Key Takeaways from Former Fed Governor Randall Kroszner's White Paper on Basel III Endgame

Former Fed Governor Randall Kroszner examined the Basel III Endgame proposal, focusing on how the proposed capital increases could lead to higher borrowing costs and reduced loan availability. Dr. Kroszner states these changes have potentially negative implications for American households, companies, markets, and economic activity. Dr. Kroszner was a Governor at the Federal Reserve Board from 2006 through 2009. He is currently the Norman R. Bobins Professor of Economics at the University of Chicago Booth School of Business.

U.S. GSIBs Have Substantially Increased Quality and Quantity of Their Capital Since the Global Financial Crisis

- The post-2008 reforms have ensured that banks have increased their capital ratios dramatically and that there is a much more robust set of rules around liquidity, stress testing, and more.

The Proposal Could Result in Increased Costs for Borrowers, End-users, or Other Customers

- Increased capital requirements could raise the cost of providing credit, affecting the cost and availability of credit for many end-users.
- Some or all of the additional costs could be passed on to borrowers, resulting in higher costs for households and businesses.
- For example, low- and moderate-income borrowers as well as minority-owned businesses may face higher costs and lower availability of credit.
- Higher capital requirements for certain equity investments may lead to reduced investments in clean energy projects.
- Entrepreneurial companies as well as pension funds and mutual funds may face higher costs.

Higher Bank Capital Requirements Could Further Accelerate the Growth of Non-Banks and Weaken Overall Financial Stability

- The proposal will likely accelerate the migration of lending and other activities from the bank to non-bank sector and may further constrain banks' capacity to make markets, that in turn can result in lower liquidity, increased market volatility, and higher trading costs – all factors that could adversely affect overall financial stability, especially in times of stress.
- In the non-bank sector, regulators and supervisors tend to have much less information and less ability to monitor and rein in risks, especially in the run up to and in times of crisis.

Regulators Should Conduct a More In-Depth Analysis Before Moving Forward on the Proposal

- The agencies have not provided sufficient analyses to support their conclusions that the benefits of the proposal outweigh the costs.
- In contrast, other jurisdictions have conducted more careful, detailed analysis to help quantify the effect of the proposed changes.
- Regulators should undertake a more in-depth cost-benefit analysis that thoroughly considers the consequences – intended or unintended – and trade-offs of the proposal.
- Regulators should consider those costs as well as the potential risks of further migration of banking activities into the non-bank sector where regulators and supervisors have less ability to monitor the buildup of risks and respond to crises.

Summary of Potential Impacts on Households, Businesses, and Markets

Impact	End-Users	Economic Impact
Higher Cost and Lower Availability of Financing	Entrepreneurs Small Firms Private Firms Publicly-traded firms First-time homebuyers Low- and Middle- Income mortgage borrowers Minority mortgage borrowers Manufacturers Construction projects Clean energy projects Pension funds and mutual funds	Greater difficulty starting a business Increased costs for small businesses to operate and grow Increased borrowing costs for U.S. companies Lower levels of investment and employment Greater difficulty purchasing a home Stalled infrastructure projects Reduced investment in clean energy
Higher Costs and Lower Availability of Hedging and Clearing Services	Farmers, ranchers, agricultural producers Pension funds and mutual funds Derivatives end-users	Greater difficulty managing risk
Lower Liquidity, Higher Trading Costs, and Greater Market Volatility	Investment funds/buy side Mutual funds Publicly-traded firms Derivatives end-users Farmers, ranchers, agricultural producers	Lower levels of investment and employment and slower growth in the future