Capital and the Nation's Largest Banks

Capital requirements are rising for the country's largest banks, with potential serious negative consequences for lending, market liquidity, and the broad economy.

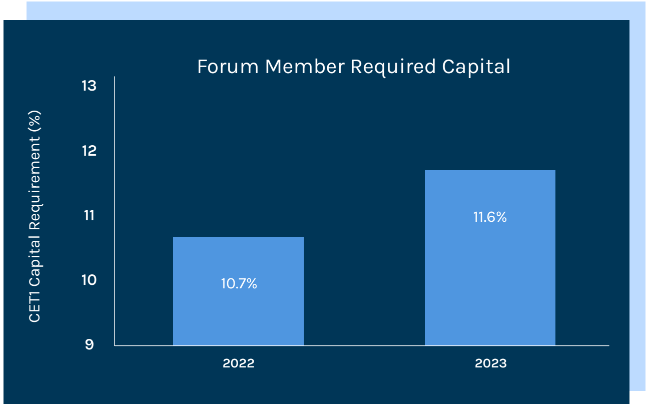
"Our banking system is well capitalized...There is adequate capital and liquidity in America's banking system."

Treasury Secretary Janet Yellen, June 2023

Capital Requirements Increasing

Capital requirements for the U.S. GSIBs have increased over the past decade and are continuing to rise. And regulators are proposing significantly higher capital requirements as part of the so-called Basel III Endgame initiative.

U.S. GSIBs have higher capital requirements than their foreign peers because of steps taken by U.S. regulators. Furthermore, now other jurisdictions, such as the EU, are not fully implementing the final reforms agreed to in Basel.



Capital Requirements are Continuing to Rise

"The banking system remains strong and resilient."

Federal Reserve Vice Chair for Supervision Michael Barr, June 2023

The Cost of Capital

The proposed double-digit increase in capital comes even though the largest U.S. banks have proved they are strong enough to weather the storm and continue to support the financial system and the broad economy through several real-life stress tests, including the pandemic and the March 2023 banking turmoil.

Forum banks in 2020 and 2021 dispersed $94 billion in loans to nearly 1.25 million small businesses through the Paycheck Protection Program. Since the onset of the pandemic, Forum members have increased credit to businesses and households by $1.3 trillion to $9.2 trillion. In addition, they have helped raise $6.3 trillion in corporate bonds and $975 billion in equity for U.S. companies, allowing them to continue to operate, pay their employees, and serve their customers.

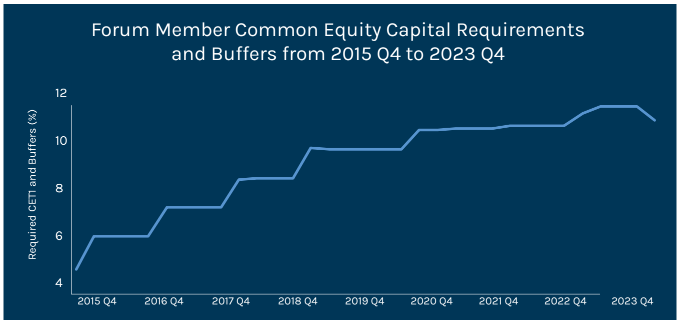
It is important to remember that capital is not a free resource and that higher requirements can come at a cost to the economy. In fact, research from the Peterson Institute for International Economics estimates that raising capital requirements by two percentage points would result in a cost to the U.S. economy of roughly $1 trillion over 30 years. Rising capital requirements increase the cost of bank funding, leading to higher interest rates. Borrowers – both companies and households – then borrow less due to higher costs resulting in less investment and growth across the entire economy. Regulators must carefully consider the economic impact of capital requirements, because they affect the whole economy, not just banks.

"Raising capital requirements also increases the cost of, and reduces access to, credit."

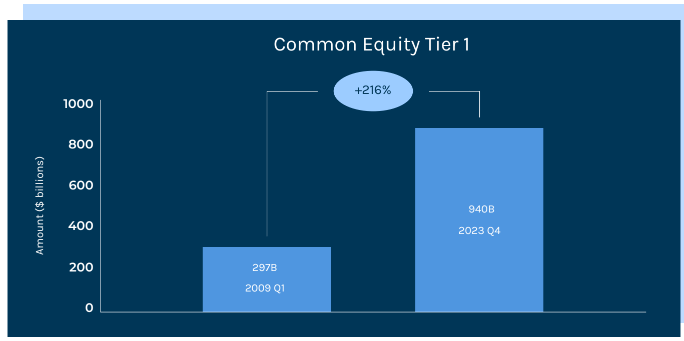
Federal Reserve Chair Jerome Powell, July 2023

Capital Requirements Up Significantly Post-Crisis

Forum members and regulators have worked since the financial crisis to build capital, which allows banks to absorb losses and continue to lend and support the economy in the face of headwinds. Since 2009, the eight U.S.-based Global Systemically Important Banks (GSIBs) have increased their Common Equity Tier 1 capital by 212% from $297 billion to $928 billion. Capital requirements for the GSIBs have more than doubled from 4.5% in 2015 to 11.5% in 2023 on average, inclusive of buffers.



Capital Requirements Increasing

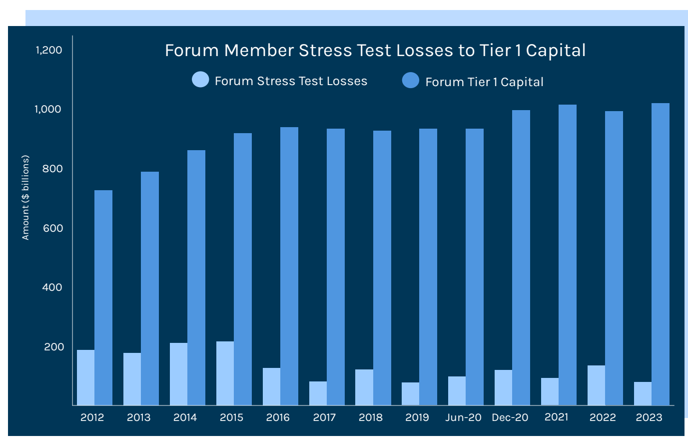


Capital at Largest Banks Has More Than Tripled

> **"...the largest banks have maintained high levels of capital, and their resilience has been repeatedly confirmed by both supervisory and real-life stress tests."**
>
> *Federal Reserve Govenor Michelle Bowman, September 2022*

Regular Stress Tests – Another Way to Ensure Banks Have Enough Capital

Stress tests are another way that regulators ensure banks have enough capital. The Federal Reserve conducts stress tests, a simulation designed to determine a financial institution's ability to deal with an economic crisis, of the largest financial institutions in the country at least once a year. The Fed uses a hypothetical economic loss scenario substantially worse than the 2008 financial crisis. While these theoretical losses are significant, they are consistently a fraction of the capital held by Forum member banks. From 2012 to 2023, the average amount of estimated stress test losses was $132 billion compared to an average of $915 billion in Tier 1 capital maintained by Forum member banks, the equivalent of 14 percent.



Fed's Stress Tests Show Banks' Resiliency

For specific questions on the capital proposal, please contact **capital@fsforum.com**.

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