Key Takeaways from the Financial Services Forum's Comments to Regulators on the Basel III Endgame Proposal

Forum Analysis of the Proposal

- The Forum has conducted an extensive, data-based assessment of the proposal and found that capital requirements for the U.S. GSIBs would vastly exceed government estimates.
- Inclusive of expected changes to the GSIB surcharge, the proposal would increase capital requirements for U.S. GSIBs by 30%.
- Required capital would rise by approximately 25% due to the endgame proposal itself and by roughly an additional 5% because of increased GSIB surcharges. Risk-weighted assets, which are the basis for risk-based capital requirements, would increase by 33%.
- These increases are markedly higher than the agencies' estimates, demonstrating that the agencies have materially underestimated the proposal's impact.
- The Forum's analysis used Q2 2023 balance sheet data, considered the impact of the rule as proposed in the United States, and incorporated expected increases in GSIB surcharges. The banking agencies' estimates in the proposal relied on outdated data and were calculated based on the Basel agreement, not on the U.S. proposal, which goes above and beyond the international accord.

Impact of Proposed Capital Requirements

	Current	Proposal	
		Pre-GSIB	Post-GSIB
Required CET1 ($BN)	750.9	937.5	975.6
Change ($BN)	N/A	186.6	224.7
Change (%)	N/A	24.9	29.9

Calculations based on Forum member institution data submissions as of Q2 2023. Required capital for "Current" assumes a level of the SCB and GSIB surcharge that applied for each Forum member institution in Q4 2023. "Proposal" reflects the impact of the NPR's requirements. Future required capital levels are computed assuming Q4 2023 levels of the GSIB surcharge (Pre-GSIB) as well as the level of the GSIB surcharge that will result once 2024 GSIB surcharge changes take effect and the Federal Reserve's GSIB surcharge proposal is finalized (Post-GSIB). The SCB remains at its Q4 2023 level.

The Forum Offered Key Observations on the Proposal:

The Proposal Would Harm the Real Economy

- Increased capital requirements directly increase the cost for banks to provide financial services and lead to reduced credit availability, an essential part of supporting the U.S. economy. Therefore, the cost of increased capital would be borne not just by banks, but also by individuals, families and businesses.
- Based on a review of independent academic research, the Forum estimates that the proposed capital requirements would cost the economy **over $100 billion per year.** The Forum's calculations are based on impact estimates from **13 separate research studies** relating increased capital requirements to economic output.
- In total, these costs would **directly reduce the productivity, growth and vibrancy of the U.S. economy.**

The Proposal Would Harm U.S. Competitiveness

- The proposal's many inconsistencies with the international Basel agreement and Basel III Endgame proposals in other jurisdictions would worsen, rather than improve, already substantial international discrepancies in capital requirements.
- U.S. GSIBs are already subject to standards that are more stringent than the Basel requirements and the requirements of foreign jurisdictions such as the European Union (EU) and United Kingdom (U.K.).
- The **U.K. Prudential Regulation Authority** estimates that its implementation of Basel III Endgame would only result in a **3.2%** increase in tier 1 capital requirements for major U.K. banks, while the **European Banking Authority** estimates increased tier 1 minimum capital requirements for the largest EU banks of **5.6%.**
- These proposed divergences from both the international framework and implementation in other jurisdictions would impose additional requirements on U.S. banks that would harm the American economy and the ability of U.S. companies to compete internationally.

Comparison of Impacts of Capital Proposals: Forum Estimate, Agency Estimate, U.K. PRA EU

	FSFQIS	USNPR	U.K.	EU
Change in Required Capital (%)	29.9	19.0	3.2	5.6
Change in RWA (%)	32.8	24.3	--	--

FSFQIS estimates based on Forum member institution data submissions as of Q2 2023. USNPR estimates based on the agencies' proposal.

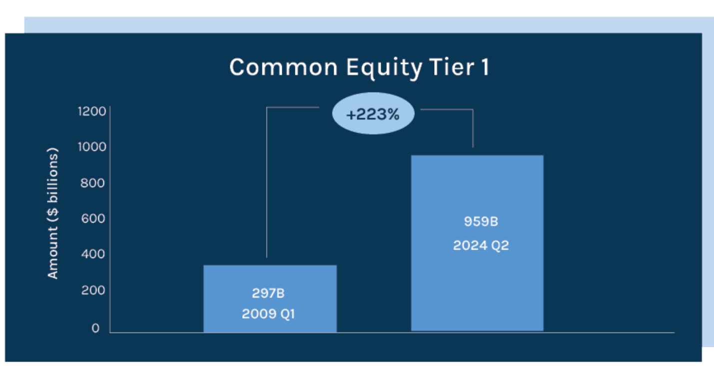
UK and EU estimates based on UKPRA release as of 12/12/2023.

The Proposal Would Increase the Size of the Nonbank Sector and Create Financial Stability Risks

- The proposal would exacerbate the movement of financial activity outside the regulated banking system, undermine consumer protections and weaken financial stability.
- Since 2008, the size and scope of nonbanks relative to banks have increased substantially. According to Financial Stability Board data, in 2008, nonbanks owned or controlled roughly 42% of global financial assets. By 2022 (the latest year available) that proportion had grown to roughly 47.2%.
- Nonbanks are neither comprehensively regulated, nor subject to bank-style capital regulations, nor overseen by prudential supervisors. The increased capital requirements of this proposal would only hasten and exacerbate this well-established trend. Quantitative analysis by Oliver Wyman estimates that **$40 billion, or approximately 13%, of U.S. GSIB revenues** could transition to foreign banks and nonbanks if the U.S. Basel Endgame proposal was finalized.

The Proposal Ignores Existing Strong Capital Levels and Bank Prudential Standards for U.S. GSIBs

- As Chair Powell has said, “capital and liquidity levels at our largest, most systemically important banks are at multi-decade highs.” Other policymakers have also highlighted that U.S. GSIBs are well capitalized and an essential source of strength to the economy.
- U.S. GSIBs have more than tripled their common equity tier 1 capital since 2008; in 2008, the U.S. GSIBs collectively maintained slightly less than $300 billion in CET1, while today, that amount stands at approximately $928 billion. U.S. GSIBs also are subject to annual supervisory stress testing and have maintained capital well in excess of hypothetical losses estimated by those stress tests. These tests assume no emergency government support during an economic emergency.
- Beyond capital regulation, U.S. GSIBs are also subject to a host of additional prudential requirements that interact with various parts of the capital framework and further ensure their resilience.
- The agencies have not provided a reason for a further significant increase in capital. The proposal is a solution searching for a problem.



The Proposal as it Relates to U.S. GSIBs is Wholly Unrelated to the 2023 Regional Banking Turmoil

- The proposal is based on a capital framework adopted by the Basel Committee in 2017 – six years before the regional banking turmoil occurred.
- Higher levels of capital at the U.S. GSIBs would not have had any impact on the spring 2023 regional bank instability, the backdrop against which the agencies have framed the proposal.
- As they were during the COVID-19 pandemic, the U.S. GSIBs were an essential source of strength to the industry last year. U.S. GSIBs **provided billions of dollars in deposits to First Republic Bank** to help stem contagion within the banking industry and to support the economy, and **businesses and households moved their deposits to U.S. GSIBs** during the regional banking turmoil in light of their clear and convincing capital strength and stability.
- The aspects of this proposal that may have some nexus to the regional bank turmoil a**re wholly unrelated to U.S. GSIBs.**

The Proposal is Not Justified

- The proposal offers no compelling analysis, data or evidence to suggest that the proposed changes for U.S. GSIBs are at all warranted or necessary.
- Banking agencies' capital impact estimates **relied on outdated balance sheet data from 2021** and were calculated based on **the Basel agreement, not on the U.S. proposal**, which goes above and beyond the international accord. The agencies' estimates also do not incorporate expected capital surcharges increases.
- The agencies' economic analysis does not provide a rigorous and comprehensive cost-benefit analysis of the proposed requirements that considers the impacts on consumers, businesses, and the economy as a whole.
- The proposal does not provide a conceptually consistent analytical framework or explain key assumptions and data.

The Proposal Should Be Reproposed

- Given the significant analytical gaps in the proposal and the unjustified decision to impose higher requirements than the international standard or the treatment of competitor banks by other jurisdictions, the agencies must repropose the rule in full, providing a comprehensive analysis justifying any proposed increase in requirements, and provide the public with 120 days to comment on the new proposal.