wait to see the whites in the eyes of unemployment before acting; by then, it's already too late. It wouldn't be the first time the Fed has made that specific misstep either: 1990, 2000 and 2007 all saw a Fed which failed to fully appreciate unemployment risks and waited too long to react to a deteriorating labor market. Take, for example, the Fed's actions in [2007](#); they were presented with a forecast of rising unemployment and opted to hold rates steady instead of cutting, citing inflation risks.

"The risk that inflation will fail to moderate sufficiently, however, remains significant and material"

- [Vice Chairman Geithner, May 9th 2007 FOMC Meeting](#)

The Outlook for the Labor Market (Percent change, Q4 to Q4, except as noted)				
Measure	2005	2006	2007	2008
Output per hour, nonfarm business	2.1	1.5	1.9	2.6
Previous	2.1	1.5	2.1	2.6
Nonfarm private payroll employment	2.0	1.8	.8	.3
Previous	2.0	1.8	.7	.3
Household survey employment	1.9	2.1	.6	.5
Previous	1.9	2.1	.4	.4
Labor force participation rate ¹	66.1	66.3	66.1	65.8
Previous	66.1	66.3	66.0	65.7
Civilian unemployment rate ¹	5.0	4.5	4.8	5.0
Previous	5.0	4.5	4.9	5.1
MEMO				
GDP gap ²	.2	.7	.1	.0
Previous	.1	.5	-.0	-.2

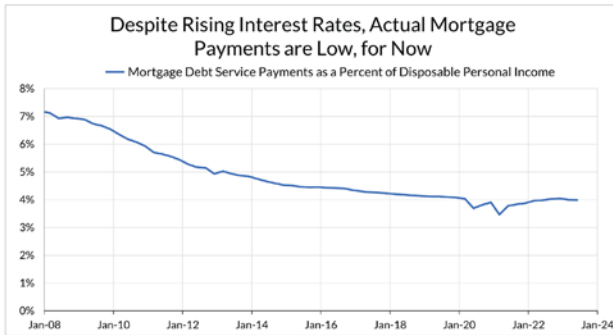
1. Percent, average for the fourth quarter.

2. Actual less potential GDP in the fourth quarter of the year indicated as a percent of potential GDP. A negative number thus indicates that the economy is operating below potential.

Source: *Greenbook, May 2007*. The latest available unemployment rate data showed the unemployment rate at 4.5% in April 2007.

The longer Fed policy rates stay this high, the more recessionary risk the economy will be subject to. For now, the economy and the labor market have been more resilient to the Fed's rate hikes than most, including the Fed, have expected. While there is some disagreement about whether the [lags and magnitudes](#) of the effects of monetary policy have changed, there is good reason to think that the recessionary risk of holding rates steady will only increase from here.

Take mortgage rates, for example. While the Fed's tightening has raised mortgage rates to levels not seen since 2000, the interest rate on *outstanding* mortgages [has not increased](#) by much at all, due to the large portion of mortgages originated before the rate hikes. While this has effectively frozen the real estate market, actual mortgage payments as a percentage of disposable income has remained insulated from interest rate hikes.



Source: Board of Governors

A similar dynamic is taking place in [corporate debt](#), where most outstanding debt was financed before the recent rate hiking cycle. While these two dynamics have helped insulate consumers and businesses from Fed tightening (and thus help protect consumption and employment), **these insulating factors will erode over time**. Eventually, corporate debt needs to be rolled over and households need to move. As that happens, the long and variable lags of Fed policy will begin to present a growing drag on consumption, investment, and employment.

"If we say that the cost of their borrowing to do those things is now a little bit higher than it was two years ago.... Maybe I'll hire less people. Maybe I won't set up that factory. Maybe I'll cut production by 10 percent. I might close down a factory. I might fire people."

- [Atsi Sheth, Managing Director, Moody's](#)

The economy is due to face a number of other headwinds in the next year beyond Fed tightening. The rapid labor income growth that came with the rapid recovery in employment and tight labor market won't be there in 2024. Demand from "revenge" travel and services consumption after the pandemic is likely to be less important. While there is [considerable uncertainty](#) about the magnitude of remaining insulation in household balance sheets, perceived or real depletion of liquid assets is likely to be a larger economic drag in 2024 than 2023.

Strategic Implication: Front-Load Rate Cuts

The speed, size, and durability of the Fed's hikes so far presents the possibility of nonlinear downside risk. Recession is not our base-case, due to recent economic resilience. However, we do see elevated risk of nonlinear recessionary dynamics without policy rate normalization, relative to the normal probability of recession in any given year. Most hiking cycles in recent decades tend to be the proximate cause of "something breaking" (stock market, housing market, banking institutions, etc). While reactive responses can sometimes be sufficient to prevent recession (e.g. 2018-19), there are times when they prove insufficient (e.g. 2000-2001).

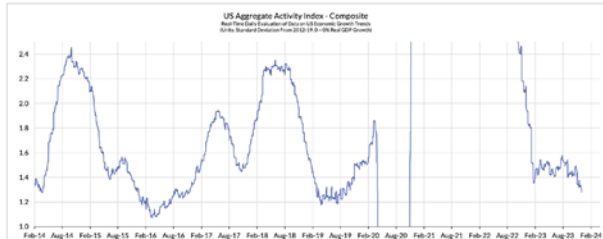
For Fed policy, these risks should encourage Fed officials to **frontload cuts (or signals about cuts) for the purposes of normalization**. The financial risks associated with high interest rates can hit unpredictably, nonlinearly, and very quickly, as the [failure of SVB](#) and other financial institutions earlier this year demonstrate. While a 50 basis point "normalization cut" might be generally too swift a pace to maintain throughout the whole process, the most justifiable time for such a large cut would be at the outset: better to and get under 5% sooner rather than later.

For now, the Fed is doing exactly the opposite—not only are they not indicating a cut in early 2024, most FOMC members are refusing to talk about the prospect of cuts at all. [Neel Kashkari even went so far](#) as to say they are not even talking about the prospect of rate cuts amongst themselves.

Assuming sufficient disinflation to justify 200 basis points of normalization, the first 100 basis points of cuts should materialize more quickly than the subsequent 100, especially since the Fed is likely to be abundantly cautious and reluctant before initiating the first interest rate reduction. As the Fed gets closer to the ballpark of the neutral interest rate, it may be prudent to slow down the pace of easing further, even if core inflation justifies further easing. The potential inflationary effects of past interest rate cuts and the location of the neutral interest rate are both uncertain and grow in salience as interest rate normalization advances.

Using our own [gross labor income framework](#), there are growing signs of slowdown, and while not all slowdowns lead to recession, all recessions begin with a slowdown. The elevated probability of recession (in the absence of any easing) would imply that gross labor income performance is also liable to breach a reasonable "floor" growth rate, even if you take a conservative view of productivity trends, labor market slack, and labor force growth. If recession probabilities become more decisive, the case for easing is straightforward.

Employ America



Our Composite Aggregate Activity Index shows a slowdown in recent months.

As it stands now, the risk of slowdown is a meaningful balancing factor in favor of easing, at least so long as policy rates remain so elevated while gross labor income growth rates continue to [endogenously cool](#). Should the odds of a sustained inflation overshoot also diminish (or even suggest an undershoot), the elevated probability of nonlinear downside risk scenarios should bolster the case for lowering interest rates.

Inflation Consistency, Legibility, and Credibility

Policy Motivation: Be Consistent on Inflation

From 2022 through mid-2023, the Fed repeatedly underestimated the persistence of inflation and consistently revised the interest rate path upwards in light of this data. Most financial market and real economic participants understand that interest rates are substantially higher than previously expected due to high rates of realized inflation in the recent past. Whether or not you agree or disagree with the particular path the Fed has chosen, that policy has largely been legible to the public up until this point.

Now, the Fed finds itself in the reverse situation: inflation has consistently come down faster than expected. Both consistency and credibility imply that the Fed should respond analogously to favorable inflation developments. To be more precise, the latest core PCE growth rates are 3.5%, 2.5%, and 2.4% on a 12-month, 6-month, and 3-month basis, respectively. The current year-on-year growth rate of core PCE is not only undershooting the June and September 2023 SEPs, which show a terminal rate of 5.6%, but even undershooting the SEPs from December 2022 and March 2023, which project a terminal rate of 5.1%.

Date	Core PCE Inflation (%)	Federal Funds Rate (%)
<i>Current (Nov-23)</i>	3.45%	5.25% - 5.50%
SEP Forecasts for 2023 Q4		
<i>Dec-22</i>	3.5	5.1
<i>Mar-23</i>	3.6	5.1
<i>Jun-23</i>	3.9	5.6
<i>Sep-23</i>	3.7	5.6

Source: Federal Reserve System. Entries represent median projected values at Q4 of each year.

That is, when the Fed raised interest rates to their current level at the July FOMC meeting, the inflation trajectory looked a lot worse than it would turn out to be. In the past, surprisingly high inflation data was an impetus to raise the federal funds rate path; to maintain credibility today, the Fed should be prepared to do the opposite when inflation comes in softer than expected.

The Fed is already somewhat aligned by signaling that they will hold rates steady in December (instead of another hike, as previously projected), but the case for reducing interest rates may arrive at the Fed's doorstep more quickly than they are currently thinking or communicating. The recent disinflation has given the Fed room to cut in early 2024, which they certainly should exercise if there is growing risk of rising unemployment.

If lower inflation fails to translate into lower interest rates, the legibility of the Fed's policies *would substantially deteriorate*. Some financial market participants and Fed commentators have predictably speculated that the "neutral real interest rate" is now structurally higher than before the pandemic. If the Fed were to lean heavily on this justification, we doubt this would hold up as legible to the real economic participants trying to make critical judgments about the path of future macroeconomic and interest rate outcomes. Worse, such a justification, if leaned on aggressively, looks like a kind of fudge factor. The Fed's own assumptions about equilibrium would become a de facto function of where policy rates are set today and foment more unstable expectations about the future path of interest rates. Does the tail wag the dog?

Obviously, the flip side of this is that the Fed is concerned that cutting (or even talking about cutting) too early may lead to an inflation resurgence. Understandably, they would like to be absolutely sure that inflation is on the path to 2% before easing. One main reason proffered for the need to act aggressively against inflation after the pandemic was the importance of ensuring that inflation not get “entrenched” due to unanchored expectations or wage-price spiral dynamics.

We were always [skeptical](#) of those stories, but now, in any case, the data suggests that the probability of an imminent resurgence is diminishing and that the prospects for “wage-price persistence” and entrenched inflation are diminished. [Wage growth](#) is approaching a pace the Fed considers consistent with 2% inflation and in a manner that defies explanations rooted in the unemployment rate, job openings or other conventional measures of labor market slack.

With that in mind, it is not surprising that Fed officials [trying](#) to keep the door open to further rate hikes remain vague about the sources of inflation risk. The reasons and evidence for elevated inflation risk proffered earlier—rising expectations and wage growth—are falling away. Some officials (such as Barkin and Waller) have pointed to the growth trajectory, especially in light of a very strong Q3 GDP report, as one reason to remain as vigilant against inflation as they are. But to the extent that this growth represents [productivity growth](#), the Fed should welcome that progress rather than fear it, especially for inflation reasons.

In any case, the Fed justified raising the interest rate path on the basis of upside inflation surprises. They should at least remain symmetric on the way down.

Strategic Implication: Follow Inflation Down

The Fed should lower interest rates at a pace roughly proportional to progress on inflation. Even if the Fed initially keeps rates well above what benchmarks like “Taylor Rules” would prescribe, the general principle should still be that the more inflation comes down, the further interest rates should be lowered in kind.

While we don’t endorse the use of such strict rules for monetary policy, those rules have already served as aspirational upper bounds in the Fed’s hiking cycle calibrations. In fact, Waller has [already alluded](#) to thinking about the response of interest rates to disinflation along these terms. Symmetric sensitivity is ultimately warranted, even if it materializes with a lag.

"If the decline in inflation continues "for several more months . . . three months, four months, five months . . . we could start lowering the policy rate just because inflation is lower. It has nothing to do with trying to save the economy. It is consistent with every policy rule. There is no reason to say we will keep it really high." [emphasis ours]

- Christopher Waller, Nov. 28th, 2023 at the American Enterprise Institute

It's worth noting that, relative to these policy rules, monetary policy is *already* too tight. [The Cleveland Fed](#) estimates federal funds rate targets under 7 different policy rules and 3 forecasts of inflation and economic activity. Except for a particular "first-difference rule" (which calls for hikes as long as inflation remains above target), the current federal funds rate target is above the prescription under **every** combination of monetary policy rules and forecasts.

Most of these rules are based on the premise that for every 100 basis points of change in the underlying inflation rate (which turns out to be very difficult to gauge amidst a battery of shocks), policy rates should be adjusted 150 basis points ([1.5 is a common coefficient on inflation in benchmark Taylor Rules and their variants](#)). If the current inflation overshoot (~150 basis points) erodes over the next 4-5 quarters, the pace of implied policy rate reduction would amount to an average of 25 basis points every FOMC meeting (225 basis points total). This is a general prescription for the trajectory, but not a rigid proposal that the Fed move in lock-step with inflation prints. As we have noted earlier, this process of interest rate reduction is likely to lag inflation and Taylor Rule outcomes, and there might be good reasons to take a frontloaded approach, one that proceeds slower as the normalization process advances.

Under our own [gross labor income framework](#), disinflation by itself can justify easing policy, but easing would be proportional to the probability of an inflation undershoot relative to the Fed's 2% target. Right now the probability is rising but still low. If disinflation continues into the spring of next year, the risks of an undershoot will likely grow. Alongside elevated recession probabilities, the case for easing can foreseeably gain critical mass next spring even if we don't see visible labor or financial market deterioration. Thus, in practice, a lagged response to implied Taylor Rule prescriptions are more similar to the specific first-difference rule our preferred Fed framework would lean upon.

Policy Motivation: The Supply Side Matters

Throughout the arc of inflation and disinflation, Chair Powell has consistently acknowledged the important role that supply-chain disruptions and recovery have played. Going forward, Powell is thinking about whether or not there is room for further disinflationary supply-side developments. Take this statement

Employ America

from his opening speech at the IMF last month:

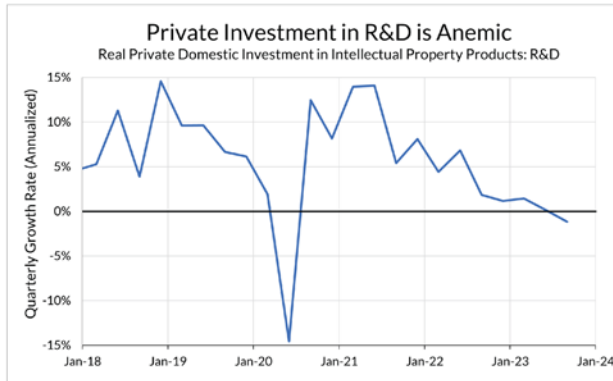
"While the broader supply recovery continues, it is not clear how much more will be achieved by additional supply-side improvements. Going forward, it may be that a greater share of the progress in reducing inflation will have to come from tight monetary policy restraining the growth of aggregate demand."

- Jerome Powell, 24th Jacques Polak Annual Research Conference at the International Monetary Fund

We think there's still room for disinflation from the supply side. The NYFed's Global Supply Chain Pressure Index ([GSPCI](#)) has fallen to its lowest level in the series' history, and should provide continuing disinflation in the short term as firms adapt pricing and production to the environment. Meanwhile, the full force of fiscal support from IIJA, CHIPS and IRA for investment and, by extension, medium-term price stability, has yet to come.

Oddly, Powell talks about the supply side as if it is determined upstream from monetary policy: the supply side may or may not recover more, and Fed policy will simply respond to whichever happens. We think that a full reckoning with the effects of the Fed's tightening efforts on the supply side is needed to fully understand how to think about the supply side and the inflation trajectory. A recent spate of research shows that tight monetary policy reduces [investment in innovation](#) and, in some models, [can even backfire on the inflation front in the context of a supply shock](#).

In fact, it already appears as though Fed policy is slowing down investment. Since the beginning of the hiking cycle, private investment in innovation investment has slowed substantially. Spending on private research and development investment actually *shrank* in Q3.



Source: Bureau of Economic Analysis

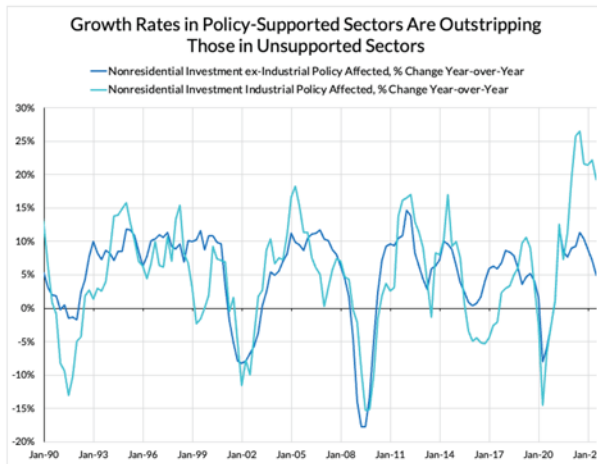
The Fed's rate policy drag on investment is not only felt in the innovation sector. Across many regions and industries, regional Fed business surveys are reporting that they are planning on cutting investment and capital expenditures.



Source: Federal Reserve Banks of Chicago, Philadelphia, New York, and Dallas

What strength there is in investment appears to be driven by sectors that are bolstered by fiscal support through policies such as CHIPS and IRA. Outside of

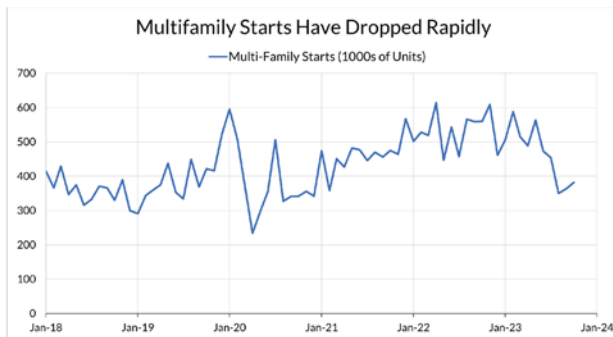
those sectors, investment growth has taken a step back as the Fed has tightened policy.



Source: Bureau of Economic Analysis, authors' calculations. "Industrial Policy Affected" sectors comprise "Manufacturing Structures" and "Other Equipment"

If we look into specific sectors, we can see signs of the investment slowdown. The most recent ISM Manufacturing PMIs offer a range of anecdotes illustrating this slowdown. Almost all respondents noted the slowing economy: in Computers and Electronic Products we hear, "Economy appears to be slowing dramatically. Customer orders are pushing out." In Chemical Products, respondents are "[s]tarting to feel softening in the economy." One respondent in Machinery Manufacturing makes it plain: "The end of the major construction season and an early pullback in customer capital expenditures purchases have resulted in a lower backlog in the fourth quarter."

These trends are especially concerning in sectors which have played a large role in the most recent spate of inflation. Take housing, which [Austan Goolsbee](#) thinks is especially pivotal to the inflation outlook in 2024 and comprises a large portion of the personal consumption basket. Multifamily starts [have cratered in the past few months](#), potentially exacerbating rental inflation trends in 2024 and beyond as the pipeline of new apartments dries up.



Source: U.S. Census Bureau

Meanwhile, energy projects in [nuclear](#), [hydrogen](#), [wind](#), and [solar](#) have been hit especially hard by the rise in borrowing and capital costs. Given the important role that energy shocks have played in this inflationary episode, slowing investment in energy may sow the seeds for greater price stability risk down the road.

The Fed, as Powell would stress, does not have an investment mandate, nor does it have a climate mandate. But, this doesn't mean that the Fed can ignore its effects on the supply side. In fact, the inflation mandate is precisely why the Fed needs to be concerned about the impact it's having on investing in the productive capacity of the economy in order to avoid [physical capacity shortages](#) causing inflation flare-ups in the future. Slowing demand by slowing investment (and demand) might reduce inflation in 2024—but it may come at the [direct cost of constrained supply](#) and increase vulnerability to inflationary pressures for years to come.

Strategic Implication: Maintain Optionality and Stay Data-Dependent

The Fed should take an open-ended, data-dependent approach to interest rate normalization. An approach which sets the scope for interest rate normalization in advance takes an excessively static view of the supply-side dynamics and undervalues the optionality at play. Just as we advised the Fed to “learn and adapt” as they raised interest rates incrementally, we would look for the same approach in interest rate normalization.

If supply-side forces are supporting growth – especially in fixed investment –

while continuing to contribute further disinflation, the scope for interest rate normalization might be larger than anticipated. While it is common to associate increases in fixed investment and productivity growth with a higher neutral interest rate ("r-star"), this association ignores how such dynamics can support higher levels of non-inflationary levels and growth rates in employment and output over time. Better supply-side performance does not necessarily imply higher interest rates, especially if that performance is also part of how inflation outcomes stay contained over time.

On the other hand, adverse supply-side developments may materialize alongside policy easing. For example, if the dollar depreciates in a manner that stokes global commodity demand and a commodity price supercycle in the process (as occurred in the mid-2000s), it might limit the desirable scope of normalization. Above all, these judgments are highly context-dependent and best made through reading-and-reacting, rather than via rigid anticipation.

Data-dependence is a two-way street. Our preferred framework actively endorses a data-dependent forward-looking approach, **both for demand-side and supply-side dynamics**. For now, we see strong evidence that initial efforts to normalize interest rates should unlock some non-inflationary growth in fixed capital formation. The full scale of this dynamic and countervailing dynamics will only be known as the Fed proceeds further on the normalization path, and requires the Fed to fully appreciate the breadth of the impacts and effects of its monetary policy actions.

Conclusion

Achieving the soft landing would be a historic win for the Fed. A fall in inflation of this magnitude without a recession has few historical precedents. Given the considerable shocks the US economy has faced over the past three years, bringing inflation down while maintaining the incredibly rapid post-pandemic labor market recovery would be a tremendous achievement. While the Fed was less certain this was achievable earlier this year, they've since started to see this goal as a real possibility.

Now inflation is falling faster than expected, the Fed finds itself in a situation where the risks are shifting away from inflation and towards unemployment. The Fed claims to be data dependent; as those risks shift, so too should Fed strategy. And even if Fed officials are reluctant to talk about it now, that means it's time to start talking about how to renormalize interest rates from above as we hopefully continue to follow the "[golden path](#)" to a soft landing. We hope that the motivations and strategies we've outlined will bring clarity for Fed officials, commentators, and market participants as to the way to stay on that golden path.



Statement for the Record

The Federal Reserve's Semi-Annual Monetary Policy Report **House Financial Services Committee** March 2024

Groundwork Collaborative appreciates the opportunity to submit this statement for the record in connection with the March 6, 2024 hearing entitled "The Federal Reserve's Semi-Annual Monetary Policy Report" before the House Financial Services Committee.

Textbook theories of inflation assume that rapid price growth is driven by too much money chasing too few goods. By increasing the cost of borrowing, interest rate hikes attempt to tamp down demand, and the result is an increase in unemployment. Prominent economists such as [Larry Summers](#) and [Chair Powell](#) himself have long suggested that without mass unemployment, inflation would not come down.

Today's economy is a clear repudiation of the theory that mass unemployment is necessary to bring inflation down. Unemployment has been below 4% for more than 24 months and inflation has been falling for more than 19 months off of its peak. *All of the evidence suggests that the Federal Reserve must cut rates before they do further harm.* This statement lays out some of the major risks associated with the Fed maintaining a high interest rate environment.

The Fed's high interest rates continue to stifle new housing construction and to put upward pressure on prices by forcing potential buyers back into the rental market.

In January 2024, shelter costs contributed [over two thirds](#) of total inflation – inflation will not come down until shelter costs get under control. The Fed's high interest rate environment is perpetuating high shelter costs and worsening a longstanding housing supply shortage. High rates affect the housing market through two main channels.

First, high mortgage rates put home ownership out of reach for prospective buyers, pushing them back into the rental market. Increased demand in the rental market results in landlords raising rents. Mortgage rates have risen [nearly 60%](#) since the Fed began raising interest rates in March 2022, putting [significant pressure](#) on rents.

Second, rate hikes make financing new housing construction more expensive, which means that builders don't build as many new homes. [Housing supply shortages](#) were driving the U.S.'s longstanding housing crisis even before the rate hikes began. Between



2012 and 2022, the gap between single-family home constructions and household formations [grew to](#) 6.5 million homes. The best way to address the longstanding housing shortage in the U.S. is to increase the supply of housing. The Fed's high interest rates – which are working exactly as they are designed – are making this crisis worse by increasing the cost of borrowing and styming new construction.

The once-in-a-generation investments that Congress and the Biden Administration made in our clean energy future are being imperiled by the Fed's high interest rates.

The public investments in the Inflation Reduction Act are intended to leverage significant debt-financed private clean energy investments. However, interest rates are [more than double](#) what they were when the IRA passed, making private investment much more expensive. In offshore wind, for example, an [estimated 60%](#) of cost increases are squarely to blame on high interest rates.

The Fed's persistently high interest rates and associated dampening effects on private investment in clean energy mean that American families will continue to be subject to the whims of volatile commodities markets. Over the recent inflationary period, oil price shocks directly drove up the price of energy for households while [adding](#) extra cost pressures for businesses that inflated prices across the board.

Persistently high interest rates threaten the remarkable recovery and healthy labor market that we are currently experiencing.

We are in the midst of a remarkable recovery. Unemployment has been below 4% for more than 24 months, and inflation has been falling for more than 19 months off of its peak. GDP growth has been strong for [6 quarters](#). The Small Business Administration has received a record [16 million new business applications](#). This is an economy that is roaring out of recession, and all of that is threatened as long as Chair Powell continues to keep interest rates high.

Interest rate hikes are a blunt policy instrument that operate with a lag. The Fed cannot finetune the economy – they simply will not know if they have raised rates too much until it is too late. The stakes are too high for the Fed's "wait and see" approach. The Fed should cut rates immediately to curtail additional harm.

If you have any questions about this statement or would like to discuss these issues further, please contact Rakeen Mabud at rakeen@groundworkcollaborative.org.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 31, 2024

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
House of Representatives
Washington, D.C. 20515

Dear Chairman McHenry:

Enclosed are my responses to the questions you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Chairman Patrick McHenry:

1. Is the Federal Reserve considering changes to its discount window operations and rules?

- a. If so, what is being considered?
- b. Will the Federal Reserve engage with Congress before any new regulatory proposals are issued?

The discount window plays a critical role in addressing the liquidity needs of depository institutions under a range of scenarios—both in normal times and during periods of broader market stress. Over the past year, we have been focused on improving readiness of the banking system to utilize the discount window. We have already made important progress, including by making certain technological improvements and substantially increasing the number of depository institutions signed up for the discount window and the amount of pre-positioned collateral. We expect to build on this progress going forward. We are fully committed to continuing to enhance and modernize discount window operations and the readiness over time to support effective policy implementation and to meet liquidity pressures in the banking system.

2. Has the Federal Reserve analyzed the effects of liquidity rules and regulations, such as the Liquidity Coverage Ratio, on the stability of the U.S. Treasury securities market?

- a. Is the Federal Reserve considering changes to liquidity rules and regulations?
- b. Will the Federal Reserve analyze the possible effects of any changes to the liquidity rules and regulations on Treasury market stability?

The events of the first half of 2023—in particular, the unprecedented level and speed of deposit outflows at a few firms—have underscored the importance of liquidity risk management. In light of this experience, the Federal Reserve Board is carefully considering how we supervise and regulate liquidity risk. Any changes to our liquidity rules would go through the normal notice and public comment process. We would also perform an economic impact analysis of any proposed changes, which would analyze any impact on a variety of financial and economic variables, including the market for U.S. Treasury securities.

3. In 2022, Nobel Prize winning economist Lars Peter Hansen, a proponent of continued research on climate change, wrote about central bank challenges posed by uncertain climate change. He argued that central banks’ “credibility will be further enhanced by avoiding the temptation to exaggerate our understanding of climate change.”

Despite being pushed by both the FSOC and global governance bodies such as the Network for Greening the Financial System, the Federal Reserve admits that it still has lots to learn about purported climate-related financial risks.

Do you agree with Dr. Hansen? Are you concerned that the Federal Reserve is being pushed in its work on climate change and is sacrificing credibility?

The Federal Reserve has narrow responsibilities regarding climate-related financial risks, which are tightly linked to our responsibilities for bank supervision. It is also important to continue to be clear on what we are not doing. The Federal Reserve is not—nor do we seek to be—a climate policymaker. Decisions about policies to address climate change must be made by the elected branches of government. Over time, the Federal Reserve must be vigilant to avoid crossing or blurring that line. It is not the Federal Reserve's role to tell banks to which businesses they can and cannot lend. We, and the banks themselves, are in the early stages of understanding and measuring the financial risks posed by climate change. Accordingly, our work in this area must continue to remain grounded in data, measured in its approach, and tightly linked to our responsibilities.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 31, 2024

The Honorable Andy Barr
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 1, and 3-8 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. The response to your remaining question will be forthcoming.²

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

² Responses to questions 9-16 were sent to your office and the Committee on April 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andy Barr:

1. There has been some reporting lately on “shrinkflation,” a label for instances where someone pays the same price for something but gets a smaller quantity or quality than before. This is a form of inflation that reflects one way that producers adjust to higher input prices in a runaway inflation environment like we have observed over the past three years. There do not appear, however, to be any mentions of shrinkflation in recent monetary policy reports.

A Bureau of Labor Statistics (BLS) article last year looked at shrinkflation and concluded that “it has a miniscule impact on overall inflation.” (<https://www.bls.gov/opub/btn/volume-12/measuring-shrinkflation-and-its-impact-on-inflation.htm>) The BLS concluded that “while consumers may notice shrinkflation at the grocery store, it has a very small impact the overall inflation picture they face.”

- a. Do you agree with the BLS conclusion?
- b. From the Federal Reserve’s perspective and analysis, has shrinkflation been a significant casual or amplifying factor in the runaway inflation of the past three years that has imposed great pain to American workers and households?

The term “shrinkflation” refers to a situation where companies reduce the size of the products without lowering the prices, amounting to a price increase. The inflation data published by the Bureau of Labor Statistics (BLS) do register such changes as price increases. For example, when the BLS sees that a product has gotten smaller, the BLS will use the price per ounce to correctly record this reduction in size as a price increase.

The BLS has tried to quantify the effects of this “product downsizing” on the Consumer Price Index between 2015-19. As you note, they find that such downsizing had a very small effect on aggregate inflation. Put differently, if the BLS had not recorded downsized products as price increases, measured inflation would have been only slightly lower.

Regardless of the form inflation takes, the Federal Open Market Committee is committed to bringing inflation back to our longer-run goal of 2 percent.

3. In response to an executive order, Treasury’s Office of Financial Research (OFR) set up a Climate Data and Analytics Hub. The Hub is for the Financial Stability Oversight Council and its supposedly politically independent member agencies.

According to the OFR, the Hub was to serve as “a collaboration between the OFR, the Federal Reserve Board, and the Federal Reserve Bank of New York.” The OFR also says that the Hub was established partly because “the Federal Reserve requested to leverage the OFR’s data and analytic capabilities to support research in climate-related financial risk.”

- a. Was there Board-level approval at the Federal Reserve to establish the partnership at OFR, or was this a staff-level agreement?
- b. Are Federal Reserve staff authorized to cut deals with the administration to partner on climate change data or policies, or other data or links to data and policy initiatives?
- c. What will the Federal Reserve be doing with the OFR, and what does the Federal Reserve plan to do with whatever data or links the OFR is compiling?

The Office of Financial Research (OFR)'s Climate Data and Analytics Hub (which has been replaced by a more general platform for analyzing financial stability risks, known as the Joint Analysis Data Environment)¹ provides information that could be useful to the Financial Stability Oversight Council (FSOC) members' understanding of climate-related financial risks. The Federal Reserve Board (Board) has a memorandum of understanding with the FSOC regarding the treatment of non-public information obtained or shared in connection with or related to the functions and activities of the FSOC or the OFR.

- 4. The Federal Reserve Board recently issued a proposal to reduce the amount of debit interchange revenue that large issuers can earn by a third. Some recent research finds that the Board's new proposal could increase the cost of free checking accounts for low- and moderate-income households by \$1.3 to \$2 billion, annually.
 - a. Under the Durbin Amendment to the Dodd Frank Act, the Federal Reserve was required to regulate debit interchange fees. After the Federal Reserve implemented this regulation in 2010, Federal Reserve economists estimated that the regulation resulted in a reduction of free checking accounts by more than 30%. With such negative effects on consumers under the exiting rule, why did the Board decide to engage in a new rulemaking to further reduce debit interchange?
 - b. Has the Federal Reserve considered whether the interchange proposal will have a negative impact on consumers and small businesses, and if so, do any benefits outweigh this negative impact?

The Board invited public comment on a proposal to update Regulation II's interchange fee cap and to establish a process for updating the interchange fee cap every other year going forward based on data reported to the Board by large debit card issuers. Given the complexity of the issues and their importance to the banking and business communities as well as the general public, hearing a broad range of perspectives was important, and so the Board encouraged all interested parties to submit comments—including comments on the Board's economic analysis

¹ See OFR, Press Release (April 6, 2023), at <https://www.financialresearch.gov/press-releases/2023/04/06/ofr-advances-data-and-analytics-platform-following-successful-pilot/>.

of the proposal. We are in the process of reviewing comments as we work to implement the underlying statutory provision.

5. A recent Federal Reserve Finance and Economics Discussion Series paper (FEDS), *Who Pays for Your Rewards? Redistribution in the Credit Card Market*[2], has been frequently cited by critics of credit cards. The paper's authors argue that it "contributes to the literature that highlights the role of the financial system in driving wealth inequality[.]"

[2] FEDS Series Paper 2023-007, available at <https://www.federalreserve.gov/econres/feds/files/2023007pap.pdf>.

Although the paper contains the standard disclaimers that the views expressed are those of the authors and not the Federal Reserve, we understand that there is a vetting and review process prior to publication. Accordingly,

- a. Does the Federal Reserve Board share the authors' view that the financial system drives wealth inequality and, if so, what are the channels through which those drivers operate?
- b. Does the Federal Reserve Board agree that consumers who timely pay off on obligations pose less repayment risk to lenders and that lower risks of lending are reasonably associated with lower interest rates or other charges for lower risk borrowers?

Research conducted by Federal Reserve staff reflects the views of the authors and does not necessarily reflect the views of the Board or anyone else in the Federal Reserve System.

6. Over ten years have passed since the Federal Reserve issued Regulation II.
- a. Why did the Federal Reserve believe that this was the appropriate time to propose updating Regulation II?
 - b. Does the Federal Reserve believe that it is *required* under Dodd Frank to update Regulation II periodically, and if so, what is the legal basis for this position?
 - c. Does the Federal Reserve agree that rules issued under the Electronic Funds Transfer Act, such as Regulation II, must contain a cost-benefit analysis?
 - d. Has the Federal Reserve considered what impact that the proposed Regulation II amendment will have on small financial institutions and their customers, including low- and middle-income customers?
 - e. Is it appropriate for the Federal Reserve to use 2021, a pandemic year, as a benchmark for setting automatic adjustments to the Regulation II price controls?

- f. Is it problematic that the benchmark payments data do not include years impacted by the Federal Reserve's recently finalized debit routing, thereby running the risk of the "unintended consequences" of increasing the incidence of fraud in debit card programs?**

Please see my response to question 4.

- 7. The preamble to the new Community Reinvestment Act rule states that the Federal banking agencies will develop and make freely available tools to help banks identify where new Retail Lending Assessment Areas may be required and to calculate the retail lending distribution benchmarks so banks have a sense of how they will perform. When do the Federal banking agencies plan to make these tools available to the industry?**

- a. Will the tools be released in time to provide banks with the full benefit of the rule's two-year implementation period?**

As noted in the preamble to the Community Reinvestment Act (CRA) final rule, the Office of the Comptroller of the Currency, U.S. Treasury, Federal Deposit Insurance Corporation, and the Board (collectively, the agencies) expect to issue supervisory guidance, including examination procedures, to promote clarity and transparency regarding implementation of the final rule.² The agencies also expect to develop data reporting guides, and technical assistance materials to assist banks in understanding supervisory expectations with respect to the final rule's data reporting requirements. Furthermore, the agencies expect to develop templates, such as for the submission of data, and to develop data tools for banks and the public.

Under the CRA final rule and the supplemental rule issued by the agencies on March 21, 2024, banks would have until January 1, 2026, to comply with many of the final rule's requirements, and until January 1, 2027, to comply with the data reporting requirements.³

However, a lawsuit challenging the CRA final rule was filed in February of 2024. On March 29, the U.S. District Court for the Northern District of Texas (the District Court) issued a preliminary injunction that impacts the effective date, applicability dates, and the agencies' implementation of the final rule. The agencies will provide updates to the public, consistent with the District Court's preliminary injunction and as appropriate.

- 8. The Federal banking agencies still have a long to-do list pertaining to the Community Reinvestment Act, including issuing additional guidance regarding transition to the new framework. What is the approximate timeframe for issuing these additional materials?**

Please see my response to question 7.

² See <https://www.federalregister.gov/documents/2024/02/01/2023-25797/community-reinvestment-act>.

³ See <https://www.federalregister.gov/documents/2024/03/29/2024-06497/community-reinvestment-act-supplemental-rule>.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2024

The Honorable Andy Barr
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to questions 9-16 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. Responses to your remaining questions will be forthcoming.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andy Barr:

9. Negative impacts of the Basel III Endgame proposal will be felt across the economy, including by small businesses. The National Association of Manufacturers notes in their comment letter that the proposal would have a significant, harmful impact on “smaller manufacturers who lack access to the capital markets and must rely on bank funding, manufacturers who do not have publicly traded securities, and manufacturers who rely on banks to help them manage financial risks.” The proposal fails to consider these costs in its economic analysis. Could you explain the rationale for smaller, non-public businesses should be at a disadvantage when compared to large public companies?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised about the impact of the rule on smaller, non-public companies. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Federal Reserve Board (Board) and the public.

10. In October 2023, Members of Congress you and the other Federal banking agencies a letter voicing concerns about the impact that the Basel III Endgame proposal would have on America’s agriculture industry. Numerous agriculture and ranching representatives have also submitted comment letters, expressing significant concerns. For example, comments by the Farm Bureau, Pork, Milk, and Beef producers, and others noted that they: “are very concerned that any contraction in the availability of [derivatives] clearing services will have a disproportionate impact on agricultural end-users that are far outside the major financial centers, especially smaller entities such as grain elevators and family farms.” Derivatives transactions are critical risk management tools for our agricultural industry. It is evident that the Basel III Endgame, which nominally targets “the largest banks,” will in real terms affect industries well beyond the financial sector. How has the Federal Reserve analyzed the impacts to industries beyond the banking sector, such as impacts on agriculture and on users of derivatives for risk management purposes?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised about the impact of the rule on the agriculture sector and derivatives end users. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.

11. Federal Reserve Board governors and FDIC Board directors, along with numerous organizations across the political spectrum – for example, the Urban Institute, National Housing Conference and the Urban League – voiced concerns about the impact the Basel III Endgame proposal will have on homeownership, especially minority and first-time homebuyers. In their comment letter, the National Housing Conference said that:

“At a time when banks around the country are making efforts to address the homeownership gap, and Special Purpose Credit Programs are being adopted to improve racial equity by financial institutions, requiring an unprecedented and unnecessary level of capital for high LTV [loan-to-value] mortgage loans risks moving the entire industry in the wrong direction by limiting credit access for borrowers of color.”

It is particularly alarming that it appears the mortgage component the proposal goes far beyond what the international Basel III Endgame framework called for and beyond what jurisdictions like the European Union and the United Kingdom are implementing.

- a. Is there a reason that the Federal Reserve believes it is necessary to gold plate the Basel III Endgame framework, which will in turn make homeownership more difficult for everyone, particularly minority and first-time homeowners?**
- b. Fixing the mortgage risk-weighted asset calculations in the proposal would not ameliorate the unnecessary and harmful impact the proposal would have on minority and first-time homeowners. Other components, including the operational risk component, will also have negative consequences. Would you therefore agree that it is necessary to withdraw and re-propose the Basel III Endgame proposal following a careful analysis of the overall impacts of all aspects of the proposal?**

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the mortgage provisions in the proposal. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.

- 12. The Basel III Endgame proposal increases costs for state, local, tribal, and territorial governments to finance infrastructure projects. As the Government Finance Officers Association and other organizations across the municipal debt market wrote in a comment letter:**

“Our U.S. State and local government issuers and conduit nonprofit borrowers rely on access to affordable credit, primarily through the issuance of municipal bonds and direct loans from financial institutions, to finance our nation’s infrastructure assets and critical public services. These borrowing opportunities are often made more affordable by the tax-advantaged treatment of qualified bonds and relationships built between local lenders and borrowers. Increases in debt service costs for municipal issuers and conduit borrowers will

result in declined investment in infrastructure, public safety, education, and numerous other social services.”

Given the need for physical infrastructure modernization across the United States, is the Federal Reserve concerned about the negative impacts that the Basel III Endgame proposal will have on financing schools, roads, or other infrastructure projects?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the impact of the proposal on state and municipal financing. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.

13. Under the Basel III Endgame proposal’s operational risk charge, foreign banking organizations will have to hold capital against the provision of non-financial services such as information technology services and human resources. Are you concerned that this would incentivize foreign banking organizations to move these operations overseas?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding operational risk and the impact of the proposal on foreign banking organizations. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.

14. Foreign banking organizations are a major provider of credit in the United States. The Basel III Endgame proposal will penalize intercompany lending between the U.S. Operations of the foreign banking organization and its parent entity. Are you concerned that this would drive foreign banking organizations to decrease their U.S. footprint and thereby decrease the availability and affordability of credit to U.S. businesses and consumers?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the impact of the proposal on foreign banking organizations. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.

15. The Basel III Endgame proposal appears to assign a more punitive risk weight for retail credit exposures – for example, credit cards, student loans, and auto loans – than what was called for in the 2017 Basel III Endgame Framework. This could make retail credit more expensive, particularly for low- and middle-income consumers. Given that the large banks are also subject to an operational risk capital charge and to stress testing, this punitive risk-weighting seems unnecessary.

- a. **Can you explain how the obvious costs for this punitive risk-weighting for retail credit exposures are outweighed by any benefit?**
- b. **Has the Federal Reserve conducted any analysis as to the negative impact this will have on U.S. banks in the global marketplace?**

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the risk weights for retail credit exposures in the proposal. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.

- 16. The Basel III Endgame proposal inexplicably assigns a 10-percentage point increase above the Basel Framework on risk weights for retail credit exposures, such as for credit cards, student loans, and auto loans. This aspect of the proposal is concerning as it would further push lower-income individuals out of the traditional banking system to high-cost alternatives and would make banks operating in the US far less competitive globally. The proposal states that this was done for competitiveness reasons, though that appears odd since these surcharges are unnecessary given that large banks will also be subject to operational risk, market risk and stress testing. In fact, before the House Financial Services Committee on March 6, 2024, Chair Powell seems to have agreed, stating that “we are exceeding the minimums” and “also exceeded what other big jurisdictions are doing.” In light of this, will you commit to removing the surcharges applied to the retail risk weights to ensure that the capital framework will not limit Americans’ access to capital and not put the US on an unequal footing with the rest of the world?**

As I said in my statement on the capital proposal, the proposed exceeds what is required by the Basel agreement, and exceeds as well what we know of plans for implementation by other large jurisdictions. We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are in the process of reviewing and assessing the data and the comments received on this aspect of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

June 21, 2024

The Honorable Andy Barr
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to question 2 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.²

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

² Responses to questions 9-16 were sent to your office and the Committee on April 19, 2024. Responses to questions 1 and 3-8 were sent to your office and the Committee on May 31, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andy Barr:

2. Former Reserve Bank of India Governor Raghuram Rajan and Deputy Governor Viral Acharya wrote a recent op-ed about the March 2023 bank failures and instability.[1] They argue:

“Despite sweeping banking reforms over the past 15 years, the authorities have once again shown that they are willing to bail out market players if enough of them have taken the same risk. ‘Too big to fail’ was bad enough, but now we have ‘too many to fail.’”

[1] Raghuram G. Rajan and Viral V. Acharya, *The Danger of Forgetting the 2023 Banking Crisis*, Project Syndicate (Feb. 8, 2024), available at <https://www.project-syndicate.org/commentary/banking-crisis-2023-contagion-was-contained-but-new-moral-hazard-from-response-by-raghuram-rajan-and-viral-acharya-2024-02>.

They explain that the “Treasury essentially took bank runs off the table, while the Fed provided banks the funds to accommodate the continuing – though no longer panicked – depositor outflows.” It would be helpful to obtain your views on two questions they ask:

- a. To what extent were the seeds of the 2023 banking stresses sown by the pandemic-induced monetary stimulus and the subsequent lax supervision of what banks did with this money?

As noted in a number of reviews, including our own, the 2023 banking stress reflected a failure, by a small number of banks, to appropriately manage their risks as well as weaknesses in the supervision of those firms.

During the pandemic, banks experienced a significant increase in deposits, and some banks invested those funds in long-term fixed-rate investment securities. While deposit costs were very low, these investments provided additional earnings in excess of funding costs. However, when rates increased in 2022, banks experienced large unrealized losses on fixed-rate investments in their available-for-sale and held-to-maturity books. Moreover, deposit costs rose. For some banks, this combination of unrealized losses and declines in profitability was significant. While many banks appropriately managed the risks to their balance sheets as this situation evolved, the banks that failed in the first half of 2023 had poor interest rate risk management, which contributed to their stresses and the run by depositors they experienced.

In certain cases, supervisors did not fully appreciate the extent of the vulnerabilities. For example, as Silicon Valley Bank (SVB) grew in size and complexity, when supervisors did identify vulnerabilities, they did not take sufficient steps to ensure that SVB fixed those problems quickly enough. Since the bank failures in 2023, the Federal Reserve has focused on improving the weaknesses in supervision identified by this experience.

b. Are banks that relied on official backstops, such as the Bank Term Funding Program, after the March 2023 bank failures keeping distressed commercial real estate borrowers afloat?

The Bank Term Funding Program (BTFP) was an integral part of the response to the stress of last spring as it supported the flow of credit and preventing stress from spreading further. As scheduled, the BTFP ceased making new loans as of March 11, 2024.

The BTFP provided a wide range of depository institutions an additional source of liquidity and helped assure that they were able to meet the needs of all their depositors, limiting the risk of destabilizing runs and the associated potential for contagion throughout the banking system.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 22, 2024

The Honorable Warren Davidson
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Warren Davidson:

1. The Fed has a standard procedure of separating monetary policy, which targets low inflation and full employment, from regulatory policy, which targets financial stability. Does the Fed consider its buying and selling of agency mortgage-backed securities (MBS) monetary policy or regulatory policy?

The Fed has held MBS on its balance sheet consistently since 2008. Currently, the Fed's portfolio of MBS makes it the second largest investor with almost 25% of the market.

- a. Do you believe the Fed's activities have constrained the secondary market in any way?
- b. Would you agree that MBS prices are distorted as a significant proportion of the supply of MBS is controlled by the Fed?
- c. To what extent do Open Market Operations distort the price of mortgages for homebuyers?

The Federal Reserve conducts monetary policy in pursuit of its statutory mandate to promote price stability and maximum employment. In response to the pandemic, the Federal Reserve purchased large volumes of Treasury securities and agency mortgage-backed securities (MBS) in the amounts needed to ensure smooth market functioning and the effective transmission of monetary policy to broader financial conditions. With the economic recovery well along, the Federal Reserve began to gradually reduce the size of its securities holdings beginning in June of 2022 consistent with its previously announced principles and plans for reducing the size of the balance sheet.¹ Since then, the Federal Reserve's securities holdings have declined by about \$1.6 trillion.

The Federal Reserve monitors conditions in Treasury and mortgage markets very carefully, and there are no indications that our securities holdings have distorted conditions in agency MBS markets. At present, the Federal Reserve's agency MBS holdings stand at about \$2.4 trillion and are running off at a pace of about \$15 billion per month. As noted in the Federal Open Market Committee's (FOMC) statement of Principles for Reducing the Size of the Balance Sheet, in the longer run, the FOMC intends to hold primarily Treasury securities in the Federal Reserve System Open Market Account (SOMA) portfolio, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy. The gradual pace of runoff of agency MBS implies that returning to a SOMA portfolio that consists primarily of Treasury securities will take some time. For example, the SOMA annual report includes some illustrative projections for the Federal Reserve's balance sheet.² In these projections, agency MBS holdings decline by about \$1.6 trillion over the next 10 years. The agency MBS market has adapted well to the gradual reduction in the Federal Reserve's holdings and that process

¹ See <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220126c.htm> and <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504b.htm>.

² See <https://www.newyorkfed.org/medialibrary/media/markets/omo/omo2023-pdf.pdf>.

seems likely to continue to proceed smoothly, with the Federal Reserve's presence in this market continuing to diminish over time.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2024

The Honorable Scott Fitzgerald
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to question 1 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. A response to your remaining question will be forthcoming.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Scott Fitzgerald:

1. The hearing examined several substantial concerns on the Basel III Endgame proposal. I've been particularly concerned with the proposal dis-incentivizing banks from offering borrowers conventional loans for First Time Homebuyers and low to moderate income borrowers. The lack of options will make buying a home even more unattainable than it already is today for Wisconsinites and Americans. Another major issue is the proposal's operational risk component requiring banks to hold capital against fee and commission income as a proxy for operational risk. Under the proposal, a Wisconsin manufacturer trying to ship products internationally would need to pay more to get a bank letter of credit in order to facilitate those shipments, ultimately leading to higher costs or reduced availability for its products. Similarly, foreign direct investment in Wisconsin could be negatively impacted due to the increased capital burden on foreign banks helping facilitate investment in my state.

These issues highlight the lack of analysis on how the proposal would affect end users. I know Vice Chair Barr promised more analysis on the final rule, but do you think the lack of analysis on the front end could make the final product worse than it could have been with this feedback?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding operational risk as well as regarding the impact of the proposal on mortgage affordability and foreign banking organizations. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Federal Reserve Board and the public.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

June 21, 2024

The Honorable Scott Fitzgerald
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to question 2 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.²

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

² Response to question 1 was sent to your office and the Committee on April 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Scott Fitzgerald:

2. Vice Chair Barr has expressed his desire to assess how the Federal Reserve performs analysis of bank mergers. This follows President Biden's call for DOJ and the agencies responsible for banking to update guidelines on banking mergers to provide more robust scrutiny of mergers. I am concerned any change in that analysis that would depart from long existing and widely accepted standards may not reflect actual changes in the competitive environment.

Can you share your thoughts on the competitive environment in the banking industry? What role to smaller financial institutions like community banks and credit unions in creating competition and creating value for consumers and their communities?

I believe that meeting the diverse financial services needs of the U.S. economy will continue to require a range of financial institutions—including small and mid-sized banks—offering different sets of services and pursuing various business models. Community banks play a critical role in our financial system. They often have close ties to the communities they serve and detailed knowledge of their customers, which enables them to meet the needs of their local communities and small businesses and small farm customers in a customized and flexible way. Community banks are particularly important for rural communities, where the closing of a bank can be associated with a material decline in local economic activity.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2024

The Honorable Andrew R. Garbarino
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to question 1 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. A response to your remaining question will be forthcoming.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andrew R. Garbarino:

- 1. Operational risk capital is the driver of the more than 20% increase in bank capital under the capital requirements proposal and is effectively a tax on all banking activity. It has been reported that elements of Basel III Endgame overlap with the Fed's annual stress tests. What are you going to do to fix that overlap? Further, can you explain to me why bank operational risks are currently so unaccounted for in the U.S. capital framework that they require such a massive increase in capital?**

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding operational risk. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Federal Reserve Board and the public.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 22, 2024

The Honorable Andrew R. Garbarino
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to question 2 that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record. This concludes my responses to your questions.²

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

² A response to question 1 was sent to your office and the Committee on April 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Andrew R. Garbarino:

- 2. The Fed said in 2015 that “the Board will periodically review the coefficients and make adjustments as appropriate” but has not yet done so. Why release a proposal for public comment that omits this important discussion for consideration in your proposed rule?**

The Federal Reserve Board (Board) issued a proposal last year to make adjustments to the calculation of the global systemically important banks capital surcharge to improve its risk sensitivity. Public engagement is an important part of the rulemaking process, and as I noted at the time of issuance, I was looking forward to feedback. The Board has received comments from the public on the proposal, including modifications to the method coefficients used in the calculation of surcharge requirements. We appreciate the comments we have received, and we are carefully reviewing them.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 31, 2024

The Honorable French Hill
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions that you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive style with a large, stylized "J" and "P".

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative French Hill:

1. **Chairman Powell, the Federal Reserve recently revealed that it lost \$114 billion in 2023. And it begs the question: how can the world's greatest central bank, the issuer of the dominant global reserve currency-the dollar-be technically insolvent? The Fed does its best to hide these operating losses and its negative capital position through central bank accounting that no private bank or any other business can get away with. Some Fed staff and economists like to argue that the Fed faces no operational consequences to its ability to meet its financial obligations or implement monetary policy due to losses on its portfolio and negative capital.**

- a. **What happens if sustained Federal Reserve deficits and a growing deferred asset account introduces doubts among the public about the Fed's future actions?**

The Federal Reserve conducts monetary policy in pursuit of its statutory mandate to promote price stability and maximum employment. In response to the pandemic, the Federal Reserve purchased Treasury securities and agency mortgage-backed securities (MBS) in the amounts needed to ensure smooth market functioning and the effective transmission of monetary policy to broader financial conditions. These actions provided critical support and fostered the rapid recovery in economic activity. With the reopening in the economy in 2021 and amid widespread supply constraints, inflation moved up appreciably and the Federal Reserve has responded to address inflation pressures.

As the Federal Reserve tightened policy to address inflation pressures, its interest expense moved above its interest income. This does not affect the Federal Reserve's ability to conduct monetary policy or to meet its financial obligations. The accounting treatment for the Federal Reserve's net interest income and remittances due to the U.S. Treasury are reported publicly every week on the H.4.1 statistical release and in more detail in quarterly financial statements.

2. **Mr. Chairman, since the financial crisis, the Federal Reserve has engaged in some of the most accommodative monetary policy in history-near-zero interest rates plus billions more to buy U.S. Treasury debt and agency mortgage-backed securities. We've seen this playbook reused as part of the policy response to Covid. As a result, the Fed's balance sheet has more than doubled since March 2020 to nearly \$9 trillion. Since then, the Fed began reducing its bond holdings in June 2022 by tapering its monthly asset purchases and letting bonds roll off the balance sheet as they mature and not reinvesting all the proceeds. As of early January 2024, the balance sheet shrunk to \$7.7 trillion.**

- a. **Any comment on the thinking around the timing and/or the pace of quantitative tightening?**
 - b. **How are you thinking about the stability in the market for U.S. Treasuries in a quantitative tightening environment?**

- c. What do you envision as a “normal” balance sheet for the Fed?
- d. Can you speak to how the Fed is thinking about how much of its balance sheet it plans to reduce by not reinvesting maturing securities versus by actively selling the bonds instead?
- e. What is the Fed’s thinking on the relationship between quantitative tightening and usage of the overnight reverse repo facility, considering the shrinking amount of cash parked there?

Consistent with the Federal Reserve’s principles and plans for reducing the size of the balance sheet, which were announced in January and May of 2022, respectively, the Federal Reserve began reducing the size of its balance sheet in June of 2022.¹ Since then, the Federal Reserve’s securities holdings have declined by about \$1.6 trillion. At the Federal Open Market Committee’s (FOMC) meeting in May 2024, the FOMC decided to slow the pace of balance sheet reduction by adjusting the cap on the monthly redemptions of Treasury securities holdings. This will reduce the monthly pace of runoff of the Federal Reserve System Open Market Account (SOMA) portfolio by about one half. The more gradual pace of balance sheet runoff will allow the Federal Reserve more time to better judge when aggregate reserves have reached a level consistent with the FOMC’s ample reserves operating regime. In addition, the more gradual pace of runoff will allow banks and market participants to adapt to lower levels of reserves.

As noted in the “Principles for Reducing the Size of the Federal Reserve’s Balance Sheet,” the FOMC intends to maintain securities in amounts needed to implement monetary policy efficiently and effectively in its ample reserves operating regime.² Ultimately, this “normal” size of the balance sheet will be determined by the public’s demand for Federal Reserve liabilities at rates consistent with the target range for the federal funds rate.

The FOMC has also indicated that, in the longer run, the FOMC intends to hold primarily Treasury securities in the SOMA, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy. Agency MBS are currently declining gradually at a pace of about \$15 billion per month. Since the beginning of balance sheet runoff in June of 2022, agency MBS holdings have declined by about \$320 billion. Plausible projections suggest that Federal Reserve agency MBS holdings might decline by another \$1.6 trillion over the next 10 years.³

The FOMC has not actively discussed approaches to balance sheet normalization involving sales of securities although the minutes of FOMC meetings have noted that it may be appropriate to consider sales of agency MBS at some point in the future.

¹ See <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220126c.htm> and <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504b.htm>.

² *Ibid.*

³ See <https://www.newyorkfed.org/medialibrary/media/markets/omo/omo2023-pdf.pdf>.

To date, the reduction in the Federal Reserve's securities holdings has been matched by a nearly equal reduction in the level of balances placed at the overnight reverse repurchase agreement (ON RRP) facility. This trend has largely reflected the reaction of the Federal Reserve's counterparties—money market mutual funds in particular—to changes in the configuration of money market interest rates. The runoff of the Federal Reserve's securities holdings has likely put some modest upward pressure on private repo rates as the private sector seeks to finance or purchase securities that would otherwise have been held by the Federal Reserve. In addition, the U.S. Treasury has issued sizable volumes of Treasury bills over the past year that have put upward pressure on Treasury bill yields. Relatively attractive rates on private repo investments and Treasury bills have, in turn, induced money market mutual funds to shift funds out of the ON RRP facility and into those higher yielding investments. As of late May 2024, ON RRP balances stood at a little under \$500 billion and usage of the ON RRP facility is expected to decline further over the remainder of this year.

Regarding the stability of the Treasury market, the Federal Reserve closely monitors various indicators of market functioning. While measures of liquidity in the Treasury market have been somewhat low over recent years, the levels of these indicators have appeared roughly consistent with indicators of interest rate uncertainty, and do not seem to have been affected by runoff of the Federal Reserve's securities holdings.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2024

The Honorable Young Kim
House of Representatives
Washington, D.C. 20515

Dear Congresswoman:

Enclosed is my response to the question you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Young Kim:

1. Foreign banking organizations contribute to the diversity and stability of the US financial system. Foreign banks employ over 200,000 workers in the US, represent 55 percent of primary dealers and make 40 percent of U.S. commercial and industrial loans. In my conversations with foreign banks, they tell me they want to continue investing in, and supporting the strength of, the US economy. However, they are concerned that vastly higher capital requirements as the agencies have proposed would make it increasingly harder to do so.

For instance, the proposal unduly penalizes foreign banks in two significant ways. First, foreign banks would be required to hold capital for non-financial services such as for IT and human resources. I find this to be unnecessary given this activity in no way reflects the operational risk profile of the bank. More importantly, if this treatment is not changed foreign banks may have an incentive to locate these operations—and the jobs that support it—outside the US. Second, the proposal would unduly penalize intercompany lending between a foreign bank and its parent, which would discourage a foreign bank's prudent management of internal funding, liquidity, and capital.

Before the House Financial Services Committee on March 6, 2024, Chair Powell committed to the principles of national treatment and equality of competitive opportunity, which precludes the use of rules that discriminate between foreign and domestic firms and seeks to ensure equality of competitive opportunity for foreign firms entering or operating in a host country. In light of these statements what assurances can you provide me that foreign banks will not be unduly penalized under the capital framework?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the impact of the rule on foreign banking organizations. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Federal Reserve Board and the public.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 22, 2024

The Honorable Frank Lucas
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Frank Lucas:

1. The supplementary leverage ratio (SLR) is the ratio of Tier 1 capital to total leverage exposure. Currently, the minimum SLR is 3%, and the global systemically important banks (GSIBs) must maintain an SLR of 5%. The calculation of the SLR is more sensitive to U.S. Treasury exposures because of the nature of these trades: high in volume, but low margin. Banks play a critical role in the Treasury market, and excluding Treasuries from the SLR could provide more capacity for banks to expand their balance sheets and provide liquidity to these markets, the deepest and most liquid in the world, in times of stress.

In 2020, the federal banking agencies excluded Treasuries from the SLR calculation, recognizing the public interest of promoting the resilience of the U.S. Treasury market and the vital role played by banks in maintaining this resilience. Would you consider a more permanent structural change given upcoming capital constraints posed by the Basel III endgame proposal, as well as the expansion of Treasury clearing pursuant to new SEC requirements?

Leverage capital requirements, including the supplementary leverage ratio (SLR) framework, serve an important role in our capital framework as a transparent and risk-insensitive measure of bank resilience. We generally favor risk-based capital requirements to serve as the binding capital constraint for a banking organization, as a binding leverage capital requirement can create incentives for a banking organization to hold riskier assets. We continue to study factors that could support the functioning of the Treasury market and enhance its resilience and operational efficiency.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2024

The Honorable Blaine Luetkemeyer
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Blaine Luetkemeyer:

1. Chairman Powell, foreign banking organizations contribute to the diversity and stability of the US financial system, employing over 200,000 workers in the US, making 40 percent of U.S. commercial and industrial loans and representing 55 percent of primary dealers.

Foreign banks, however, are very concerned that significantly higher capital requirements as proposed would make it increasingly difficult for them to continue to do business in the US. For instance, I am deeply concerned that the doubling of the bank exposure risk weight will make it more challenging for foreign banks to provide clearing services to their customers.

In particular, the proposal will penalize foreign banks that offer clearing services into non-US clearing houses for their clients, such as pension funds and asset managers. If unchanged, the proposal will increase end user costs and discourage competition from foreign banks.

Before the House Financial Services Committee on March 6, 2024, Chair Powell committed to the principles of national treatment and equality of competitive opportunity. This principle precludes the use of rules that discriminate between foreign and domestic firms and seeks to ensure equality of competitive opportunity for foreign firms entering or operating in a host country.

Given these statements, what changes from the proposal will you commit to makings to ensure the clearing services provided by foreign banks will not be penalized?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the impact of the rule on foreign banking organizations. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Federal Reserve Board (Board) and the public.

2. My understanding of how a rulemaking is supposed to work is that first you gather all the data, then you analyze the data and then you go out for proposal based on that data. However, for this most recent capital proposal you did it absolutely backwards: you went about collecting the data long after you released a 1,000-page proposal that would dramatically alter our banking and financial system.
 - a. In light of this, Chairman Powell, on what legal basis can you go forward with finalizing that proposal if the assumptions in the initial proposal are based on faulty data?

- b. To be fully transparent with the American public, do you have any other choice but to re-propose the changes to the capital framework with the re-proposal based on the actual data that you've now collected?**

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are in the process of reviewing and assessing the data and the comments received on the proposal. While we have not yet made any decisions on how to proceed, I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

May 23, 2024

The Honorable John Rose
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative John Rose:

1. **This past year, Mexico passed China as America's largest trading partner. As companies move their supply chains out of China and the CCP's grasp, U.S.-Mexico trade will continue to increase. However, this growth faces a headwind from difficulties with cross border banking. In the wake of the financial crisis, many U.S banks "de-risked" and ceased providing correspondent services for their Mexican counterparts. One analysis has showed that de-risking has dampened U.S. GDP growth by \$38.3 billion and U.S. job growth by 285,000 from the years of 2012 to 2018. Given this negative impact on our economy, what can the Federal Reserve and the other bank regulators be doing to promote correspondent banking, while protecting against money laundering and illicit finance?**

The Federal Reserve recognizes that it is important for customers engaged in lawful activities to have access to financial services, including correspondent banking services. The Federal Reserve's longstanding position is that no customer type presents a single level of uniform risk or a particular risk profile related to money laundering, terrorist financing, or other illicit financial activity. As such, we do not prohibit or discourage banking organizations from providing banking services to any law-abiding customers of any class or type. Our expectation as a prudential regulator is that banks have adequate risk controls in place to ensure safety and soundness, and compliance with laws, such as the Bank Secrecy Act.

Ultimately, the decision to establish, limit, or terminate a particular customer relationship is a decision for the banking organization. This decision may be based on various factors, including a banking organization's business objectives, its assessment of the risks associated with offering particular products or services, and its capacity to effectively manage those risks. In July 2022, the Federal Reserve—along with the Treasury Department's Financial Crimes Enforcement Network, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency—issued a policy statement, the *Joint Statement on the Risk-Based Approach to Assessing Customer Relationships and Conducting Customer Due Diligence*, to reinforce and clarify this longstanding position to banks and our examination staff.

2. **Will regulators develop guidance for banking those Mexican banks that can demonstrate their compliance with the U.S. and international AML and illicit financing rules?**

Please see my response to question 1.

3. **Last April, the Treasury Department issued the 2023 De-risking Strategy, as mandated by Congress in the Anti-Money Laundering Act of 2020. The report acknowledged that de-risking is a problem and suggested some remedial actions that the bank regulators can take. What is being done by the bank regulators regarding these recommendations?**

Federal Reserve staff continues to actively engage with the Treasury Department and the other federal banking agencies on the Treasury Department's implementation of the Anti-Money Laundering Act of 2020 (Act), including the provisions and reviews required by the Act that are related to financial services de-risking.

In addition to the guidance, training, and other work described in response to question 1, the Federal Reserve and other federal banking agencies also actively participate in the work of international organizations that support this risk-based approach, including the Basel Committee on Banking Supervision, the Financial Action Task Force, and the Financial Stability Board. For example, we are currently participating in the implementation of the G20's Cross Border Payments Roadmap, which has among its objectives financial inclusion through the expansion of access to the payments system.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

April 19, 2024

The Honorable Brad Sherman
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed are my responses to the questions you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

A handwritten signature in black ink that reads "Jerome H. Powell". The signature is written in a cursive, flowing style.

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Questions for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative Brad Sherman:

1. **Economic Impact:** According to analysis from the Basel Committee's own economists, increasing capital requirements by 2.5 percentage points leads to a reduction in GDP by \$105 billion. The Brits and the Europeans seemed to have taken note of this likely outcome and are pursuing a different approach to Basel III Endgame. I'm concerned that in the U.S. it seems our approach will hurt homebuyers, small business owners, municipalities, pension holders, initial public offerings, and investments in clean energy. On the other hand, higher capital requirements reduce the risk of bank failure and bank bailouts. What economy-wide consequences from Basel III Endgame are you concerned about from your spot atop the Federal Reserve should a reduction in interest rates be paired with the adoption of Basel, if you all decide to adopt the proposal in its current form?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the economic impact of the proposal, and are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Federal Reserve Board (Board) and the public.

2. **Municipal Underwriting/Infrastructure Impact:** Congress pushed through substantial legislation to encourage investments in our infrastructure like the building of roads, schools, bridges, and hospitals across the country. As we pursue these infrastructure projects, we must be mindful not to undermine these critical investments and make municipal financing more expensive. As the Government Finance Officers Association pointed out in response to Basel III Endgame: "Increases in debt service costs for municipal issuers and conduit borrowers will result in declined investment in infrastructure, public safety, education, and numerous other social services." Have you analyzed the consequences of the Basel III Endgame proposal on financing schools, roads, or other infrastructure projects?

We have received voluminous substantive comments on the capital proposal, as well data from the quantitative impact studies. We are aware of the concerns that commenters have raised regarding the impact of the proposal on state and municipal financing. We are in the process of reviewing and assessing the data and the comments received on this issue and other aspects of the proposal. I am confident that the final product will be one that is analytically well-grounded and will have broad support among the Board and the public.



BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

JEROME H. POWELL
CHAIR

June 21, 2024

The Honorable William Timmons
House of Representatives
Washington, D.C. 20515

Dear Congressman:

Enclosed is my response to the question you submitted following the March 6, 2024,¹ hearing before the Committee on Financial Services. A copy also has been forwarded to the Committee for inclusion in the hearing record.

Please let me know if I may be of further assistance.

Sincerely,

Enclosure

¹ Questions for the record related to this hearing were received on March 19, 2024.

Question for The Honorable Jerome H. Powell, Chair, Board of Governors of the Federal Reserve System, from Representative William Timmons:

- 1. Many innovative payment providers do not have the ability to originate payments themselves because they are not allowed access to the Federal Reserve's payment system. Every other G7 country has addressed this and has either allowed non-bank entities access or has plans to do so. In order for the Fed to align themselves with global standards it would mean decoupling access to master accounts from access to central bank payments services, and allowing payments companies who satisfy stringent criteria to join the payments system. Is the Federal Reserve considering granting this access? If not, what are the barriers to entry for payment companies?**

Under the Federal Reserve Act and other federal statutes, the Federal Reserve Banks (Reserve Banks) have authority to provide accounts and financial services to a limited number of eligible entities. The majority of these entities are depository institutions. Certain other entities, such as government-sponsored enterprises, also are legally eligible to maintain accounts or to access financial services. An entity must meet the same legal eligibility standard to have a master account or to access financial services.

In addition, the Federal Reserve Board has adopted Account Access Guidelines (Guidelines) that establish a transparent, risk-based, and consistent set of factors for Reserve Banks to use when exercising their discretion to make determinations on requests to access Reserve Bank financial services.¹ The Guidelines contain six principles. The first principle specifies that access requests will only be considered from institutions that are legally eligible for access to Reserve Bank accounts and services. The remaining five principles address specific risks posed by an institution having access to accounts and services, ranging from narrow risks (such as risk to an individual Reserve Bank) to broader risks (such as risk to the U.S. financial system).

¹ See <https://www.federalreserve.gov/newsevents/pressreleases/other20220815a.htm>.