FINANCIAL SERVICES FORUM

America's Leading Banks

Observations and Recommendations for a New Administration and U.S. Economic Growth

Executive Summary

The Financial Services Forum (Forum) represents the eight U.S. financial institutions known as Global Systemically Important Banks (GSIBs). These institutions are essential to the health and competitive success of the U.S. economy. **Over the past several years, Forum members have made significant contributions to our economy, which range from employing over 700,000 people to extending over $4 trillion in loans to support businesses, households, and communities across the country.** The contribution that Forum members make to our economy can be measured in terms of their overall footprint in communities across the country as well as the actions they have taken during recent periods of stress and uncertainty when their contributions were needed most. The specific actions taken during the COVID pandemic and the regional bank turmoil of 2023 provide important and recent examples of how Forum members leverage their strength to grow and support the economy.

Forum members also play a fundamental role facilitating capital formation and ensuring liquidity in financial markets. The U.S. capital markets are critical to U.S. economic activity, and U.S. GSIBs fund three-quarters of equity and debt financing for non-financial corporations. These banks contribute to the competitiveness of U.S. businesses by providing access to capital, risk-management tools, and expertise in navigating international markets.

In addition to directly supporting the U.S. economy through their employment, lending, and provision of a range of critical financial services, Forum members also support financial stability by maintaining significant levels of capital and liquidity while also being subject to the most rigorous and stringent regulatory standards. **Forum member capital and liquidity levels have increased two- to three-fold in the past fifteen years to a level that clearly surpasses other U.S. banks and peer foreign banks.**

BNY | BANK OF AMERICA | citi | Goldman Sachs
JPMorganChase | Morgan Stanley | STATE STREET | WELLS FARGO

In the remainder of this report, we provide a detailed overview of the contributions Forum members provide to the U.S. economy, the evolving regulatory regime, and seven specific policy recommendations to make bank regulation more efficient and effective to power U.S. economic growth.

Before briefly describing our specific policy recommendations, it is useful to consider the broader regulatory context. Over time, large bank regulation and supervision have become increasingly layered, complex, and opaque. This trend has demonstrably impeded the ability of Forum members to allocate scarce and valuable capital to their most productive and effective use. Additionally, many regulations that apply to our largest banks are calibrated to be more stringent and constraining than those that apply to foreign competitors. Accordingly, large U.S. banks are put at a competitive disadvantage by the U.S. regulatory framework. A rational approach to the existing regulatory framework, which seeks to empower large U.S. banks to optimize their economic contributions, will ensure U.S. companies and the U.S. economy can remain competitive around the globe.

Recommendations for an Effective and Efficient Financial System That Promotes Economic Growth

Each of these recommended policy changes will improve the financial regulatory regime, which will help unleash U.S. economic growth. These changes will help ensure America's leading banks are able to continue supporting the U.S. economy – during both good and bad times – enabling American competitiveness around the world, while maintaining a safe and sound financial system that is effective, efficient, and works for everyone.

Forum members are committed to using their scale, strength and resilience to strengthen America's economy. Our institutions are the nation's leading banks, serving millions of customers and meeting the highest standards for safety and soundness. Strong regulation and supervision are important for financial stability. However, requirements should be reviewed and adjusted to improve efficiency and to remove disadvantages faced by large U.S. banks relative to their international competitors. Appropriate regulation can support economic growth and a sound financial system. Conversely, poorly designed regulation can constrain credit creation and add unnecessary costs to the economy. Policy makers should pursue modest reforms that would provide efficient regulation empower large U.S. banks to compete in the global marketplace, supporting the leadership position of the U.S. economy on the world stage.

Capital

1. **The U.S. GSIB capital surcharge fails to appropriately reflect risk, puts U.S. banks at a competitive disadvantage with foreign competitors, and should be recalibrated.** When launched by the Federal Reserve in 2015, the agency said the GSIB surcharge and its calibration would be reviewed on a periodic basis. Since 2015, the Federal Reserve has not reconsidered the calibration of the GSIB surcharge. In addition, the U.S. implementation employs a more stringent version of the GSIB surcharge than that applied to foreign competitors. The Federal Reserve should recalibrate the GSIB surcharge and consider whether Forum members should still be subject to a more stringent surcharge that currently provides a clear competitive advantage to foreign banks.

2. **Risk-based capital requirements for U.S. banks are already the most stringent in the world and should not be increased for Forum members via Basel III Endgame.** As previously discussed, Forum members have substantially increased capital over the past fifteen years and maintain greater capital than other U.S. banks or large foreign banks. Recently, the prudential agencies issued a capital proposal, Basel III Endgame, that would raise the required capital for Forum members by 25 percent. This increase is larger than the increase of other U.S. banks and is significantly larger than the increase foreign regulators required of large foreign banks, putting America's leading banks at a competitive disadvantage with foreign competitors. Regulators have not made a compelling, data-based argument that higher capital requirements are warranted for Forum members. Rather, available research shows that large bank capital standards are appropriate, and further increases would reduce economic growth while only having a marginal influence on bank safety and soundness.

3. **Risk-insensitive leverage capital requirements should be recalibrated to account for the expanded size of the Federal Reserve's balance sheet.** Since the onset of the COVID pandemic, the Federal Reserve has significantly expanded its balance sheet to nearly double its pre-pandemic size. As Federal Reserve assets are primarily backed by bank reserves, a doubling of the Federal Reserve's balance sheet also increases banking sector assets and makes leverage capital requirements more constraining. This constraint disincentivizes ownership and intermediation of low-risk assets such as U.S. Treasuries, thereby impairing market functioning and liquidity in key asset markets such as the U.S. Treasury market. Indeed, the Federal Reserve publicly pledged to issue a proposal to reform leverage capital requirements in 2021. Since that time, no proposal to reform leverage capital requirements has been issued.

4. **The Federal Reserve's stress tests must be made more transparent and less volatile.** The Federal Reserve's stress testing regime relies on a large set of proprietary models that are not disclosed to the public or affected banks. Transparency is a critical component of the U.S. regulatory framework, and the stress tests must exhibit the same degree of transparency as the rest of the bank regulatory framework. The Federal Reserve's stress testing models should be made available to the public through the usual notice-and-comment process that applies to all other forms of bank capital regulation. Further, the results of the stress tests have been shown to exhibit significant volatility from year to year, which hampers banks' capital planning and creates unnecessarily volatile capital requirements.

Supervision

5. **Large bank supervision must be reformed to focus on bank safety and soundness while enforcing and respecting the boundaries established by existing regulations.** Over time, and increasingly since the failure of Silicon Valley Bank (SVB) and the related regional bank turmoil of 2023, U.S. GSIB supervision has become significantly more onerous without any appreciable benefit to large bank safety and soundness. During the regional bank turmoil, Forum members provided billions of dollars in liquidity to stave off contagion rippling through the financial services sector. Forum members are already subject to the most stringent supervisory oversight among all U.S. banks. While the events surrounding SVB may have implications for some aspects of bank supervision, there is no nexus between those events and Forum members, and the lessons of SVB have no bearing on GSIB oversight and supervision. Large bank supervision has increasingly focused on process-based issues and other matters that do not directly relate to material safety and soundness issues. In addition, in certain cases, supervisory oversight has begun to supplant regulatory policymaking without the benefit of the long-established and transparent public notice-and-comment process that typifies robust and durable policy.

Liquidity

6. **Liquidity requirements for Forum members are appropriately stringent and should not be expanded beyond current requirements.** Forum members are subject to the most stringent form of liquidity requirements applied to U.S. banks. Regulators have openly discussed the possibility of issuing a raft of new liquidity requirements that are intended to respond to the failure of SVB and the broader regional bank turmoil of 2023. Forum members have no nexus to SVB or the issues in March 2023. To the contrary, Forum members provided much-needed liquidity and stability during that period of heightened uncertainty. Accordingly, there is no logically consistent rationale to mandate new liquidity requirements for Forum members.

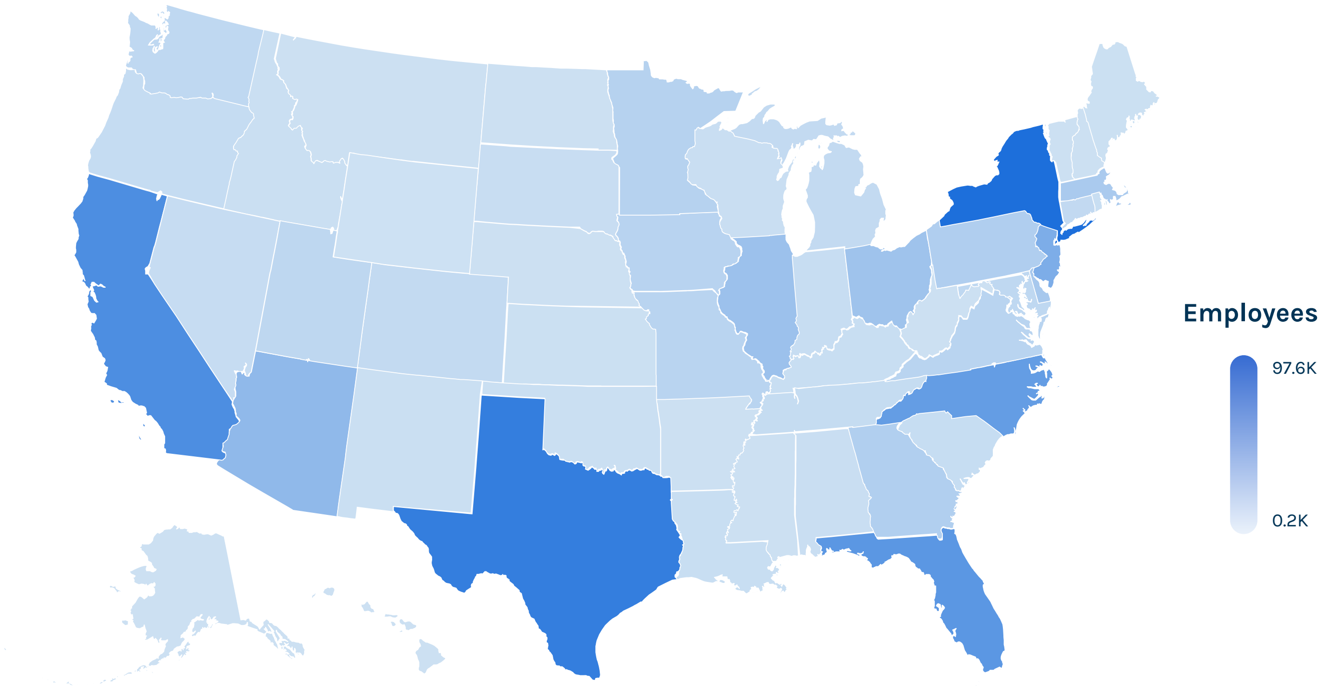
Innovation

7. **The U.S. regulatory environment should empower banks to innovate and collaborate with emerging technologies to meet the needs of their customers in a safe, sound, and highly regulated manner.** To achieve these goals, the SEC's Staff Accounting Bulletin 121 and the joint guidance from the FDIC, OCC, and Federal Reserve requiring explicit approval for crypto-related bank activities should be repealed. The Federal Reserve should designate crypto-related activities as financial in nature and bank regulators should clarify the legality of key activities, including custody of digital assets, crypto-collateralized loans, stablecoin payments, and investments in crypto assets and companies offering related services.

Forum Members Help Grow the Economy

Forum members are important contributors to the U.S. economy. The Forum's economic contribution begins with the people who work each day to bring essential financial services to Americans all across the country. As shown in Figure 1, **Forum members employ over 700,000 people, with employees in every state of the union.**[1]

Figure 1 : Forum Members Employ Over 700,000 People Across the Country



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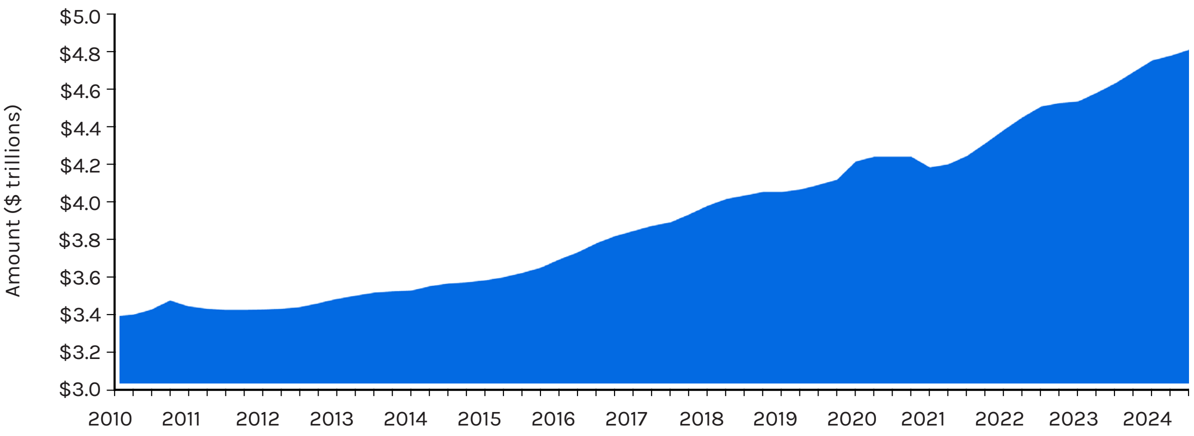
This sizeable employment base impacts the economy in two important ways. First, Forum employees are instrumental in the provision of key banking and financial services that grow the economy. Second, Forum employees are themselves a significant source of productivity and consumer demand that supports the communities where they live and work.

Forum members are a key provider of lending and credit across the country. As shown in Figure 2, **Forum members provide over $4.81 trillion in loans to households, businesses and communities and Forum member lending has increased steadily for over a decade.**

[1]In addition, Forum members employ 79 people in Puerto Rico and other U.S. territories and commonwealths.

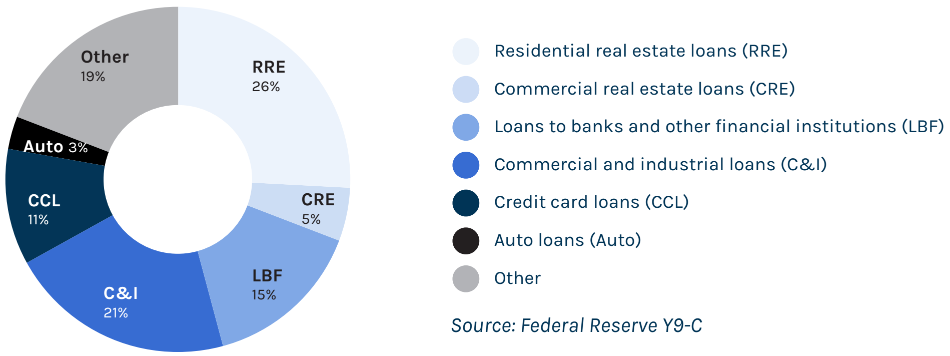
Figure 2 : Forum Member Total Lending



Source: Federal Reserve Y9-C

Apart from the sheer amount of lending by Forum members, $4.81 trillion, it is important to recognize the diverse nature of Forum member lending. As detailed in Figure 3, Forum member lending is channeled across a wide range of important segments that contribute to growing the economy.

Figure 3 : Forum Member Lending by Category



Source: Federal Reserve Y9-C

As detailed in Figure 3, Forum members provide loans to a broad spectrum of borrowers to facilitate important credit needs that support our economy. These loans include:

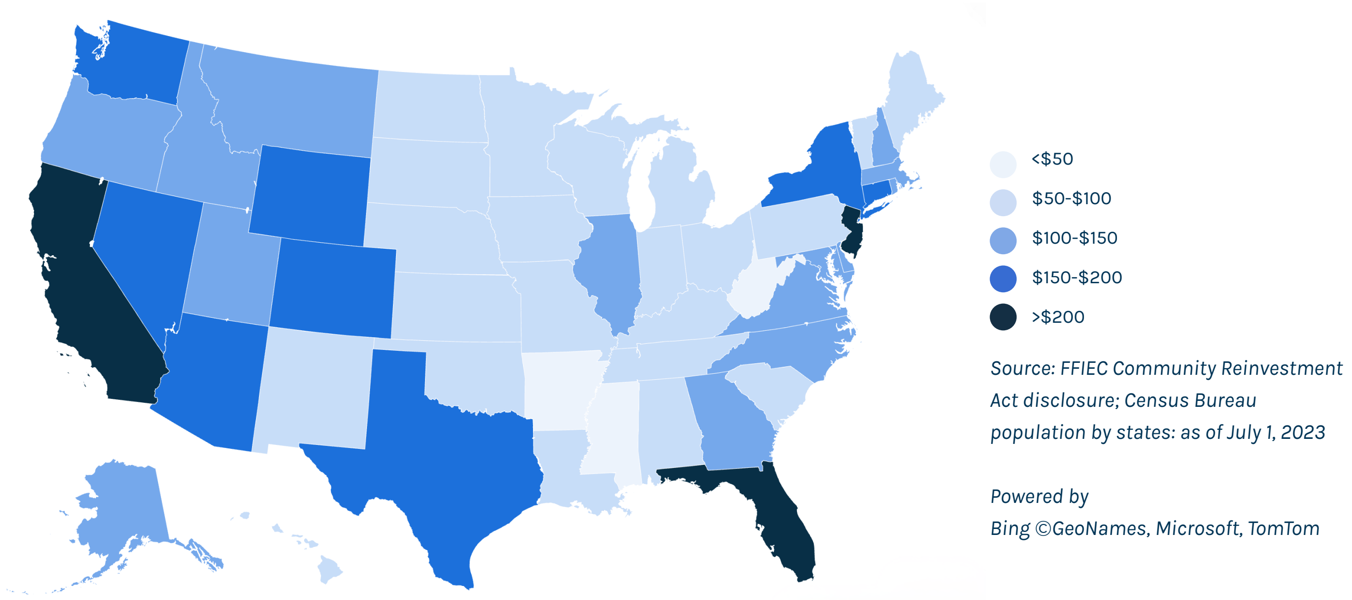
- **Residential Real Estate Loans (RRE)** that support homeownership
- **Commercial Real Estate Loans (CRE)** that support small and large businesses
- **Loans to Banks and other Financial Institutions (LBF)** that support the credit needs of smaller financial institutions
- **Commercial and Industrial Loans (C&I)** that support the investment needs of large and small businesses
- **Credit Card Loans (CCL)** that support the short-term credit and liquidity needs of households
- **Auto Loans (Auto)** that support the credit needs of households

Small Business Lending

One key lending area of focus for Forum members is lending to small businesses. Forum members provide significant lending to small businesses across the country.

Overall, Forum members are providing over $105 billion in lending to small businesses to help them finance their investment and growth. And as detailed in Figure 4, Forum members have a wide reach across the country with small business loans in every state of the union.

Figure 4 : Forum Member Lending to Small Business Per Capita

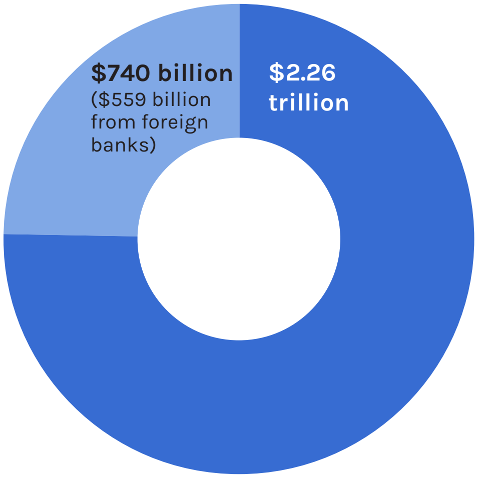


Capital Markets

U.S. capital markets are the envy of the world, and Forum members are primary supporters of capital markets activities that enable U.S. companies to raise funding directly through public markets that they then use to hire employees, make investments and grow the communities that they serve. In addition, a wide range of states and local municipalities also raise funding directly from public markets through the municipal bond market to finance critical local infrastructure such as new roads, bridges, and schools that are critical to the success of our economy. **Forum members currently hold $88 billion in municipal securities to support local communities.**

As a group, and as detailed in Figure 5, over the past year, **Forum members have underwritten over $2 trillion in bond and equity offerings, which accounts for roughly three quarters of all underwriting activity.** Underwriting stock and bond offerings for companies and local governments is necessary to ensure that the nation maintains a broadly diversified financial system that can serve households, businesses, and communities via multiple credit channels.

Figure 5 : 2023-2024 Forum Underwriting Activities



Forum Members are Key Providers of Liquidity to Households, Businesses and Communities

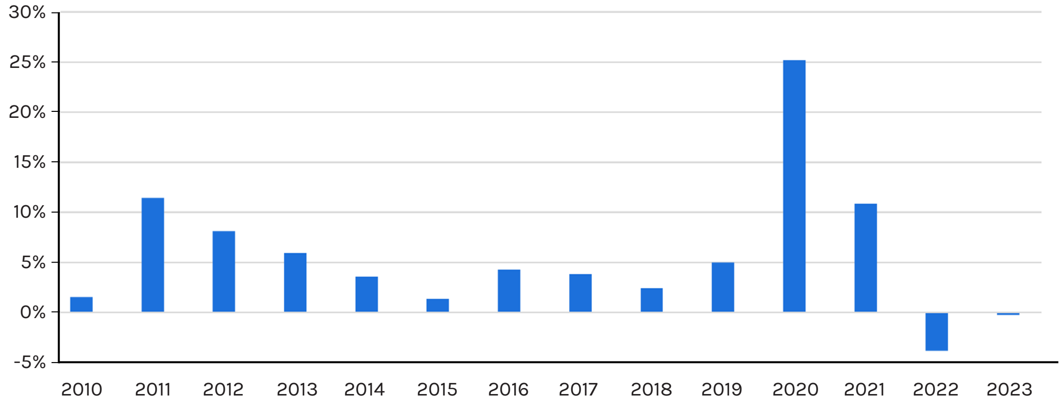
Forum members support the economy by deploying the asset side of their balance sheet to finance and support investments that are critical to the economy. At the same time, Forum members also provide a highly valuable financial service to households, businesses and communities by providing a liquid and stable source of safekeeping for their financial resources.

Forum members account for roughly one-half of all deposits among commercial banks in the United States. For most Americans, their bank deposit is their most important liquid financial resource. Households rely on a liquid and safe deposit account to pay their bills and build short-term and liquid savings in the event of unforeseen emergencies. Companies rely on deposit accounts to make payroll, pay vendors, facilitate necessary financial transactions, and maintain working capital for near-term expenditures and investments.

The resiliency and high degree of liquidity of Forum members has been underscored during two recent periods of stress in the U.S. economy: the COVID pandemic and the 2023 regional bank turmoil.

During the COVID pandemic, Forum members served as stable, safe havens for depositors, absorbing large amounts of deposits that reflected, among other things, increased government transfers through a variety of programs ranging from economic impact payments, Paycheck Protection Program loans, and extended unemployment benefits. As a result, as shown in Figure 6, Forum members absorbed an unprecedented increase in deposits during the pandemic that resulted in a 25 percent increase in their deposit base.

Figure 6 : Forum Member Annual Deposit Growth (%)

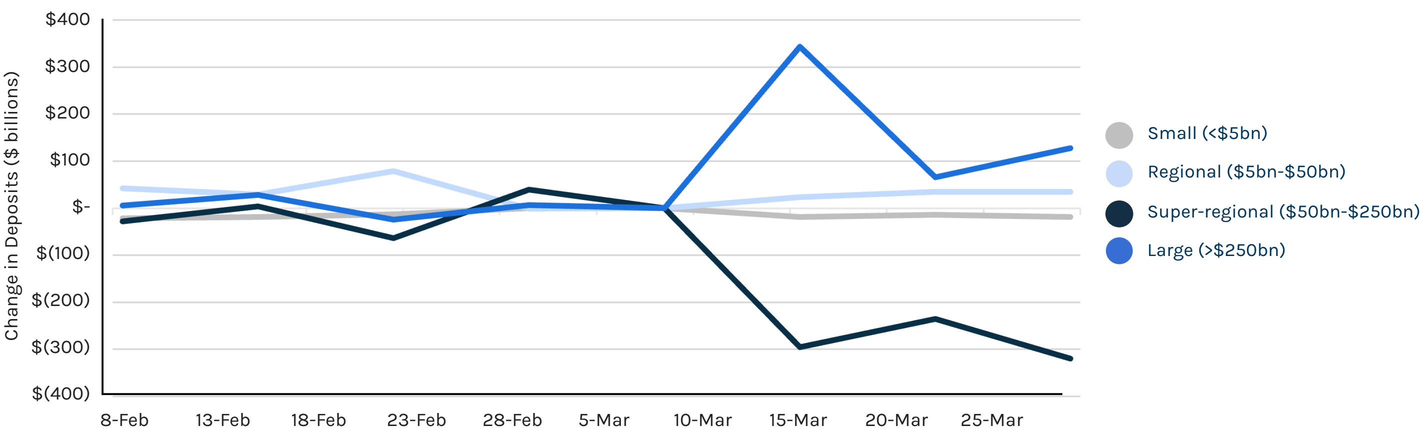


Source: Federal Reserve Y9-C

The ability of Forum members to rapidly absorb the significant inflow of deposits during this period speaks directly to their strength and resiliency as well as their ability to provide key financial services, such as remote bill pay and online transfers, which were in high demand during the pandemic.

The regional bank turmoil of 2023 also highlighted the strong resiliency and liquidity of Forum members. In particular, as highlighted in Federal Reserve research and reproduced in Figure 7, large banks including Forum members again attracted a significant amount of deposits and provided a source of safe and reliable liquidity for households and businesses during the Spring of 2023.

Figure 7 : Change in Deposits Relative to March 8, 2023



Source: Federal Reserve Bank of New York

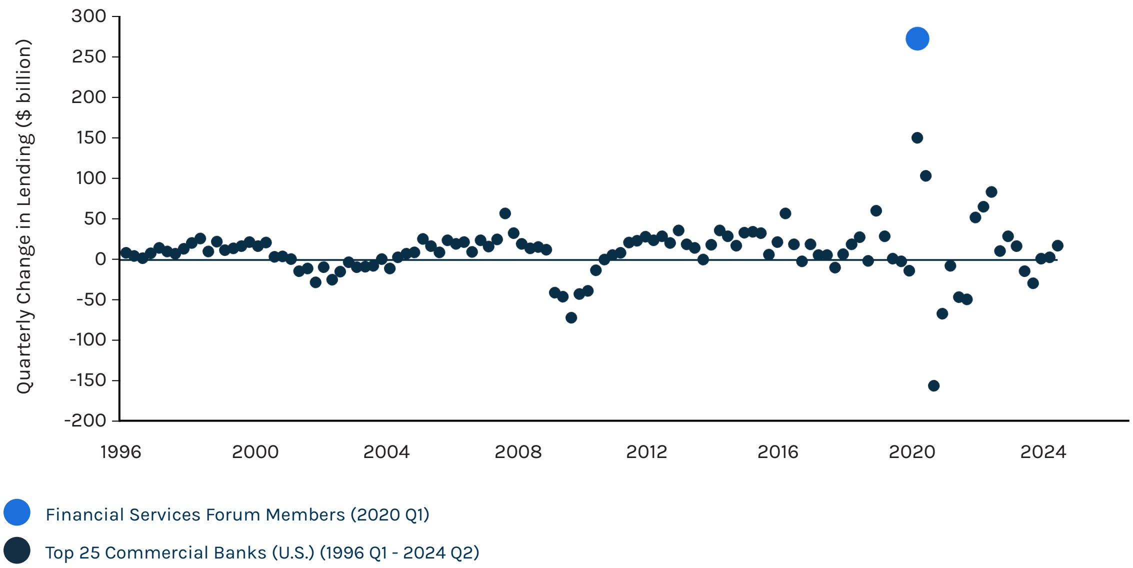
Forum Member Support to the Economy: the COVID Pandemic

The important contribution that Forum members make to growing the U.S. economy is evident. At the same time, it is also helpful to focus on how Forum members supported the economy during a particularly challenging period: the COVID pandemic. The COVID pandemic provides a useful, though terribly unfortunate, case study to assess how Forum members actively work to support the economy – especially when times are tough.

Two specific events during the COVID pandemic are helpful in demonstrating how Forum members actively supported the economy while remaining safe, sound, and resilient.

First, as COVID gripped the economy in the Spring of 2020, Forum members provided an unprecedented amount of lending. As detailed in Figure 8, **Forum members increased their lending by over $250 billion in the first quarter of 2020 to help households, businesses, and communities manage the unprecedented public health emergency.**

Figure 8 : Quarterly Change in Business Lending

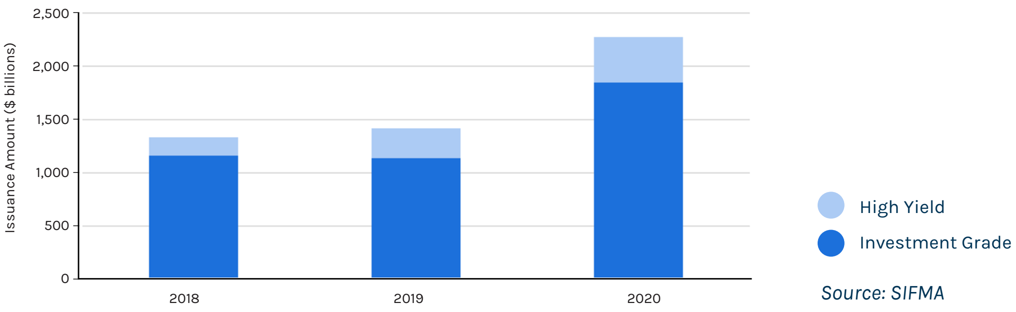


Source: Federal Reserve Assets and Liabilities of Commercial Banks H.8, Forum member 2020Q1 earnings releases

Indeed, the increase in the first quarter of 2020 far surpassed any increase in lending observed by large banks in the previous quarter of a century. Academic research has further underscored the importance of Forum member lending during the initial, critical phase of the pandemic. Specifically, research by economists at Boston College and the Federal Reserve Board found that large banks with total assets in excess of $50 billion were the largest suppliers of credit during that period.

Second, Forum members dramatically increased their participation in helping public companies raise much-needed funding. As shown in Figure 9, **corporate bond issuance surged by 60 percent during 2020, and Forum members facilitated a large share of that issuance as primary underwriters of corporate bonds in the United States.** While direct bank lending during the early stages of the pandemic was critical to the success of the economy, the unprecedented nature of the pandemic called for a broader response beyond direct bank lending. As a result, public companies that generally rely on raising finance from public markets flooded the market with new issuance to raise much-needed financing directly from the public, and Forum members served as the key capital intermediaries and underwriters.

Figure 9 : U.S. Corporate Bond Issuance: 2018-2020



Source: SIFMA

The actions taken by Forum members during the COVID pandemic are an important data point for assessing their contribution to the economy because the extreme and unprecedented nature of the pandemic presents a real life "stress-test" that underscores both Forum members' ability to support our economy as well as their safety, soundness and resiliency in doing so during a period of unprecedented risk and uncertainty.

Forum Member Improvements in Resiliency and Liquidity

Against the backdrop of consistent and significant support for the U.S. economy, it is important to reflect on improvements to the strength, resiliency and liquidity of Forum members in the past 15 years.

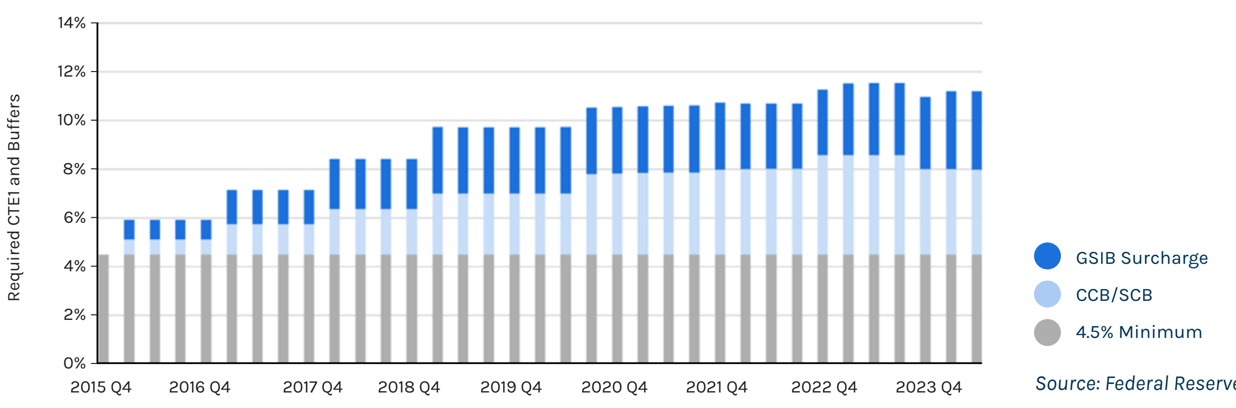
This period has been marked by a sea change in the regulation of large banks that has dramatically changed their capital and liquidity profiles. We highlight the most significant changes to the GSIB bank regulatory regime over this period.

Forum Capital Strength

Forum members have dramatically increased their capital positions through a combination of increased risk-based capital requirements, stress testing requirements, and risk-insensitive, leverage-based requirements.

As shown in Figure 10, Forum member minimum capital requirements, which are expressed as a ratio of high-quality capital to risk-weighted assets, have risen from just over 4 percent in 2015 to over 11 percent in 2024.

Figure 10 : Forum Member Capital Requirements



Source: Federal Reserve Y9-C

The increase in required capital is driven by steady increases in two new capital buffers that were introduced following the financial crisis – the stress capital buffer (SCB) and the GSIB capital surcharge buffer.

The SCB was first introduced after the financial crisis as a static "capital conservation buffer" (CCB) of 2.5%. Later, the Federal Reserve proposed and ultimately implemented a regulatory change that replaced the static capital buffer with a time-varying "stress capital buffer," or SCB, that was based on the outcome of the Federal Reserve's annual stress testing exercise for large banks. An important feature of the SCB is that, by rule, it can never be below 2.5%, regardless of the result of the annual stress test. As a result, the implementation of the SCB raised the required capital for Forum members relative to the prior, static "capital conservation buffer."

The GSIB capital surcharge buffer was introduced in 2015 as part of the post-financial crisis reform package. The GSIB surcharge is part of a broader effort by global banking regulators to raise the required capital for Global Systemically Important Banks (GSIBs) spearheaded by the Basel Committee on Banking Supervision. As each jurisdiction implements the agreement separately, the GSIB surcharge applied by U.S. regulators only applies to Forum members. Like the SCB, the GSIB capital surcharge varies over time according to a regulator-defined measure of "systemic importance." Importantly, the U.S. implementation of the GSIB surcharge buffer is more stringent than the standard adopted internationally, resulting in a capital buffer for Forum members that is roughly twice as large as that applied to European and UK GSIBs.

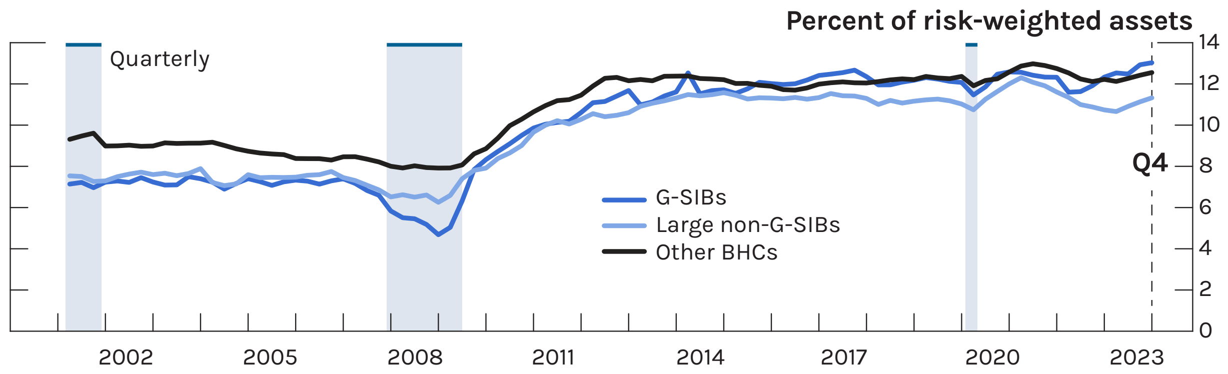
As shown in Figure 10, capital requirements for Forum members have risen steadily since 2015. As a result of the impact of phase-in periods, the switch to a more stringent SCB, and increased GSIB surcharges that are largely driven by pandemic-era changes in the size of the Federal Reserve's balance sheet, required capital has more than doubled since 2015.

The result of this significant increase in capital regulation has been a substantial increase in maintained capital among Forum members. The increase in capital strength and resiliency has not gone unnoticed by regulators. Indeed, the Federal Reserve's Financial Stability Report has called attention to the improved resiliency of Forum members (GSIBs) on both an absolute basis and relative to other banking entities on numerous occasions.

"CET1 ratios for global systemically important banks (GSIBs) reached the highest levels recorded in the past decade, while CET1 ratios for non-GSIBs are close to their pre-pandemic levels."

Federal Reserve Financial Stability Report
April 2024

Banks' risk-based capital ratio increased to or beyond pre-pandemic level



Source: Federal Reserve Board, Form FR Y-9C, Consolidated Financial Statements for Holding Companies

Finally, ever-increasing amounts of bank capital come at a significant cost to the economy. In 2023, the banking agencies proposed a raft of heightened capital requirements – the so-called Basel III Endgame – that would increase capital requirements for Forum members by as much as 25 percent.

As discussed in detail in our public comment letter, a range of independent, academic research studies suggests that such a significant increase in capital requirements for Forum members would cost the U.S. economy as much as $75 billion per year. Taking a long-run view of these costs over a 30-year time-horizon suggests that the total cost to the U.S. economy of these heightened requirements would be as much as **$1.2 trillion.**

Today, Forum members maintain the highest levels of capital among all U.S. banks as well as their foreign counterparts. Forum members embrace strong capital levels that serve their institutions and the economy during both good times and bad. An appreciation for the current robust level of capital among Forum members is integral to understanding their overall resilience as well as for assessing the need for any additional capital.

Forum Liquidity

Apart from the significant increase in capital strength that has taken place in the past fifteen years, Forum members have also greatly improved their liquidity positions. As in the case of capital, the Forum's liquidity build has been accompanied by a raft of new liquidity regulations. Further, and as in the case of capital, Forum members are subject to the widest array of liquidity regulations and are subject to the most stringent form of these regulations relative to other banks.

In particular, Forum members are subject to:

- The most stringent forms of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
- Liquidity stress testing and risk-management requirements resulting from the Federal Reserve's Regulation YY
- Resolution-based liquidity requirements (RLAP, RLEN)
- A supervisory liquidity oversight program through the Federal Reserve's Large Institution Supervision Coordination Committee (LISCC) – only Forum members are covered by the Federal Reserve's LISCC supervisory program

As a result of these developments, Forum members have substantially improved their liquidity profile and liquidity risk management. One clear indicator of this progress is the substantial increase in liquid assets held by Forum members. In Figure 11, we show the increase in high-quality liquid assets (HQLA) held by Forum members from 2009 to 2024.

The near tripling of HQLA represents a substantial improvement in their liquidity profile that has improved the liquidity and resiliency of the banking system.

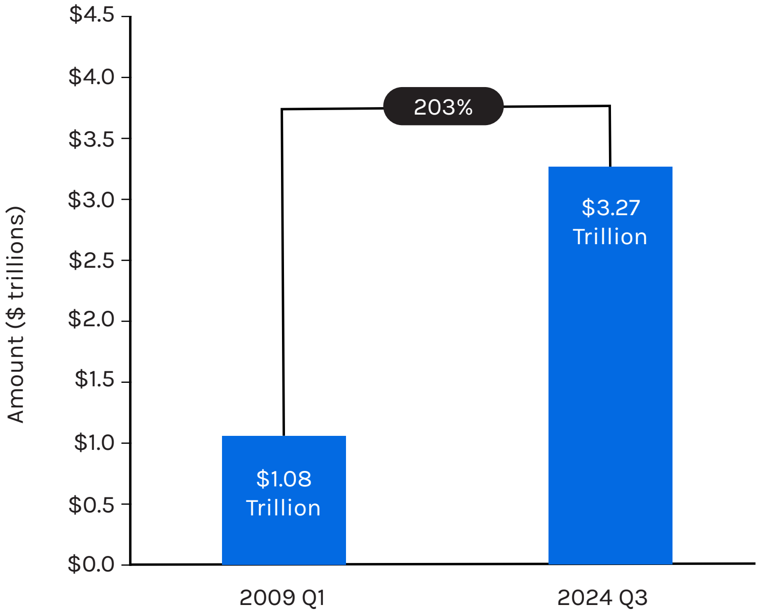
The strong liquidity position of Forum members has not gone unnoticed by regulators. Indeed, the Federal Reserve in a recent Financial Stability Report called particular attention to the liquidity strength of Forum members.

"U.S. GSIBs continued to hold more HQLA (liquid assets) than required by the LCR – the requirement that ensures banks hold sufficient HQLA to fund estimated cash outflows for 30 days during a hypothetical stress event."

Federal Reserve Financial Stability Report

April 2024

Figure 11 : Forum Member High-Quality Liquid Assets



Source: Forum member LCR disclosures

Conclusions

Forum members are committed to using their scale, strength and resilience to strengthen America's economy. Our institutions are the nation's leading banks, serving millions of customers and meeting the highest standards for safety and soundness. Strong regulation and supervision are important for financial stability. However, requirements should be reviewed and adjusted to improve efficiency and to remove disadvantages faced by large U.S. banks relative to their international competitors. Appropriate regulation can support economic growth and a sound financial system. Conversely, poorly designed regulation can constrain credit creation and add unnecessary costs to the economy. Policymakers should pursue modest reforms that would provide efficient regulation and empower large U.S. banks to compete in the global marketplace, supporting the leadership position of the U.S. economy on the world stage. In short, these reforms would:

1. **Recalibrate the U.S. GSIB capital surcharge.**
2. **Avoid increased risk-based capital requirements for Forum members via Basel III Endgame.**
3. **Recalibrate risk-insensitive leverage capital requirements to account for the expanded size of the Federal Reserve's balance sheet.**
4. **Make the Federal Reserve's stress tests more transparent and less volatile.**
5. **Avoid expanded liquidity requirements for Forum members beyond the most stringent requirements that already apply to Forum members.**
6. **Reform large bank supervision to focus on bank safety and soundness while enforcing and respecting the boundaries established by existing regulation.**
7. **Ensure that the U.S. regulatory environment empowers banks to innovate and collaborate with emerging technologies to meet the needs of their customers in a safe, sound, and appropriately regulated manner.**

Taken together, these recommendations will significantly improve the large bank regulatory regime, reduce unnecessary and ineffective regulation, and ensure that large U.S. banks are well-positioned to support our economy. As we have detailed in this report, our members are strong supporters of the U.S. economy. Our members look forward to an improved, streamlined regulatory regime that will make their substantial efforts all the more effective while maintaining a safe and sound financial system.

Additional Resources

In addition to the data and analysis presented in this document, there is a wide range of analyses that have been conducted that are relevant to the issues and recommendations that have been presented. Below, we provide links to additional resources that may be of interest as well.

Basel III Endgame

1. PwC - Basel III Endgame – The Next Generation Of Capital Requirements
2. PwC - Basel III Endgame - Assessing the Bigger Picture
3. PwC - Basel III Endgame – Changes for Cards
4. PwC - Basel III Endgame – Outsized Operational Risk
5. PwC - Basel III Endgame - Minimum Haircut Floor for SFTs
6. PwC - Basel III Endgame – Complete Regulatory Capital Overhaul
7. Randal Kroszner (U. of Chicago) – White Paper on Basel III Endgame Proposal
8. Deborah Lucas (MIT and Shadow Open Market Committee) – The Basel III Endgame: An Object Lesson In Why Cost-Benefit Analysis of Financial Regulation Should Be Mandatory

Leverage Capital Requirements

9. Group of Thirty – U.S. Treasury Markets – Steps Toward Increased Resilience

Stress Test Opacity and Volatility

10. Financial Services Forum – Written Statement of Dr. Sean Campbell, Chief Economist, Financial Services Forum, Subcommittee on Financial Institutions and Monetary Policy, June 26, 2024

Optimal Level of Bank Capital Requirements

11. Bank of England - Research Paper on the Optimal Level of Capital in the Banking System