

:: Basel III Endgame – Harming our Capital Markets and the U.S. Economy

Proposed capital rules would drive up costs for consumers, businesses, taxpayers, and savers.

What is Basel III Endgame?

In July 2023, U.S. bank regulators proposed to implement Basel III Endgame, an accord reached in Basel, Switzerland, designed to ensure comparability of capital requirements for large banks around the world. Even though the largest U.S. banks are exceptionally well capitalized, the U.S. proposal would increase their required capital by 25 percent.

Higher Capital Requirements for Market Making Would Harm the Economy

While regulators are expected to propose changes to the Basel III Endgame, they have suggested that required capital for market-making activities would still increase dramatically, which would have a significant impact on consumers and businesses throughout the U.S. economy. The original proposal included a 75 percent capital hike for these activities. The U.S. capital markets are the envy of the world, and **the nation's largest banks account for roughly three-fourths of this market-making activity.**

“We should be creating a financial environment that allows these historic investments to flourish, not only building critical new infrastructure, but resulting in economic growth through good-paying jobs that result from those projects. Sadly, the Federal Reserve’s proposal would do the opposite.”

Aliquippa, Pa., Mayor Dwan B. Walker

Additional capital requirements would either increase costs or reduce access to services for consumers, state and local governments, and businesses across the country:



1. Businesses seeking to grow:

A business owner is seeking to take the company public or issue public debt securities to significantly expand operations and hire more workers.

Impact: Basel III Endgame would raise bank capital requirements for activities required for companies to access capital markets, which would increase the costs of growing a business, resulting in less expansion or deferral of the effort, hurting economic growth and job creation.



2. State and Local governments:

A local government needs to raise funds for vital infrastructure, including improvements to an old bridge and a wastewater treatment plant, and the building of a new school and hospital.

Impact: Basel III Endgame would increase the costs of issuing municipal bonds, raising the costs of financing critical infrastructure projects. Higher underwriting costs for municipal bonds would be borne by local taxpayers, or lead to the cancellation of the projects altogether, negatively impacting local job growth and the economy.



3. Consumers:

A cattle rancher normally utilizes commodity markets to lock in feed grain costs for the season, making input costs more predictable.

Impact: Basel III Endgame would make it more expensive for the rancher and others to insulate themselves from increases in input costs, ultimately passing those costs on to consumers at the grocery store.

People in industries across the economy similarly utilize markets to reduce cost volatility. That includes farmers who seek stable prices for fertilizer, airlines who lock in prices for jet fuel, and utilities who seek to smooth out the costs of natural gas and other inputs. If it becomes more expensive or difficult to manage those input costs, then consumers across the country would see higher prices at grocery stores, when booking airline tickets, and paying their heating bills.



4. Savers:

A couple invests in mutual funds to save for retirement.

Impact: Basel III Endgame would increase the costs of managing mutual funds and retirement investments, with costs passed on to the couple, reducing their returns.

“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.”

Commodity Markets Council, Energy Trading Institute, Electric Power Supply Association, et. al.

Largest U.S. Banks Are Well Capitalized

- **The largest U.S. banks have tripled their high-quality capital** in the past 15 years and face requirements far higher than their international competitors.
- **The purpose of Basel III Endgame was to ensure foreign jurisdictions had standards comparable to the U.S.,** not to materially raise capital on U.S. banks. Foreign jurisdictions are taking a capital-neutral or more modest approach to capital standards.
- **Robust and extensive changes in supervision and regulation** in the U.S. post-Dodd-Frank have helped ensure U.S. GSIBs are strong and resilient, highlighted by their performance during COVID and the March 2023 regional bank turmoil.
- **Additional capital requirements on U.S. banks have not been justified.**

The Bottom Line: Hiking capital requirements for markets’ activities would be akin to a tax on companies, local governments, consumers, and savers, harming consumers and businesses throughout the U.S. economy.

[Click here](#) for more details on the market-making component of Basel III Endgame