



FedFin Client Report

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Chair Powell Calls Basel III Re-Proposal “Very Plausible”

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Executive Summary

As [expected](#), Republicans took turns grilling Chair Powell on the Basel III endgame proposal and calling for its withdrawal, and were likely pleased with the results. When questioned by Chair McHenry (R-NC) and Financial Institutions Subcommittee Chair Barr (R-KY), Mr. Powell stated that he expects “broad and material changes” to the proposal and stated that a re-proposal would be a “very plausible option,” calling the amount of negative comments regarding the proposal “unlike anything I have seen.” Democrats made affordable housing their primary area of attack, following up on [previous](#) Democrat-led [letters](#) sent to Chair Powell calling for him to cut interest rates to reduce the burden on housing and construction costs. Mr. Powell responded to housing concerns by acknowledging the structural housing shortage in the U.S. but reiterated the Fed’s dual mandate and stated that targeting the housing market is outside their jurisdiction. In addition to monetary policy, much of the questioning also addressed fiscal policy, where Mr. Powell again attempted to stay aloof. Ahead of today’s hearing, Chair McHenry and Subchair Barr led all HFSC Republicans in sending a [letter](#) to Mr. Powell, Chair Gruenberg, and Acting Comptroller Hsu demanding the regulators withdraw the capital proposal. A bipartisan House coalition of 38 lawmakers led by Reps. Luetkemeyer (R-MO) and Williams (D-GA) also sent a [letter](#) to Mr. Powell criticizing the Fed’s [proposal](#) to reduce the debit-card interchange fee cap, warning of the proposal’s impact on LMI and underbanked communities.

Analysis

Opening Statements

In opening statements, Chair McHenry called for the withdrawal of the “fatally flawed” endgame proposal and urged regulators not to finalize the long-term debt proposal. Chair McHenry also criticized Vice Chair Barr’s “holistic review” of capital requirements and stated that regulators should consider how their proposals affect one another when implementing them. Ranking Member Waters (D-CA) praised the Fed’s progress on inflation and focused on the housing supply shortage, criticizing Republicans for slashing federal housing program funding and promoting legislation to address the housing crisis. Rep. Barr called for the Fed to withdraw the “irredeemably flawed” endgame proposal and called recent regulatory proposals “unjustified, politicized, and under-analyzed” while Subcommittee Ranking Member

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Foster (D-IL) praised the Fed’s monetary policy report and said a soft landing was “in sight.”

Testimony

Chair Powell’s [testimony](#) focused on the Fed’s Monetary Policy [Report](#) and included the usual summary of recent Fed monetary policy, acknowledging that high interest rates are weighing on the housing market and business fixed investment. The statement makes no mention of financial policy.

Q&A

- **Capital Rules:** In addition to calling for its withdrawal, Republicans offered more specific criticisms of the Basel proposal, including Rep. Loudermilk’s (R-GA) concerns that the proposal could continue to push consumers towards alternate forms of credit such as credit cards and warned against the proposal’s impact on small-dollar lending; which Mr. Powell agreed was an important issue. Rep. Barr asked if the Board still intends to reach a consensus on the rule; Mr. Powell stated he was confident they would reach one. Rep. Lucas (R-OK) and Wagner (R-MO) cautioned against the proposal raising capital requirements on commodity derivatives and stated the proposal would disincentivize banks from offering clearing services; Mr. Powell stated that they are aware of these concerns and are taking a close look at the issue. Rep. Foster expressed frustrations with the lack of information regarding the magnitude of the impact on derivative end-users. Rep. Huizenga (R-MI) noted that elements of Basel III overlap with the Fed’s annual stress tests ([see Client Report STRESS32](#)), which Mr. Powell acknowledged as an issue but said it was too early to comment. Rep. Rose (R-TN) stated that the proposal would incentivize firms to transfer credit off their balance sheets through avenues like synthetic securitization, noting a backlog of reviews of these requests; Mr. Powell stated that synthetic securitizations are growing in popularity and they are acting slowly to ensure that they properly transfer risk in a durable manner. Reps. Horsford (D-NV) and Torres (D-NY) raised concerns regarding the proposal’s risk of pushing more business to nonbank institutions; Mr. Powell stated that there is clear risk for intermediation activity to move towards unregulated systems and that they are considering the issue very seriously. Rep. Torres also raised concerns regarding the proposal’s “gold plating” relative to international requirements.
- **M&A:** Continuing her [attacks](#) on the CapOne/Discover deal and [calls](#) for updated merger policy, Ranking Member Waters asked for the status of the merger review process update; Mr. Powell responded by stating that the Fed is in regular contact with the DOJ on their review of merger practices and that they are looking at the issue. Rep. Waters also asked if the Fed intends to hold public meetings on the CapOne/Discover merger, to which Mr. Powell responded that they have yet to receive an application for the merger, but stated they will review the application as required by them under the law and expressed confidence in existing merger procedures.

- **Climate Risk:** Reps. Sherman (D-CA) and Casten (D-IL) expressed concerns regarding the Basel III proposal’s negative impact on clean energy tax equity provisions; Mr. Powell responded that he would look into the issue. Rep. Huizenga asked why climate risk policies focus on large institutions if the issue is an existential threat; Mr. Powell stated the Fed are not climate change policymakers and that they are starting with big banks because they are already doing so anyway to comply with international requirements. Rep. Rose asked if there has been any discussion regarding the adoption of [ESG](#) risks in capital requirements, to which Mr. Powell responded by stating it is not something they are considering.
- **CRE:** Reps. Himes (D-CT), Lynch (D-MA), Wagner, and Norman (R-SC) warned against the risks CRE may pose to financial stability and asked Mr. Powell if he believed CRE risk is [manageable](#); Mr. Powell stated that it is and stressed the Fed’s efforts to work with banks with high CRE concentrations to make sure they have a plan and are prepared to take losses, noting that mostly small and medium banks will be heavily impacted.
- **CBDC:** Rep. Davidson (R-OH) called for the Fed to halt any effort to develop a CBDC.
- **Tailoring:** Rep. Barr warned that removing regulatory tailoring and moving to a one-size-fits-all system in the Basel III proposals will lead to further bank concentration which could increase systemic risk, which Mr. Powell acknowledged was a possibility. Rep. Torres asked Chair Powell how he reconciles Basel III’s standardization recommendation with Congress’ statutory tailoring requirement. Mr. Powell responded by stating that tailoring is important to a diverse banking system and should not be entirely ignored.
- **LTD:** Echoing Chair McHenry’s comments in opening statements, Rep. Hill asked if the Fed would delay the LTD proposal if it were to re-propose the capital rules, stating that the LTD should not be finalized until banks have a better understanding of their capital obligations under Basel III. Mr. Powell stated that the Fed will consider the implications the Basel III proposal will have for other rules, including the LTD rule. Reps. Hill and Luetkemeyer further questioned what he called the “redundant” requirement for regional banks to issue LTD at both the holding company and bank level; Mr. Powell stated that they are in the process of evaluating comments on the matter. Reps. Williams (R-TX) and Timmons (R-SC) expressed concerns with the LTD proposal’s removal of regulatory tailoring, with Rep. Timmons asking if smaller and regional banks should receive a longer phase-in period to meet LTD requirements. Mr. Powell reiterated that they are reviewing comments on the rule.
- **Quality of Bank Supervision:** Referencing the Fed’s self-examination after last March’s bank failures, Rep. Himes asked Chair Powell about his confidence that bank supervisors are properly managing current risks; Mr. Powell stated that he has personally seen improvement and is confident they are “doing the right things.”

- **IOER:** Rep. Davidson (R-OH) criticized the Fed for rewarding banks for taking no risks by paying interest on excess reserve balances, stating it would incentivize banks not to lend into the economy. Mr. Powell did not see it as a major issue, stating that banks are still incentivized to lend because they can earn a much bigger profit through lending.
- **Cumulative Impact:** Echoing FRB Gov. [Bowman](#), Reps. Timmons and Huizenga (R-MI) criticized the cumulative impact the agencies’ “staggering” number of rules and proposals have on banks, and asked if there was a formal review process to consider how new regulations may affect others; Mr. Powell stated that there is no formal process but that the Fed would review overlap if they deem it necessary.
- **AI:** Rep. Luetkemeyer expressed concerns with AI and deepfake technology’s ability to manipulate financial institutions and markets, noting the speed of modern bank runs. Mr. Powell agreed that this is an important issue and that they are focused on AI.
- **Independent ATMs:** Rep. Rose stated that independent ATM operators are being de-banked because they have been identified as risky, discouraging financial institutions from offering them banking services. Mr. Powell stated that he would have to review the issue.
- **FedNow:** Rep. Norman asked about FedNow’s participation rate; Mr. Powell stated that adoption has been slow with less than 500 banks currently signed up, but stated they are working on it, noting that network effects will improve over time.