



FedFin Client Report

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Republicans Blast Basel, Global Standard-Setting

Client Report: REFORM231

Executive Summary

Today's HFSC hearing on global governance featured [expected](#) Republican attacks on what they called the opaque nature of U.S. interactions with international organizations, with Chairman McHenry (R-NC) promoting a draft bill requiring regulators to report dealings with global standard-setting groups to Congress. Much of the hearing otherwise focused on the Basel III Endgame Proposal, with criticism coming not just from the GOP but also some Democrats, especially Rep. Torres (D-NY) who denounced the "Europeanization" of the U.S. financial system.

Analysis

Opening Statements

Chairman McHenry criticized the lack of transparency regarding the dealings of regulatory agencies and global governance bodies, arguing that it allows other countries to unduly influence U.S. policy. He also accused the regulatory agencies of partisanship. Ranking Member Waters (D-CA) criticized big banks and financial institutions for walking back climate commitments due to pressure from Republicans, denouncing Republicans for attacking international collaboration. Financial Institutions Subcommittee Chair Barr (R-KY) said that U.S. regulators consistently abiding by and complying with international nonbinding agreements makes their nonbinding nature irrelevant and accused agencies and global groups of bypassing the law to achieve their goals. Subcommittee Ranking Member Foster (D-IL) stressed the importance that regulators stay apprised of emerging risks to the global economy, emphasizing that participation in forums such as the BCBS enables the U.S. to promote national interests. Rep. Foster also argued that regulators can leverage U.S. influence in the development of international standards, noting that regulators have no obligation to adopt them.

Testimony

The Director of Supervision and Regulation at the FRB, Michael Gibson, stated that global groups are a means of information sharing regarding global financial risks and an opportunity

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for the U.S. to influence international standards, noting that these standards are nonbinding for any member including the U.S. Mr. Gibson also expressed the Fed's commitment to transparency and the rulemaking process. Ryan Billingsley of the FDIC stated that international cooperation contributes to a competitive and inclusive financial system, noting that agencies can choose to propose variations. Mr. Billingsley also stated that FDIC's participation in NGFS is limited and focused on its core mission regarding climate-related issues. Grovetta Gardineer of the OCC said that involvement in international forums furthers U.S. interests and priorities, improves understanding of global financial developments, and improves international relations.

Q&A

- **Climate Change** – Reps. Huizenga (R-MI), Loudermilk (R-GA), and Norman (R-SC) took issue with what they interpret as a lack of evidence regarding the likelihood and probability of climate-related financial risks. Rep. Vargas (D-CA) countered that insurance companies exiting housing markets in certain states is a sign of climate risk. Rep. Green (D-TX) stated that climate change events could harm banks by impacting underlying securities. Rep. Casten (D-IL) argued it's better for the U.S. to be a leader in global discussions regarding climate change than not be at the table at all. Rep. Horsford (D-NV) criticized Republicans for weakening national buy-in on climate change risks, stressing that risks will grow if not managed properly. Rep. Sherman (D-CA) criticized the Basel proposal's impact on tax credits for clean energy investments, while Ranking Member Waters noted that the U.S. is behind its European counterparts on climate change risk regulation. Rep. Norman asked what the consequences would be if a bank refused to consider climate risk; Ms. Gardineer replied that examiners would take the normal course of action when a bank is unable to manage its risk correctly to prevent adverse consequences.
- **GSIB Capital Surcharges** – Reps. McHenry and Hill (R-AR) criticized the BCBS for reducing the capital surcharge for European GSIBs by 50 basis points without public consultation shortly before increasing capital surcharges for U.S. GSIBs; Mr. Gibson replied that the Fed has proposed modifications to the GSIB surcharge ([see FSM Report GSIB22](#)).
- **Gold plating** – Representatives on both sides of the aisle, including Reps. Scott (D-GA), Torres, Sherman, Kim (R-CA), Lucas (R-OK), Loudermilk, and Nunn (R-IA) criticized the Basel III proposal for standards beyond the minimums required by the Basel Committee. Rep. Sherman also said that Republicans should not blame Europe for our own mistakes in adopting the regulation.
- **Operational Risk** – Rep. Fitzgerald (R-WI) took issue with the Basel Proposal requiring banks to hold capital against fee and commission income as a proxy for operational risk.

- **Small Business Lending** - Rep. Davidson (R-OH) expressed concerns that the Basel proposal would result in less credit for small businesses. Rep. Sherman (D-CA) took issue with the proposal's 65% risk weight for public companies compared to the 100% risk weight for private companies, arguing this difference hurts businesses, mutual funds, and pension plans.
- **Consolidation Risk** - Rep. Fitzgerald stated that the Basel III proposal may force small and mid-sized banks to consolidate to overcome compliance burdens, expressing concerns about further concentration of the banking system; Mr. Gibson stated that the U.S. benefits from a diverse banking system.
- **LMI Mortgage Lending** – Reps. Davidson, Fitzgerald, and Torres raised concerns regarding the capital proposal's negative impact on mortgage lending to LMI borrowers and first-time homebuyers.
- **Off-Balance Sheet Items** – Rep. Fitzgerald noted that the Basel proposal would subject off-balance sheet items such as unused credit lines to an increased credit conversion factor which could incentivize banks to reduce or close dormant credit lines that aid service members.
- **NGFS** - Rep. Barr expressed concerns about the potential for NGFS to be influenced by their funding sources; Mr. Gibson replied that NGFS contributors have no right to influence NGFS work or priorities, noting that the Fed does not contribute funds to NGFS. Rep. Loudermilk took issue with the Fed using NGFS' "plausible illustrative scenarios" in its pilot climate scenario analysis; Mr. Gibson replied that banks are already familiar with the NGFS scenarios, resulting in reduced burden. Rep. Nunn accused the Fed of furthering NGFS goals.
- **Russia and China** – Reps, McHenry, Luetkemeyer (R-MO) and Norman took issue with China and Russia's involvement at various times in the Basel Committee's "stock take" reviews of U.S. policies, with Rep. Luetkemeyer arguing that hostile foreign governments should not have input on the U.S. regulatory framework. Mr. Gibson noted that most of the information in these reviews is publicly available or otherwise anonymized.