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House Financial Services Committee, Financial Institutions Subcommittee hearing Regulatory Recipe for Econom..,sked FINAL

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TRANSCRIPT

September 25, 2024

COMMITTEE HEARING

REP. ANDY BARR, R-KY.

HOUSE FINANCIAL SERVICES COMMITTEE, FINANCIAL INSTITUTIONS SUBCOMMITTEE HEARING REGULATORY RECIPE FOR ECONOMIC UNCERTAINTY: THE

ENDLESS BASEL ENDGAME AND AN ONSLAUGHT OF HURRIED RULEMAKING

UNDERTAKEN

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HOUSE FINANCIAL SERVICES COMMITTEE, FINANCIAL INSTITUTIONS

SUBCOMMITTEE HEARING REGULATORY RECIPE FOR ECONOMIC

UNCERTAINTY: THE ENDLESS BASEL ENDGAME AND AN ONSLAUGHT OF

HURRIED RULEMAKING UNDERTAKEN

SEPTEMBER 25, 2024

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REP. ROGER WILLIAMS, R-TEXAS

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REP. BARRY LOUDERMILK, R-GA.

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REP. WILLIAM TIMMONS, R-S.C.

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WITNESSES:

MR. KENNETH BENTSEN, JR., PRESIDENT AND CHIEF EXECUTIVE

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OFFICER, SIFMA

MR. JONATHAN GOULD, PARTNER, JONES DAY

DR. MARC JARSULIC, CHIEF ECONOMIST, CENTER FOR AMERICAN

PROGRESS

BARR: The committee will come to order. Without objection, the Chair is authorized to declare a recess of the committee at any time. This hearing is titled Regulatory Recipe for Economic Uncertainty: The Endless Basel Endgame, and an Onslaught of Hurried Rulemaking Undertaken by the Administration.

Without objection, all members will have five legislative days within which to submit extraneous material to the chair for inclusion in the record. I now recognize myself for five minutes to give an opening statement. Today's hearing is on the Basel III Endgame proposal by the Federal Reserve, FDIC and OCC, as well as the onslaught of recent significant regulations from those agencies. Before discussing details, I would like to point out that while we may not agree on everything, there has been good work from both sides of the aisle in this Subcommittee monitoring and overseeing the agencies.

The initial and shockingly underanalyzed July 2023 Basel III Endgame proposal was met with criticisms from across the ideological spectrum and from a wide range of industries and interest groups. 97 percent of the comments were negative and 86 percent came from stakeholders outside of the banking system. The proposal was sold partly as a reaction to the March 2023 bank failures and turbulence from interest rate risks. Yet, the vast majority of the proposal had nothing to do with that risk.

Members of the financial services committee have expressed concerns about the July 23 Basel III Endgame proposal, effects on mortgage markets, treatment of tax credits, treatment of various business models, and financial products like derivatives, and much more. We did so to identify the detrimental impact the proposal would have on our constituents, including homebuyers, farmers, and ranchers, smaller financial institutions and consumers of financial services.

Unfortunately, the future of the Endgame proposal is unclear, and administrative procedures followed by the agencies continue to be clumsy at best and politicized at worst. The result has been lingering uncertainty about the future rules of the road for financial institutions and consumers of financial services. The latest we've heard was a recent speech by the Federal Reserve's Vice Chair for supervision, Michael Barr, who said that he would recommend new proposals that modify the July 2023 proposal. While some of the previewed changes are encouraging, Barr's speech suggests that considerable work still remains, particularly to the market risk component of the Endgame proposal. Vice chair Barr's remarks sketched out limited hints of what may be coming, and he once again provided numbers without underlying details.

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He said he believes his new proposal has broad support in the Federal Reserve Board, though this will only become evident when there is a vote. Additionally, Vice Chair Barr said the new proposals will be voted on, quote, "soon at the Fed." But more than two weeks after his remarks, there is no indication of any such vote occurring.

Further, he said that his latest recommended changes are a joint effort with his counterparts at the FDIC and OCC, though that may only mean a joint effort with fellow Democrat appointed officials. Instead of seeing progress after Mr. Barr's speech, there have been numerous reports of partisan horse trading among disgraced FDIC Chairman Gruenberg, CFPB Director Chopra, and others. Representative of such reports, without objection, I wish to enter a September 30th Bloomberg article into the record.

Partisanship at regulatory agencies and files and administrative procedures continue to weigh on providers of financial services in American small businesses and families. Adding to the sweeping changes in the evolving Basel proposal, the agencies have proposed or finalized an onslaught of other significant rules and regulations, many of which have been partisan and sometimes lacking full support even from democratic policymakers. Those include significant proposals on long-term debt brokered deposits, bank mergers, executive compensation and many, many more.

The rush to put out -- to push out as many partisan proposals and rules as possible before a national election is concerning, as it amplifies uncertainty and threatens independence of the FDIC, OCC, and the Federal Reserve as a whole. Also, concerning is the recent aversion by Democrat appointed regulators to performing even basic cost benefit analysis to understand the potential unintended consequences stemming from how their hasty rulemakings combined will affect our constituents.

It is important for this subcommittee to continue our work to ensure that regulators dutifully implement laws in the interests of our constituents and not in pursuit of partisan political goals. What do we want from regulators? We want regulators who adhere to statute, who do not exceed statutory authority. We want regulators who understand what the Supreme Court recently just did in overturning chevron. We want regulators who understand the non delegation doctrine, that their job is not to be the lawmaking branch, but to execute congressionally enacted law.

We want regulators who understand that in order for our credit markets and our capital markets to function well, efficiently, properly, and in the interest of investors and consumers, there has to be certainty, clarity, and stability. With that, the Chair now recognizes the ranking member of the subcommittee on financial Institutions and Monetary Policy, the gentleman from Illinois, Dr. Foster, for four minutes.

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FOSTER: Thank you, Chairman Barr, and to our witnesses. Since the Basel III end grain proposal was published, our committee has heard from many experts who debate what the ideal level of capital held by systemically important banks should be. Some members of this committee were here during the 2008 financial crisis, when failures of risk management and a shortage of losses absorbing capital led to a crisis of confidence of the global banking system.

These systemic weaknesses amplified a ripple of instability as asset prices collapsed. These factors contributed to the great recession, which cost millions of Americans their jobs, homes and retirement savings. All of this came at a substantial cost to us taxpayers, with MIT estimating that the total cost to the government or to the taxpayer of the response was nearly half a trillion dollars.

As we have discussed in previous hearings, the Basel committee convened banking regulators from around the world following the financial crisis. The Basel committee's nonbinding recommendations Addressed weaknesses in the banking system leading up to the financial crisis, including capital leverage and liquidity . The Basel III recommendations were agreed by the Trump administration's officials in 2017, with then treasury secretary Steven Mnuchin saying that the agreement, quote, completed nearly seven years of work on the Basel III bank capital standards, saying that the reforms would, quote, standardize the approach, improve the quality and consistency of bank capital requirements, and will help level the playing field for us firms and businesses operating internationally.

And after years of collaboration with global regulators, U.S. regulators issued a proposal that is specific to the us economy, providing more than 120 days of public comment for an opportunity for U.S. firms to provide additional data about how the proposal will affect their businesses. And on September 10th, Federal Reserve vice Chair for Supervision Michael Barr announced that he would recommend a partial reproposal of the Basel III and game bank capital rules. He outlined some of the changes he's recommending, and I'm encouraged to hear that.

He mentioned many of the issues that members from this Committee have raised, including concerns about the treatment of residential mortgages, tax equity investments in renewable energy, and investments in companies that are investment grade but may not be publicly traded. I feel strongly, however, that this hearing is premature. While some of the what was outlined by the vice chair sounds good in theory, the text of the reproposal has not been seen by any member of this committee or the public. Or the public.

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And so this hearing will simply continue speculation as to why certain changes might or might not be suggested and what form they will take. Our discussion today lacks the insight from the regulator's data collection and quantitative impact study, which it is, my understanding is laid out in detail in the draft reproposal, and I understand this has really been used extensively to inform the recommended changes, and so I think we're all eager to see those details, and I'm encouraged to hear that they actually do exist in the draft reposal we have not, unfortunately, yet seen so cumulatively. Vice chair bar expects his recommendation would increase capital requirements for the largest and most complex banks by about 9 percent, down from the 18 percent increase in the initial proposal.

But it's of great interest to me as to what areas of their operations are responsible for those increases and what are nothing. This is a significant change, and it will depend on many other factors within the rule. The Basel III Endgame and the long term debt proposal, as well as the forthcoming liquidity proposal are all essential parts of prudential regulatory frameworks, and they are important to get right.

So I encourage the agencies to avoid unnecessary delays that prevent the adoption of appropriate safeguards and that will promote the U.S. economic strength and financial stability. And it's concerning to me that the EU may be planning to delay its implementation of key aspects of their Basel III reforms due to inaction here in the United States. So the path forward will require extensive coordination between the Federal Reserve, the FDIC, and the OCC. I'm eager to see how they will proceed and to review the rationale for any of their recommended changes. Thank you, Mr. Chairman. I yield back.

BARR: Today, we welcome the testimony of Jonathan Gould. Mr. Gould is a partner at Jones Day. Kenneth E. Bentsen Jr. Mr. Bentsen is President and Chief Executive Officer at SIFMA. Marc Jarsulic. Dr. Jarsulic is Chief Economist at the Center for American Progress. We thank each of you for taking the time to be here. Each of you will be recognized for five minutes to give an oral presentation of your testimony. Without objection, each of your written statements will be made part of the record. Mr. Gould, you are now recognized for five minutes.

GOULD: Chairman Barr, Ranking Member Foster, and members of the Subcommittee, thank you for the opportunity to discuss the Basel III Endgame, This committee's bipartisan engagement with the federal banking agencies on the Endgame proposal has been a case study in how Congress can exercise its oversight authority in constructive fashion. My testimony today is my own. I'm speaking solely in my personal capacity.I am not speaking on behalf of any clients or my law firm.

In July 2023, the agencies released the Endgame proposal. Unlike the similarly named Avengers movie, which achieved record breaking box office success, the Basel III Endgame proposal was criticized for many different quarters. Since its release, the agencies have taken several steps to address this criticism, including an after the fact data collection effort, various public statements promising broad and material changes, and a speech by the Fed's Vice Chair for supervision, telegraphing certain changes he intends to recommend.

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In the meantime, we are left gaming out various scenarios and timelines while the agencies settle on one set of capital requirements out of a dizzying number of possible options. Unlike Marvel Comics fans, banks and other market players cannot exist in more than one universe at a time. They need certainty to plan balance sheet allocations and product offerings.

Prior to releasing the Endgame proposal, Vice Chair Barr undertook a holistic review of current capital requirements that served as the proposed rationale. But the lack of documentation associated with this review invited questions about the analytical rigor of and data underlying it. Shortly thereafter, the agencies released their Endgame proposal. Its shortcomings have been detailed before this Committee and include lack of factual support, limited cost benefit analysis, failure to disclose underlying data and assumptions, and disregard for statutory tailoring requirements. Several months elapsed before the banking agencies took steps to gather the data that should have informed its proposal in the first place.

In October 2023, the Fed launched a voluntary data collection effort, but the deadline for responding to the data collection was the same day as the deadline for providing comments on the proposal itself. This ensured that public comments could not be informed by data collective.

Vice Chair Barr's recent speech set forth the changes he intends to recommend to the proposal. These include all major areas of the rule, but the generalities of a speech are no substitute for an actual proposal. It is also unclear whether the agencies will repropose the rule in full or a portion of it. This is highly irregular and leaves commenters speculating on the meaning of any omissions from their original proposal. We should expect an administrative law may demand more from a rulemaking process addressing one of the most complex and consequential aspects of U.S. banking regulation.

The agency's decision to propose another round of regulatory capital revisions in 2023 is not the result of a direct congressional mandate, nor is this rulemaking an exercise in which the agencies are merely applying their technical expertise to implement a preexisting policy mandate.

On the contrary, the agencies are engaged in weighing and making tradeoffs that balance system risk tolerance with economic growth. When agencies undertake major regulatory initiatives absent a congressional mandate, their reform lacks credibility and may be vulnerable to legal challenge. Too often, agency initiatives provide convenient cover for the agency's own shortcomings in carrying out the missions assigned them with the authorities Congress has given. They can also be a distraction from issues that require agency leadership and resources.

To address some of the problems that have been the hallmark of the Endgame rulemaking, Congress should provide the agencies with more explicit direction on matters like regulatory capital that involve political and economic tradeoffs of major significance. The banking agencies lack the political and possibly legal legitimacy to make these decisions on behalf of the American public. The agency's latest adventure in regulatory capital has been an unforced error, hardly an Endgame.

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A more realistic moniker might be the Basel III Infinity war. As this committee has demonstrated over the course of the rulemaking, congressional engagement can improve agency process and substance, and I encourage this committee's continued and indispensable oversight. Thank you again for the opportunity to testify.

I look forward to your questions. Mr. Benson, you're now recognized Chairman Barr, ranking member foster, and distinguished members of the subcommittee, thank you for the opportunity to testify today. I'd like to start by commending the members represented on this subcommittee for their leadership on these important issues, including via the many comment letters that members of both parties have submitted to the regulators, as well as through the hearings on these and other related topics over the past year.

While bank capital requirements are an undoubtedly complex subject, there is no question that they have material impacts across the entire economy affecting the ability of corporations, small businesses, state and local governments, and consumers to fund their activities and manage all types of risks. It's crucial that policymakers, including Congress, conduct the necessary analysis and oversight to ensure that bank capital requirements strike the appropriate balance between financial stability and macroeconomic growth.

In this context, it's worth noting that the high -- it's worth noting that the quantity of high quality capital in the us banking system has increased threefold since the global financial crisis. Senior policymakers, including Treasury Secretary Yellen, Fed chair Powell, and Fed Vice Chair Barr have commented in recent years that the U.S. banking system is strong, resilient, and quote "well-capitalized." Given that capital levels are already robust, any further proposed increases should be carefully scrutinized to determine both the tangible benefits and costs to the broader U.s. economy, and it is particularly important that policymakers strike the right balance when it comes to capital requirements affecting the ability of large banks to act as intermediaries in our capital markets, given that those markets fund roughly three quarters of all economic activity in the United States. This contrasts with other major economies where most commercial and economic activity is relying on bank balance sheets and is an important factor in explaining the relative ongoing strength of the U.S. economy.

Excessive capital requirements on banks markets activities would negatively impact the depth, liquidity and resiliency of capital markets and increased costs to consumers and commercial entities who benefit from bank involvement in such activities. SIFMA has expressed deep concern about the Basel III Endgame proposal, not only because it would significantly increase capital levels well beyond their current historically robust levels, but it inappropriately targets banking organizations capital markets activities for some of the largest increases. The industry quantitative impact study estimated that capital for the large bank's trading activities would increase by 129 percent above their current historically high levels.

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As we and other many other commenters have explained, these increases do not reflect the underlying risks posed by these activities would have a serious knock on effects on the real economy. A PwC study released earlier this year found that the original Basel III Endgame proposal would have caused us economic growth to decline by up to 25 percent over the last ten years.

The recent comments of Fed Vice Chair Barr announcing the agency's intent to issue a reproposal of both the Basel III Endgame rule and related GSIB surcharge rule was therefore a welcome first step. We are concerned that the reproposal would still raise capital levels by an additional 9 percent for the largest U.S. banks, above the levels that are already comparatively high by international standards, and in contrast, to other major jurisdictions where implementation is expected to be closer to capital neutrality.

Nonetheless, we commend the agencies for acknowledging the need to make "broad and material revisions." In evaluating the reproposals, we will be looking to see whether and to what extent they address our key recommendations, including addressing overlaps with the stress test and other capital requirements, accounting for the interactions and overlaps between the global market shock and the fundamental review of the trading book, provide greater credit for diversification in the FRTB. Include changes, as Vice Chair Barr noted, to facilitate bank's ability to use internal models for market risk, allow commercial end users over the counter derivatives to receive more favorable treatment in line with the approach taken by the E.U., address the perverse risk incentives towards securitized products in the original proposal.

And beyond these issues, we welcome some of the other changes mentioned, including the decision not to implement the securities financing transaction haircut framework consistent with other jurisdictions, fixing the capital treatment of non-publicly listed securities and revision of the operational risk framework to reduce the capital charge for fee-based capital market services such as investment advisory and retail brokerage. We also encourage the agencies to address other issues in this framework that unduly penalize the subsidiaries of foreign banking organizations.

Beyond the Basel Endgame, we have made a series of recommendations for additional reforms of the stress testing process, as well as the GSIB surcharge and long-term debt proposals. And beyond capital issues, we are also concerned about the FDIC's recent proposal to revise regulations surrounding broker deposits as they relate to broker dealers.

I'm happy to address any of these issues in more detail in today's hearing. These rulemakings are incredibly important to our economy and therefore, it's crucial that policymakers get them right. I commend the Subcommittee for taking the time to focus on these important issues. Thank you and I look forward to answering your questions.

BARR: Thank you Mr. Bentsen. Dr. Jarsulic, you are now recognized for five minutes.

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JARSULIC: Thank you, Chairman Barr and Ranking Member Foster for the opportunity to testify on this important topic. Today, I will attempt to outline the importance of adequate bank equity levels for financial stability and economic performance, and the need for strong capital regulation in pursuit of these goals. I will also attempt to evaluate some aspects of the newly proposed capital rules.

To do so, I would like to emphasize four points. First, our banking system and our economy benefit from strong regulatory capital rules. There are several facts that support this view. First, capital rules mandate that bank's self-insure against losses on their assets. So long as assets have been financed with a sufficient share of equity, a bank subject to losses will remain solvent. That is, the remaining value of assets will be large enough to satisfy debt payments as they come due. Bank creditors will recognize this, and there will be no incentive for uninsured depositors and other lenders to withdraw funds. By preventing runs and the intended fire sale of assets, sufficient equity finance increases the stability of individual banks and the financial system itself.

Second, increased bank equity raises overall economic performance and credit availability. For example, research by economists at the Federal Reserve in New York found that additional bank capital reduces the probability of negative GDP growth without changing expected GDP growth. Other empirical banks shows that banks with less leverage get more funding and make more loans.

Finally, increased equity may well have a limited effect on bank costs. For example, the banks for international settlements has concluded on the basis of an empirical study of the world's largest banks over two decades, that increased equity leads to small or possibly even negligibly small, changes in funding costs. Hence, increased equity is unlikely to raise the cost of finance significantly.

The second principal point is that the current risk-based capital proposal contains an important advance in the calculation of bank equity requirements. The proposed rules would require that banks with assets above $100 billion include unrealized gains and losses on securities when calculating regulatory capital ratios. This is a welcome change. It would prevent banks from classifying securities as held to maturity in order to avoid recognition of losses in values.

Instead, they would have to mark their securities holdings to market. When calculating equity ratios, the effect would not be trivial. According to the FDIC data from 2022, there were large unrealized losses for securities on bank balance sheets of about $620 billion. That amounted to nearly 10 percent of the value of all securities held on depository balance sheets at that time. My third principal point is that the proposed risk makes capital requirements will not raise minimum capital -- marries minimum bank equity sufficiently. This is supported by two observations.

First, recent history illustrates that banks of any size can experience double digit losses in a financial crisis. For example, when Washington Mutual failed in September 2008, its losses amounted to 13 percent of its $310 billion in assets. When Silicon Valley failed in 2023, its losses amounted to nearly 10 percent of its assets.

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Second, the equity requirements in the current risk based proposal are well below observed loss rates. The proposed 9 percent increase in risk weighted capital for GSIBs would leave the supplementary leverage ratio only a few more basis points above 6 percent, not enough to cover the loss rates we observed in the 2008 crisis. The proposed 3 percent to 4 percent increase in the risk weighted capital for banks similar to -- in size to Silicon Valley or signature would have left their Tier 1 leverage ratios unchanged at around 8 percent. Therefore, it's reasonable to conclude that the increase in total equity delivered by the recent agency proposals would not markedly improve the chances that the GSIBs and other banks would remain solvent in the face of shocks in the range of those historically observed.

My fourth point is that bank regulators can and should take effective actions to substantially reduce leverage. Bank equity is tended in the wrong direction for some time while equity ratios for large banks and the GSIBs rose measurably after 2008, they have since declined. For example, the supplementary leverage ratio for GSIBs in particular has declined from 7 percent in 2017 to around 6 percent now, indicating the very largest banks are less prepared to endure large economic shocks. These trends ought to be reversed. Doing so would increase financial stability and help the overall economy by supporting credit creation. Thank you very much for your attention.

BARR: Thank you. We'll now turn to member questions. The Chair now recognizes himself for five minutes for questioning.

What is this hearing about? This hearing is about American economic growth and American economic competitiveness. That's what it's about. And do these regulatory proposals contribute to or detract from American competitiveness? Mario Draghi recently issued a report about the European financial system and economy and noted that there's a lot of things that Europe needs to do better, and pointed out how Europe lags behind the United States in terms of its capital market's competitiveness, and made the argument that Europe needs to emulate the United States in many respects. Why? Because the U.S. capital markets are more advanced than European capital markets in several respects, market size, retail participation, available capital, economic value.

So, Mr. Bentsen, the rumor is that the re-proposal of Basel III Endgame would make some broad and material changes with respect to operational risk and some of the credit risk pieces, but market risk would be largely left untouched. Can you explain why this would be a bad idea from the standpoint of American economic growth? And the original Basel III Endgame proposal, how would it impede American competitiveness in our capital markets, which frankly is our competitive edge?

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BENTSEN: Thank you, Mr. Chairman. Obviously, we don't know what will be in the re-proposal, so we're very eager to see that. We're very eager also to see the quantitative impact study that the regulators did, which they should have done at the front end and not the back end. But importantly, as I pointed out, the U.S. funds the vast majority of its economic activity through the capital markets. And that is a good thing. And as you pointed out Mr. Draghi's recent comments, Europe itself is in its third iteration of trying to develop its capital markets to achieve what the U.S. has achieved.

The U.K., now separate from the E.U., certainly seeks to make London the center of finance, if they can, looking at the U.S. But I think even the better thing to look at is if you look at the recovery from March 2020 coming out of the pandemic, the U.S. recovered much faster than other jurisdictions. And a lot of that had to do with the ability of corporates to repair balance sheets by being able to tap the debt markets in the U.S. And that's just a virtue that we have that other jurisdictions would like to have.

So if our -- and then when you consider the fact that U.S. GSIBs comprise about 50 percent of market share of us capital markets activities, you include foreign banking organizations, that gets you to about close to 90 percent of market share. Now, w0e represent the broad markets. We have regional broker dealers and others, but there's not necessarily the capacity. So if you impose rules that puts pressure on that capacity, you're going to either -- you're going to cause one of two things or both to happen. It's either raising the cost of engaging the capital markets activities, whether you're a corporate immune or whatever, or banks pulling back, which some have talked about doing in certain areas. So...

BARR: Yeah.

BENTSEN: Not going to affect. It's great.

BARR: Yeah. Emulating Europe is really not what we want to do. Gold plating and making us less competitive than Europe is certainly not what we want to do. And I would note this Pricewaterhouse study released in June of this year that found that the original Basel III Endgame proposal would cause U.S. economic growth to decline up to 25 percent. Not a recipe for the right policy here. You know, impairing securitization, impairing capital markets activities, bad, bad idea from a standpoint of economic growth.

Mr. Gould, in a sign of possibly more partisanship coming from the federal banking agencies, acting comptroller of the currency Michael Su, who heads the OCC, stated that, quote, "given last spring's banking turmoil and projected growth of large banks, the time may be ripe for the U.S. banking agencies to consider identifying domestic systemically important banks." It seems that they may be considering using existing authorities to setup a new classification for banks that are not GSIBs. Now, they want a new category called DSIBs, Domestic Systemically Important Banks, to further undo tailoring. Do you believe that tailoring of regulations was responsible for the March 23 turmoil of SVB or Signature Bank?

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GOULD: No, I do nothing. There's a consequence of bad decisions by bank management coupled with rapid interest rate hikes.

BARR: Yeah. Tailoring was a mandate from Congress in S.2155. Do you believe that regulators are operating within legal bounds when they undo tailoring?

GOULD: No, they're not.

BARR: I agree. I think they're circumventing congressional intent. What did cause SVB's failure, though, was interest rate mismanagement. Mr. Bentsen, can you discuss how, under the original Basel III Endgame proposal, there would be an additional cost to hedge interest rate risk?

BENTSEN: Well, there are a lot of different factors in the Basel proposal. But one, as it relates to hedging, was the treatment of clear derivatives and uncleared derivatives, both of which are sort of inconsistent with other jurisdictions. Now, they're doing that. And that would have a knock on effect both for -- in affiliated transactions as well as for end users. So it would really put (inaudible) inform a capital tax on hedging activities.

BARR: My time has expired. But my goodness, why would we make hedging interest rate risk more difficult when we just went through what we did with SVB? My time has expired. I now recognize the gentleman from Illinois, Dr. Foster, for five minutes.

FOSTER: Yeah. Thank you. And some of you have alluded to one of the major developments in this area is the Supreme Court Loper Bright decision striking down Chevron, in which they appear to believe that members of Congress or federal judges are somehow better positioned to evaluate complex issues like these than our regulators.

Mr. Bentsen, on Page 12 of your testimony contains the following. The SECSA calculates the tranche risk weight based on four inputs, attach and detach points, the ratio of delinquent underlying exposures to underlying exposures in the securitization pool, i.e. W, and the standardization capital -- standardized capital requirements for the securitization pool, i.e. KG In addition to the P factor. KG is adjusted to account for the impacts of the W parameter. KA defined as KA=1-WxKG+0.5W, that is KA effectively ascribes and so on.

Well, actually, to any of (inaudible), what fraction of federal judges or members of Congress do you think are capable of parsing and understanding that language in a way superior to those available at our regulators?

BENTSEN: It's a fair point that some members of Congress may have (inaudible).

FOSTER: No, you have a good feeling.

BENTSEN: yeah.

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FOSTER: What fraction would you say, 1 percent of members, 10 percent, 30 percent, would actually understand that...

BENTSEN: No, no, no, I would -- as a former member of this body and this Committee, I would actually -- I would give a much higher percentage of members who have an understanding of, you know, you're maybe an exception to the rule of being one of, I think, the only physicists currently in the Congress. But I think there's probably a greater share of members who can figure out -- you know, can take the time to figure out policies and formulas and the like, and what the broader impact is. And I do think it's Congress's -- your point on loper, I appreciate, but I do think it is Congress's role. And Congress historically, whether going back to Basel I, Basel II, and now Basel III, has been very involved.

This Committee has historically been very involved in this process because it does have a knock on effect to the economy. So it -- I think all (inaudible) were saying (inaudible).

FOSTER: I understand. I just -- I was just making the point that, you know, we have to operate at a much higher level and we can't sit there and calculate each coefficient. And, you know, when we say that we are going to -- when we're going to tailor our things, you know, there are dozens of aspects of capital regulations, some of which are tailored and some of which are not. And those statements like we just, you know, heard from Mr. Gould that it is the tapering has or has not been done. You know, you're talking about something that gets applied individually to many different things that may or may not be tapered.

Anyway, so back to the, to the main thing. Dr. Jarsulic, there's a lot of research from the Fed and other experts on the socially optimal level of capital for U.S. banks to balance the costs of holding additional capital with systemic resilience to prevent future and costly financial crises. While no one is suggesting that maintaining capital is cost free, would you discuss how this research has informed your thinking about how regulators should approach setting capital requirements, especially for the largest banks that pose the greatest systemic risk?

JARSULIC: Thank you for that question. I'm aware of studies by Federal Reserve bank in Minnesota and other academics showing that higher ratios of equity to risk weighted assets would reduce the likelihood of financial crisis. And I think that's clearly correct. Self-insurance works if it's large enough. These studies also argue that significant increase in risk-weighted capital ratios, would produce net economic benefits to the economy. That also seems qualitatively right to me. As I pointed out in my testimony, there's good empirical evidence that increased bank equity has a small effect on bank costs and then increased equity does not reduce economic growth, but in fact contributes to it by increasing credit availability.

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But I defer judgment on the estimates of optimal levels of equity. And because reading these papers, those equity levels are based on modeled and estimated tradeoffs of the increases in equity, or levels of equity and economic performance. And I'm not sure that there is binding, as the models and papers indicate.

FOSTER: Yeah. So I think it's, you know, in the case of Congress, we have to look at very high level comparisons like, you know, the claim that the U.S. economy and banking system has suffered from higher capital requirements than the European banking system. You can look at, you know, how well the U.S. giant banks are doing compared to the European banks. And I think you conclude that, well, they're certainly not being crippled by whatever capital requirements that we've applied to them.

JARSULIC: No, they're extraordinarily effective efficiently and competitive comparatively.

FOSTER: Well, thank you. Time is up. I yield back.

BARR: The gentleman from Texas, Mr. Williams, the Chairman of the Small Business Committee is recognized.

WILLIAMS: Well, thank you, Mr. Chairman. Thank all of you for being here today. And there's been an ongoing concerns on both sides of the aisle regarding the long-term debt issue. Now, financial institutions fear that the issue will increase costs and add more regulatory burdens. Banking regulators should not move forward with this rule until the Basel III framework has been reformed, finalized, and implemented.

Now, given the lack of transparency and accountability around the reproposal of Basel III and the effects it will have on long-term debt, it's clear to me that regulators must delay implementation. So Mr. Bentsen, would you agree that this is the appropriate course of action? And should banking regulators delay implementation of the long-term debt rule until the Basel III framework is resolved?

BENTSEN: Yes, Congressman, absolutely. That's one of several problems with the long-term debt proposal. But a key component is the interrelation with the Basel III Endgame. It will tear -- it will have a multiplying effect on the amount of long-term debt certain institutions will have to issue. And then I will have a broader market effect on how much long-term debt is issued more generally. So yeah, absolutely, they should wait.

WILLIAMS: Now, since the banking turbulence in March 2023, federal regulators are continuing to put forward an onslaught of unjustified regulatory proposals without fully considering their impacts. Now, many of these proposed changes, like Basel, will dramatically affect the banking community by limiting access to reliable credit and increasing overall borrowing costs for individuals and small businesses. I'm a small business owner. I've been in business, still am for 52 years. I'm a car dealer. This stuff scares me to death. And these increases in cost will make it harder for Americans to obtain a loan.

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So whether they want to start their own business, expand current businesses like myself, operations every single day, be larger or buy their own homes, small businesses and everyday Americans rely heavily on loans and credit lines from banks of all sizes to access the capital they need to do so. So the question is Mr. Gould, could you elaborate on how the Basel III proposal will impact bank lending and the cost of credit for borrowers like myself? And what does this mean for Americans trying to obtain a loan?

GOULD: Yes, Congressman, happy to do so. So capital planning capital is itself a dynamic and forward-looking exercise. And so when banks plan for capital, they think about out multiple quarters. And so if they anticipate that capital is going to be increased or capital requirements are going to go up, they will go into a capital conservation mode where they start husbanding carefully the capital, retaining earnings, not paying, cutting dividends, and so forth.

And at the same time, that capital then will be allocated, or anticipations about future capital will be allocated to specific activities, like lending or business lines. And that will result in either repricing or in some cases, actually exiting business lines that are viewed as higher cost of capital.

WILLIAMS: Well, it affects the business and also affects it at the end the customer, right?

GOULD: Yes.

WILLIAMS: Lack of inventory, lack of options for the customer is affected.

GOULD: Yes, that's correct. The original intent of Basel III was to level the playing field across international jurisdictions and not significantly increase capital requirements. Now, we have historically seen gold plated regulations in the United States, which has put our financial systems at a competitive disadvantage.

Continuing that trend, just two days after Vice Chair Barr gave a speech indicating that capital requirements will increase by nine percent, the Bank of England announced that their implementation of Basel III would result in a combined increase of less than one percent. The EU has said Basel III implementation had a less than six percent increase.

So the U.S. already imposes higher capital requirements on its banks, meaning the most recent version of Basel III would lead to an even wider gap. So, Mr. Gould, do you believe that -- is it in our country's best interest to forge ahead with proposal that will hurt our ability and hurt businesses like mine, and hurt our ability to compete with other international competitors?

GOULD: While it's certainly true that strong capital is an asset of our system and makes it attractive, I think, to others, nevertheless, capital levels, I think, that are unjustified -- Excuse me, capital levels increases that are unjustified through analytic rigor, I think would compromise our competitiveness overseas.

WILLIAMS: OK. I have some time back. I yield back to the Chair.

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BARR: Gentlemen yields back. The gentlewoman, Ranking Member from California, Ms. Waters, is now recognized.

WATERS: Thank you very much. Republicans criticize what they call an endless rulemaking process for Basel III Endgame. But let's be clear, the Trump administration did nothing to implement these standards. The Basel committee adopted the international guidelines for this rule back in 2017. Former Secretary of the Treasury Mnuchin applauded the agreement, but Trump's banking regulators did nothing to implement them.

Instead, they prioritized deregulating our largest banks. And several years later, we witnessed three of the largest U.S. banks fail in our history. Not to mention Republicans in industry are doing everything in their power to delay and block this rulemaking. Dr. Jarsulic, what lesson should we remember about deregulation and the role it played in both the recent big bank failures last year, but also the 2008 financial crisis?

JARSULIC: Well, I think it's very important to frame the issue in terms of whether or not regulations adequately provide self-insurance from the banking institutions, which are so important to the functioning of our economy. Because with self-insurance, when things go wrong, when there are economic shocks that cause losses on the balance sheet of banks, banks can be resilient. They can recover from that.

The system remains stable. And we don't witness the incredible knock on effects to the real economy that we saw in 2008. It took a long time, several years, for the real economy to recover to its level of operation and employment that existed before the 2007, before the onset of a financial crisis in 2007.

So, especially with respect to equity requirements for banks, deregulation that allows a deterioration in equity standards puts our economy and the financial system both at risk. On the other side, it's important to remember that adequate levels of equity finance do not increase the cost of finance to banks, and in fact, provide banks with the kind of flexibility and the kind of assurance that they can engage in more effective lending.

So the provision of credit is better for well capitalized banks. So, in general, I would say that a deregulatory scheme that pushes against the equity ratios in the banking system, poses risk to stability and does not aid, as a matter of fact, detracts from economic growth, output and employment.

WATERS: We've been threatened that this will cause banks to not be able to lend. All of these well capitalized banks, all of a sudden, they won't have enough money to lend because their capital is being depleted, because of the requirement that they hold more capital. What do you say to that?

JARSULIC: Well, first of all, a capital requirement is not a requirement for idle funds. All it is, is a requirement that the banks finance their activity in a certain proportion from their own resources. So there's not essentially an idle fund of money.

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But in fact, if you look at the empirical evidence, banks with higher levels of equity, higher equity to asset ratios, are more easily able to attain additional financing, which can be used in the process of extending credit. So, rather than being a problem for credit creation on the part of banks, higher levels of equity are a plus.

WATERS: So, do you recall what happened with Silicon Valley bank?

JARSULIC: Yes, I do.

WATERS: Was it a problem with capital after there was a run on the bank, did they have enough capital to take care of all their depositors, et cetera, et cetera?

JARSULIC: No. The accurate losses at Silicon Valley bank were approximately 10 percent of the value of the assets on their balance sheet. They were insufficiently capitalized.

WATERS: Well, at that time, there were about three of the large banks. So, should we be careful and wary of this being a problem if there is not enough capital in case of something like, they held these securities and they didn't know they were not worth...

BARR: The gentle lady's time is expired. The witness can answer on the record. The gentleman from Tennessee, Mr. Roe, is now recognized -- Rose is now recognized.

ROSE: Thank you Chairman Barr for holding this hearing and thank you to our witnesses for taking time to be with us today. Before we dive into the problems of Basel III Endgame and the issues with the way that Vice Chair Michael Barr has approached his relaunch of the proposal, I think it is important that we remind the American people that Congress has not authorized the Basel III Endgame.

Mr. Gould, if the Basel III Endgame is not the result of any direct congressional mandate, then where is it coming from?

GOULD: The agencies would cite, I think, a very broad authority across multiple statutes as justification for it.

ROSE: So, Mr. Gould, so if Congress is not involved in approving Basel III Endgame, who are the actual agency figures who are involved in approving the policy?

GOULD: Both the principals of the agencies, presumably, and the staff that advise them on the process.

ROSE: And that seems problematic to me, given the importance of this proposal. What I find most interesting is that the two figures who are deciding some of the most impactful and potentially devastating banking policies of this decade are acting Comptroller of the Currency Hsu and Federal Deposit Insurance Corporation Chair Gruenberg.

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You have one person who is not even Senate confirmed and another that the democratic Chairman of the Senate banking committee has called on to be replaced. So the Basel III Endgame proposal is not being worked on by Congress, but instead by Beltway bureaucrats who should not even be in the positions that they are in. I would submit.

Simply put, the Biden-Harris administration, in my estimation, is putting politics and power over people and policy. I want to shift gears now and would like to focus on the actual ramifications of Basel III. The Basel III Endgame proposal the original intent of Basel III was to level the playing field across international jurisdictions and not significantly increase capital requirements.

We have historically seen European regulation exported into the United States, which has put our financial system at a competitive disadvantage. Continuing that trend just two days after Vice Chair Barr gave his speech indicating that capital requirements would increase by nine percent. The bank of England announced just two days after that their implementation of Basel III would result in an aggregate increase of less than one percent.

The European Union has also set its Basel III implementation at less than a six percent increase in capital requirements. The U.S. already imposes higher capital requirements on its banks, meaning the most recent iteration of Basel III would lead to an even wider gap. Mr. Gould, is it possible to implement the rest of Basel III as intended without increases in capital, particularly since the proposal does not explain the need for more capital?

GOULD: I think it probably is able to do that, but of course that's up to the agencies and incumbent upon them to figure out how to do that.

ROSE: And you would favor such an implementation, I presume?

GOULD: If Basel III -- if the 2017 consultation is to be finalized at all, which I think is an open question, then it should be done in a capital neutral way, as agreed and intended.

ROSE: Thank you. The Bank of England cited economic growth and competitiveness as reasons to implement a capital neutral Basel III proposal. Furthermore, French President Macron called on the European Union to visit -- to revisit its bank capital rules so as to not put Europe at an economic disadvantage. Mr. Gould, do you believe it is in our country's best interest to forge ahead with a proposal that will hurt our ability to compete with our international competitors?

GOULD: No, I do not.

ROSE: I agree. In his speech two weeks ago, Vice Chair for supervision Barr indicated that there would be changes made across all three parts of the original proposal, including market credit and operational risk, to bring the overall capital increase to nine percent. While some comments were incorporated, many issues still exist, especially regarding the market risk component.

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It appears that higher capital charges will still apply to underwriting and market making. That would raise costs for local governments, businesses, manufacturers, farmers, and others who use the banks and the capital markets to borrow, grow, hedge risks, and reach overseas markets.

While there is no new proposal to react to, if the market risk capital requirements are consistent with Vice Chair Barr's speech, what are the impacts for consumers if it is more expensive for companies and governments to access the capital markets, Mr. Bentsen, I'll direct that to you.

BENTSEN: Well, consumers rely a great deal and businesses on our capital markets. An example I would use is Mr. Williams talking about running the car business. His business doesn't just rely on bank loans, but also relies on the securitization market. Whether it's for his own inventory financing, whether it's for auto loans at his client state, but definitely has a knock...

BARR: Sorry, the gentleman's time has expired...

ROSE: OK. I yield back.

BARR: Thank you. And the witnesses can elaborate in written submissions if necessary. The gentleman from California, Mr. Sherman, is now recognized.

SHERMAN: Mr. Chairman, I usually don't quibble with the title of a hearing, but this hearing attacks the Basel Endgame game for being both endless and hurried. I just don't think that this is a hurried process. It started a decade ago. We dealt with the two -- when capital levels are set to low, there's the risk of bail out.

We saw that in 2008. And while the federal government didn't lose much money on that, it ripped a hole in our social contract when we bailed out the banks that we're still living with today. And then we saw a couple years ago, the FDIC have to bail out several banks. There's in effect going to be a tax on depositors as the FDIC imposes charges to rebuild its reserves.

On the other hand, if our capital requirements are too high, interest rates are unnecessarily high. Interest rates are too high. That's bad for economic growth and for auto and mortgage loan rates. We do have a battle in capitalism as to where the capital is going to be deployed. And all the people making decisions are most comfortable with billion dollar deals.

All lawyers wearing suits. You look at the file on a billion dollar deal, really good lawyering. And then you look at the file on a thousand different pizzeria loans. Damn. A lot of the paperwork wasn't even seen by a lawyer. It's a messy file. And yet those are the loans we need to see made.

We see in the Basel III proposal and in our ongoing bank regulation, a bias against the pizzeria loan and in favor of investing in long-term bonds. Now, the chief risk of long-term bonds is interest rate risk. That's what sunk Silicon Valley Bank.

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Fortunately, I think Basel III will impose a mark to market on long-term bonds held for sale. But all the bank has to do is put it in the other category, held to maturity and they are allowed to hold assets on their balance sheet far more at a higher value than the assets really have. And the effect of that is to tell banks, don't make the pizzeria loan buy the long-term bond.

The other part of that is Basel III caused -- argued for a 65 percent rate rather than 100 percent rate, a real discount when you make loans to publicly held corporations. And I think we have too much concentration of economic power in the billion dollar and the 100 billion dollar companies and not enough loans to Main Street.

And I would hope that the regulators would strip out this discount for making loans to publicly traded companies and more importantly tell banks they have to mark to market all of their long-term debt. Now, Mr. Jarsulic, is there any reason why a bank should be able to buy a billion dollars' worth of bonds?

Know that those bonds have gone down in value if interest rates went up and they're only worth 600 million and still keep them on their balance sheet for regulatory purposes, as worth a billion and not recognize the fact that they've lost $400 million in capital because the value of those bonds went down.

JARSULIC: Well, I think we've seen in the case of Silicon Valley that the ability to ignore declines in actual levels of bank equity pushed the bank in the wrong direction and made it vulnerable to runs from uninsured depositors when external observers realized that the bank was moving toward, and in fact, was insolvent. So allowing that kind of fixed...

SHERMAN: Thank you I'm going to try to squeeze in one more question. Mr. Bentsen, will Basel III prevent the underwriting -- burden the underwriting process and deny access to capital markets from companies going public and to local governments issuing bonds?

BARR: The gentleman's time has expired again we asked the witnesses to answer on the record. The gentleman from Georgia, Mr. Loudermilk is now recognized.

LOUDERMILK: Thank you, Mr. Chairman. Thank you all for being here today. It may be a surprise to everyone here but the majority of Americans are really not in tune with what's happening here. I mean, quite frankly a lot of times with all the intricacies of financial services committee.

I have to do a lot of research but what they're hearing what as a Basel most of them don't understand Basel, but what I think that has already been testified in here today that these types of changes generally affect the consumers that can least afford it. And so that's part of our concern here.

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And Mr. Gould, I'd like to ask you a few questions here, now as my colleagues and I have noted in previous hearings regarding this around 97 percent of the comments on the Basel III Endgame proposal were negative. Around 86 percent of the comments came from people outside the banking sector.

Additionally, members of this committee from the other side of the aisle have weighed in on the proposal with their own concerns, including its effects on mortgages, green tax credits, derivatives, and more. Yet, in recent weeks, the media has reported that a small group of big banks colluded with committee Republicans to weaken or soften bank capital rules

Mr. Gould, do you believe that the overwhelmingly negative public assessment of the proposal is a sign that the proposal commands broad cross sectoral support?

GOULD: It is generally unusual for a banking agency rulemaking to attract such widespread comment, and so I think in this particular case, I think that, that is probably indicative of the fact that it lacks broad support.

LOUDERMILK: OK. And I think any reasonable person would, would see that with the amount of negative comments and concerns by our friends from the other side of the aisle. The media has also asserted that Vice Chairman Barr plans to "soften the Basel III Endgame Proposal" weakening rules for large financial institutions in response to criticism from Republicans in the big banks. Do you believe it's inaccurate for the media to characterize Vice Chairman Barr's Brookings Institute speech as softening rules for financial institutions.

GOULD: I think that characterization is a bit one-sided, in the sense that also, three -- although immediately applicable to banks, is not just about banks, That's, I think, why the Committee is holding this hearing and sold a series of hearings, is because this is about the end users and the customers who depend upon banks. So there are tradeoffs involved. So to say that it's solely about banks, I think, is slightly one sided.

LOUDERMILK: I would also think that it wouldn't be softening rules from -- it wouldn't be softening rules to just avoid going into more restrictive rules as well.

GOULD: That's great.

LOUDERMILK: All right, we've heard reports that internal disagreements between the Federal Reserve and FDIC might further stall Basel III Endgame implementation. Do you expect that this delay will stall the implementation of some of the other controversial, prudent proposals, like long term debt?

GOULD: Well, if you're asking me whether I expected to or whether I think it should, those are two different questions.

LOUDERMILK: Welcome the answer to both.

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GOULD: I can answer the second question. I absolutely think it should. I mean, there are other proposals out there, for example, long term debt requirement, which others have mentioned, where the actual calibration, the amount of debt you have to hold, depends directly upon the outcome of the Basel III rulemaking, whether or not regulators will, in fact, delay the other rulemaking is pending, resolving this rulemaking is unclear to me, but I would, I would suggest you ask the regulators what they intend to do.

LOUDERMILK: Thank you for that. Mr. Benson, SIFMA provided comments on the original Basel III in game proposal last year, from what you could gather from Vice Chairman Barr's Brookings Institute speech earlier this month, do you believe that the concerns you raised in your comments have been taken seriously?

BENTSEN: In some cases, it would appear that they're addressing some of our concerns, as I mentioned in my testimony, but there are still a lot of questions, and then there's still the underlying question of, why would there still be a 9 percent aggregate increase in capital when most jurisdictions are going to capital neutral? And where does that 9 percent come?

So there are a lot of questions that we'll have to figure out, what we really have to see the report, and we really need to see the quantitative impact statement on it, and frankly, we will need time, I would argue, to go and do an additional QIS on what the, what the -- is in the reproposal (ph).

LOUDERMILK: Real quickly. Have you had any conversations with other Association Executives whose associations commented on the proposal, indicating they felt their concerns were taken seriously?

BENTSEN: I think everybody's in the same boat -- to figure out.

LOUDERMILK: Thank you, Mr. Chairman that was a record. I went through all of my questions in my five minutes. So thank you.

BARR: Congratulations. The gentleman from New York, Mr. Meeks, is now recognized.

MEEKS: Thank you. Like to start by just saying how encouraged I was by Vice Chair Byrd (ph) and Bowers (ph) announcement recommending that the board repurpose the Basel Endgame rules and the acknowledgement that the broader material changes to proposals are warranted.

It is no secret that I, along with many of my other colleagues, had concerns about the unintended consequences of the proposal. We met with the leadership of the agencies and took the opportunity to submit comments during the rulemaking period that we feel we're taking very seriously.

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We ask that the regulators consider the impacts of the proposal, particularly for underserved and minority communities seeking small business credit and mortgage loans, as well as the operational risk calibration. I appreciated Chair -- Vice Chair Barr's acknowledgement of the appointed of striking the right balance when it comes to bank capital, and I hope that the regulators will work swiftly to make the supplemental proposal available for common that being said, I'll ask first, Mr. Bentsen, based on the remarks from Vice Chair Barr, regulators may still require higher capital charges for lending to non-financial companies and other public and private entities such as small and medium sized enterprises and colleges that are not publicly traded.

Could you speak to the impact this charge could have on smaller non-public businesses when compared to large public companies?

BENTSEN: Absolutely. Mr. Meeks, we hope that they will make an adjustment similar to what the Europeans have done to treat small and medium enterprises that are not, are not publicly traded, but are investment grade, that they get the same treatment as publicly traded companies. That would be very important.

The second thing I'd point out, and this goes back to Mr. -- Mr. Sherman's (ph) comments around about the pizzeria, if pizzerias, if you will, those pizzerias borrow money to buy pizza ovens, whatever it is that the banks use securitization to handle the risk with that, that the original proposal has such a punitive approach to securitization that would make that uneconomic, and that's going to flow back through to the pizzeria that has to lease or buy the pizza oven.

So those are the, those are the businesses you're talking about that can be negatively impacted if the calibration is not done properly on this so we'll be looking very closely at what they re proposed.

MEEKS: And let me quickly turn it a little bit time I've had to the low term debt proposal, many hold the view that the banking regulators should not move forward on this rule until at least the Basel framework has been finalized and implemented, and not until key changes have been made to it, including allowing regional banks the same flexibility as global banks to hold the debt and the holding company level, rather than requiring them to hold it at both the IDI and holding company. So Mr. Gould, do you believe that this would be the proper way to proceed?

GOULD: I don't believe it'd be a proper way to proceed with finalizing long term debt before Basel III is finalized. But if, the if, if the long term debt proposal does go forward, there are a number of areas that I think will require fixing, including the one you just mentioned.

MEEKS: Mr. Bentsen, do you agree?

BENTSEN: A hundred percent and the other, I would agree with this -- other, I would suggest, is the denomination because right now, the denomination is set at a level that really prices out 90 percent of the market for that debt.

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MEEKS: Mr. Bentsen, let me go on with you, you know, because I want to shift topics just you know, a little bit to corporate board diversity. I thank you, Mr. Bentsen and SIFMA for your long time support of my Diversity Disclosure Bill, and look forward to our continued partnership to get it across the finish line. But what I think that it's important to hear from you today is if you would speak to the importance of these disclosures and how they are good for business, as well as answering investor demand.

BENTSEN: Yes, Mr. Meeks, we're very pleased to support your efforts in that, and we'll continue to do so we think more broadly, diversity in this is important across the financial services sector. We're doing a lot of work in that area with the terms of recruiting the future workforce, because we're also looking at the demographic of the of the client base.

And I think that translates as well when you think about corporate board diversity as well, who the investors are, and what and the transparency of information that the investors get.

MEEKS: Mr. Jarsulic, would you agree with diversity? Is that good for business?

JARSULIC: Without a question.

MEEKS: Excuse me.

JARSULIC: I said without a question. Yes, I agree.

MEEKS: Thank you. And what about you, Mr. Gould? GOULD: If the banks conclude it gives them the competitive advantage, and yes.

MEEKS: Thank you. With that only have eight seconds left, yield back.

BARR: Gentleman yields. The gentleman from Wisconsin, Mr. Fitzgerald, is now recognized.

FITZGERALD: Thank you, Mr. Chair. Bipartisan concerns continue to be expressed about the long debt proposal, as we've heard numerous times this morning. It's important that regional banks have the same flexibility as global banks to hold data at the holding company level, rather than requiring them to hold it at both the institution and holding company. Mr. Gould and Mr. Bentsen, would you agree the regulators should not move forward on the rule until key changes have been made and the, and the Basel framework has been finalized and implemented?

GOULD: Yes, I agree if the agencies are going to move forward with long term debt, if at all, and if ever, then they should absolutely not do so until Basel III has been finalized.

BENTSEN: Yeah, Congressman, completely agree with that, as well as your point about where, where the debt should be held, versus, you know, the IDI or the hold code. And I think that, that, that doesn't -- I think the agencies need to look in. These banks are not monolithic. These institutions are different. They have different business models and how they operate, and the proposal doesn't take that into consideration.

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FITZGERALD: And as you gentlemen know, community banks often rely on brokered deposits to manage liquidity, and stricter rules may limit their ability to compete with the larger institutions. Again, something that was mentioned this morning, reducing access to brokered deposits could limit a community, community banks capacity to lend, potentially stifling growth and obviously, local economies. Mr. Gould, are you concerned about potential reduction in liquidity options for community banks if the broker deposit rules are implemented?

GOULD: Yes, I am. In fact, the rule actually seems likely to possibly decrease the safety and soundness of banks and, and actually acts in a pro cyclical way, rather than counter cyclical, which most bank regulation is designed to do.

FITZGERALD: Mr. Bentsen, could just discuss briefly, if you could, or some of your thoughts on this proposal. How would it potentially limit options for, for retail investors?

BENTSEN: So, so the Broker Deposit Proposal that's been put out would redo a 2020, broker deposits rule, and it's done without any quantitative analysis. It's really putting the cart before the wars here and with respect to the brokerage industry, wealth management business, about 70 percent of cash, average daily volume of retail businesses in cash and sweep what's under sweep accounts is moving between investments that retail investors have, this would effectively raise the cost on that and it applies to both non-affiliated broker dealers and bank affiliated broker dealers.

So this rule is very problematic in changing the rules of the game, and we're not sure why the FDIC is doing this to impact sweep accounts, and so we're eager to find out why. But they really should do, they really should do an analysis before they put out a proposal like this.

FITZGERALD: Thank you. We've discussed some of the changes that Vice Chair Barr recently outlined to the Basel III and game proposal. However, it appears the reproposal would still require banks to hold capital against fee and commission income as a proxy for operational risk. So I'm just thinking under the proposal, Wisconsin manufacturer trying to ship products internationally, would need to pay more to get a bank letter of credit in order to facilitate those shipments ultimately leading to higher costs or reduced availability for the products.

This would obviously raise costs for local governments, businesses, manufacturers, farmers and others who use the banks and the capital markets to borrow and to grow and to hedge risk. Mr. Bentsen, while, while we don't have all the details of the reproposal, how do you anticipate higher capital requirements for market making activities to affect the liquidity in the capital markets?

BENTSEN: With respect to the operational risk, we're encouraged by what Vice Chair Barr said about that exactly to your point, that they would allow certain deductions or credits with respect to fee based income, which is something that actually was kind of -- I think, in the past, a policy view that banks should be engaging in more fee based activities.

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And so we'll see what's in the final report there. I think beyond that, I would point out, if you think about in the case of Wisconsin, or you think of the Oshkosh, or you think about GE medical equipment, which I think is still part of GE out there. A lot of that equipment is financed through the securitization markets, and it's an ability to have a steady flow of capital for those activities and lending, as well as for banks to offload and manage their risk. Again, the Basel Proposal is, as it's calibrated, is very punitive towards that would have a knock on effect to those companies. So we hope that they've taken those into consideration. But again, we'll have to see the detail.

FITZGERALD: Thank you chair. I yield back.

BARR: Gentlemen yields. Gentleman from California, Mr. Vargas, is now recognized.

VARGAS: Thank you very much, Mr. Chairman and Ranking Member. Appreciate very much the opportunity to speak and also want to thank the witnesses here today. I was glad to hear at the beginning that this hearing is about American competitiveness and not about anything else, like politics. That's why the title is regulatory recipe for economic uncertainty, the endless Basel Endgame and the onslaught of the hurried rulemaking undertaken by the administration, sounds a little bit like politics to me, in the heading could be wrong, but it is interesting.

The other thing that's interesting is some of the comments that we always hear about Washington Bureaucrats making decisions instead of us enlightened politicians. So Mr. Gould, I actually did a cursory review of your background, and you're at Jones Day. And obviously we've seen today brilliant every time I've heard you, you're brilliant. I looked at your academic background, and then I looked at what they say on, on the Jones Day, their website says Jonathan served as the Senior Deputy Comptroller and Chief Counsel of the Office of the Comptroller of the Currency.

He oversaw all of the agency's legal and licensing activities, including legal advisory services to banks and examiners, enforcement, litigation, agency, administrative matters, legislative initiatives and chartering of new banks and the changes in the structure and activities of existing banks. And it goes on to describe your service, and I want to thank you for that, but I always find it interesting that somehow, when someone serves in Washington in a bureaucratic position like you did, and again, thank you for your service, and then somehow switches over. At one point you're an idiot, and now you're brilliant. Somehow, you were a Washington Bureaucrat, didn't know what you're talking about, and now you're an expert.

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The truth is, you're smart all the way through and I think that the service that you gave when you were in government, as well as the service that you're giving out, is exemplary, and I want to thank you for that, but I wanted to point that out, because you always hear that from my colleagues, these crazy bureaucrats from Washington, and somehow they switch sides. They're on the private side, and all of a sudden they're brilliant. It doesn't seem to make any sense to me, but I did want to talk about because I too had some concerns, like some of my colleagues, about the capital requirements here, because of the issue of home ownership, it is very difficult right now for new families, young families, to buy a home.

And I did have concerns about the capital requirements. Just go since I picked on you and I, and I didn't mean to, because I actually, like I said, I'm very impressed with you. Could you comment on that? Give you a chance.

GOULD: On residential mortgage?

VARGAS: Yes sir.

GOULD: Well, as I think you know, the original proposal would, it would, would have increased them, and I think there was a lot of concern about the impact that that would cause on actual costs of mortgages in the country.

VARGAS: And I had great concerns now Dr. Jarsulic, now, there is a balance here, obviously resiliency and efficiency. I mean, we did see in 2008 the problem there. But, I mean, I do have the concerns that, you know, we're making loans too hard for small businesses, small companies and homeowners. Well, what would you say to that?

JARSULIC: I would say that it's possible to have a risk weighting system that, in terms of an existing amount of equity in a bank, would constrain use of funds and in some way, but I think it's, it's relatively easy to deal with problems of that are created by risk weighting, by compensating for reduction in risk weights that might be called for because of undesired consequences by general increases in equity, that is, if you find that, you know, it's difficult to do a risk weighting scheme without producing consequences that you don't like, instead, increase overall aggregate capital requirements without reliance on...

VARGAS: But it seems to me, if you do increase those capital requirements, it'll make, I mean, it makes it harder to loan for these banks. I mean, that seems logical to me.

JARSULIC: No, to the contrary. I think the evidence is...

VARGAS: I have second. Would everyone else agree to that or disagree?

BENTSEN: The proposal would definitely make it more expensive to do various types of mortgage lending, including for conventional loans through the GSEs, FHA and others by the by the calibration...

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VARGAS: Thank you.

BARR: Thank you to my friend from California, and I think he and I would agree that while not all actors in the private sector are equally talented, not all regulators are equally talented. With that, I'll yield time to the gentleman from South Carolina, Mr. Timmons.

TIMMONS: Thank you Mr. Chairman and I thank the witnesses for being here today. Since the banking turbulence in March of 2023 Democrat appointed federal banking regulators have put forward an onslaught of new regulatory proposals almost entirely unrelated to that crisis. Their proposals include changes to long term debt, GSIB surcharges, broker deposits, resolution planning, living wills, debit card interchange fees, the Community Reinvestment Act, corporate governance, the list goes on and on, on, and most of those have nothing to do with the 2023 bank turbulence, and there has been an inordinate amount of partisan rulemaking at the federal banking agencies, I guess, let no good crisis go to waste.

My concern is that the pendulum swing of partisan rulemaking creates uncertainty in our financial system. Every time there is a new party in power, we will see prior rules rolled back with new ones put in place. This uncertainty will have dire consequences. Mr. Gould, do you agree that increasing politicization of federal banking regulations is damaging to the system? And if so, why?

GOULD: Yes, I do. I think it tends to erode the agency's credibility over time. It's also challenging for staff who during one administration are working on a rule, and then four years later they're then undoing the work they did in the prior four years. So I think that is challenging over time.

TIMMONS: Thank you for that. I think we need more stability and more predictability. Onto another topic, it has been 129 days since FDIC Chair Gruenberg's failure to remedy the toxic work culture at the FDIC led to his resignation. I guess -- Well, it's a conditional resignation. I say conditional because he will retain his job until the Senate confirms his replacement, which will likely take months.

Mr. Bentsen, are you concerned about the precedent being set that allows what's essentially a lame duck chairman of a regulatory agency to still play such an active role in rulemaking for this long of a time period?

BENTSEN: Congressman, you know, there are certain matters that we are within our mandate. The management of federal agencies is not within our mandate. That's certainly the mandate of Congress and the executive branch.

TIMMONS: I just think that it allows for no accountability, no oversight, no reprisal for the decisions that are being made. And it would be far more effective if he were to actually resign. Mr. Gould, the regulatory agencies have provided cost estimates for the long-term debt proposal, but there seems to be a significant gap between those estimates and the much higher cost that the industry expects.

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Given this discrepancy, are you concerned about the potential underestimation of the proposals impact and how might this affect the overall financial stability of the banking sector if the actual costs align more with industry projections rather than regulatory expectations?

GOULD: Well, certainly the case if banks are forced to, or certain banks are forced to issue long-term debt, and the cost of it turns out to be far more expensive than the agencies at least anticipated, that potentially is a challenge for the banks that are -- then having to bear the higher costs and interest on the debt that they're issuing.

You know, presumably if -- and I'm sure you know, industry will be raising this in their comments, but, you know, it is incumbent upon the agencies, as they consider the moving forward, potentially with the long-term debt requirement, that they address those different cost estimates.

TIMMONS: Thank you for that. Mr. Bentsen, in your opening statement, you touched on the complexity and interconnected nature of the long-term debt proposal with other regulations like Basel III Endgame, capital rule and the GSIB surcharge. What specific elements of the current long-term debt proposal do you believe should be reconsidered or adjusted by regulators in the final rule? And are there particular aspects of the proposal that you think need to be recalibrated to avoid unintended consequences?

BENTSEN: Well, thank you for the question, congressman. First of all, the correlation between the long-term debt proposal and Basel III Endgame, particularly with respect to risk weighting, is the exact reason why they should wait to do the long-term debt proposal until they finalize the Basel III Endgame, so they know how that calibration is going to work.

Number two, as has been discussed, requiring it at both the holding company level and the insured depository institution level doesn't make sense to us, and they should fix that. Number three, having a minimum denomination of $400,000 effectively squeezes out 90 percent of the investor market, including institutional markets.

And so you have -- all of this runs the risk, as Mr. Gould was pointing out, is you could force companies to put out an excessive issue -- excessive amount of long-term debt, more than is probably necessary, into a tighter market. And then you make that market even tighter by limiting the number of people who can invest or entities that can invest in it, which is going to make that debt extremely cheap to the market, expensive to the issuer.

So all that argues for step back, finalize the underlying proposal, then figure out how you lay the long-term debt on that. Fix the internal aspects of long-term debt.

TIMMONS: Thank you. Couldn't agree more. With that, Mr. Chairman, I yield back.

BARR: Gentlemen, yields. Gentlemen from Illinois, Mr. Casten is recognized.

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CASTEN: Thank you very much. Thank you all for coming in today. As folks on this Committee know, and this isn't a question for you all, but I was very pleased to see Vice Chair Barr indicate that he would fix -- We were expected to fix the tax equity problem where there was an overweighting of tax equity and energy that didn't match tax equity in housing.

Obviously, I'm concerned if we're in a little bit of a limbo mode. And so for anybody who's listening, please, please move quickly to expedite those rules so that we can get some clarity, because there's a lot of folks who are looking for that certainty. Mr. Bentsen, I want to thank you for your opening exchange with Andy Barr, not Michael Barr. Noting that the United States recovered much quicker from the COVID downturn than our competitors.

I think you'd noted that because our corporations had access to deeper capital markets and more debt, I would point out that that was both fiscal and monetary policy. We did a lot of good things to make sure that people stayed employed. That companies kept people from doing things that would have led to structural unemployment. And of course, we also made ample use of the discount window at the Fed and made sure that we did that.

I do have some continuing concerns that one of the provisions in Project 2025 is to weaken the Fed's ability to act as a lender of last resort, which I don't think helps U.S. capital markets. And I hope we can stay robust in protecting the strength of U.S. capital markets, regardless of what happens in the election.

I want to stay with you, Mr. Bentsen, because there was -- We also benefit from a robust regulatory apparatus. And we voted on a bill, the Guardrail Act, in the House last week that would, among other things, get rid of the Vice Chair of supervision. Would you support getting rid of the Vice Chair of supervision?

BENTSEN: Honestly, I'm not familiar with that legislation. We haven't. We haven't. We're rule takers and we live in a very regulated thing. We haven't taken a position on that. I'll look at the legislation. But I mean, we're -- as I said, we work in a highly regulated federally and state, mostly federal, and we defer to the Congress on how they are going to organize the agencies.

CASTEN: Well, I'm glad to hear that. And I picked you only because I was grateful that when that role was developed, I think in 2018, you had praised Mr. Quarles as an eminently qualified first person in that role. And I was glad to see SIFMA do it. Then I hope we can continue to do it, because I think particularly in light of what happened with Silicon Valley Bank, I don't think we need less supervision of our banks right now, and I hope we can stay on that track.

That bill also would have reduced regulators ability to work with international organizations, including but not limited to Basel, NGFS, Financial Stability Board. Dr. Jarsulic, can you just explain for us why it's useful for U.S. regulators? I can't believe we need to say this, to engage with our international partners and minimize global systemic risks?

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JARSULIC: Yeah, I think a reasonable way to view the Basel committee and other international organizations as what they are, which is a mechanism for encouraging voluntary coordination on improvement of financial regulation. There are forums in which the U.S. can argue its case for more effective, more efficient regulation.

It's not binding -- The recommendations that come from those organizations are not binding. But it gives us an opportunity to deal with significant problems. One of the things that we saw in 2008 is that financial crises are not contained within jurisdictions. They cross borders. And in 2008 the negative financial impulses were coming from the U.S. and it had significant effects in other economies.

It's quite possible things can go in the other direction. So encouraging other regulators to do effective...

CASTEN: I'm sorry, I'm tight on time, but you had mentioned borders, and with 45 seconds I saw this really interesting thing you had written recently about CBAM, the Carbon Border Adjustment, which gets a little bit outside the jurisdiction of this Committee. Except that I think you would criticize some of the European proposals for only including scope one.

And I wonder if you could just use your time to elaborate on that because we've had a lot of conversations in this committee about whether or not U.S. corporates should be obligated to disclose their carbon rules. And as we think about working with international agencies, making sure that you have a WTO robust program, because the CBAM is a pretty bipartisan idea.

Any thoughts on how we could do that and the concerns about scope one other scopes that we should include?

JARSULIC: Well, conceptually measuring both the direct and indirect carbon contributions from a particular product that's going to cross borders is possible. Actually doing those measurements would require a great deal of quantitative work. It was completely...

CASTEN: It was unfair for me to give you 27 seconds...

BARR: Time is expired.

CASTEN: Perhaps we can continue offline because I do think we need a robust reporting mechanism to work that...

BARR: Gentleman's time has expired. Thank you very much. The gentlewoman from California, Ms. Kim, is now recognized.

KIM: Thank you, Chairman. And I want to thank the witnesses for joining us and coming before our committee today. In his speech outlining his proposed changes to Basel III Endgame proposal, Vice Chair Barr alluded that this isn't a full re-proposal of the original Basel III rule.

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I want to direct this first question to you, Mr. Gould, with the original proposals, which is already over 1,000 pages and the partial re-proposal only adds more to that. What is the process now for the public to comment on that revised rule?

GOULD: Well, I mean, that's a great question. I don't know exactly what the process is. You know, a speech, I think it's more appropriate as a trial balloon than as a mechanism for generating public comment or specifically informed public comment.

KIM: You know, there is a -- I think there is a 60 day public comment period. Do you think that's enough far too sure were enough to comb through the revised rule to find any differences or estimate the impacts between the two and to comment on that partial re-proposal...

GOULD: Well, if indeed there is a re-proposal, and if indeed it has a 60 day comment period, as I think the Vice Chair indicated might be appropriate, that is, in my opinion, way too short because we're not only looking at the re-proposal, but we're going to have to compare and contrast the re-proposal to the original proposal and figure out what's been omitted, why it's been omitted, what's been added.

You know, I didn't bring in the copy of the Basel III original proposal because I didn't want to slow down the security process getting in. But as you noted, it's 1,500 pages.

KIM: Yeah. You want time to be able to see if there is any major differences between the two. But, you know, I have several concerns with how the Basel standards are applied in the United States. In particular, I have concerns that the agencies have not thought through how the standards should apply to foreign banks and it could invite retaliation against U.S. banks operating in other international jurisdictions.

For instance, the proposal treatment for interaffiliate transactions does not consider the unique relationship between foreign bank and its affiliates. So let me ask you Mr. Bentsen, to comment on this issue. How would you recommend that these issues be addressed in the Basel Endgame negotiations?

BENTSEN: It's a very important point congresswoman, and something we've raised with the regulators. Foreign banks provide a significant share of capital markets activity in the U.S. economy and so they need to take that into consideration. The different structure, all of these different jurisdictions have different operating structures and so the rules have to apply to that.

I also want to follow on your question to Mr. Gould. The problem with 60 days in a comment period is if we have a full re-proposal or some form of re-proposal, the ability to do a quantitative analysis will take time. And one of the hardest things of doing that is in order to get the data from the industry stakeholders, you have to enter into nondisclosure agreements. Understandably because there's a lot of proprietary data that's in there.

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There's just a timing factor and the regulators themselves go through this as well when they do their own QISs. So we commend them for doing a re-proposal, but we need to do it right and we should take the time to do it right.

KIM: Meaning we need more time, obviously. The Basel III proposal is meant to harmonize capital requirements across international jurisdictions. Unfortunately, the U.S. proposal will continue to raise capital on an already well-capitalized banking system.

And in Mr. Barr's speech outlining those changes to the Basel III proposal, Vice Chair Barr acknowledged that capital has tradeoffs and that the Fed is looking to strike to correct, I guess, correct the balance, that is.

Chair Powell has also recognized that capital is not free and that higher capital requirements, less credit and higher cost. So the question is, is there a way to implement Basel III in a way that doesn't inflict unintended costs on the American consumers? Mr. Bentsen or Mr. Gould, you can comment on this.

BENTSEN: Again, all the more reason to take the time to see what's in there. I mean, our system is different than Europe system, than the UK system, and we're much more focused on -- we're much more dependent, for good reason, I would argue, on the capital markets. It's served our economy well. But as a result of the proposal, as well as existing rules like the stress testing, the global market shock component of stress testing compounds the impact of that.

So, you know, why is it not correlated with Europe and the UK? Is there a 9 percent increase aggregate capital? Probably because of the system. So that's why we need to dig into it. And the Fed needs to dig into it as well.

KIM: Thank you...

BARR: Gentle lady's time has expired. The gentleman from Texas, Mr. Green, is recognized.

GREEN: Thank you, Mr. Chairman. Thank the Ranking Member as well. And would associate myself with the comments of the Ranking Member and would welcome all of the witnesses but especially Mr. Bentsen who of course served and served from the great state of Texas. Good to see you again. I'd like to direct my initial question to Mr. Jarsulic.

Sir, I greatly appreciate your testimony. And I'm concerned about something that happened with Silicon Valley. It appears that it was of course the biggest bank failure in the U.S. since 2008. The financial crisis. And I was here in 2008 and I recall a good deal of what happened and the second largest ever. But it all took place in a 48 hours period.

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Social media played a role in it to some extent and I'm concerned about the speed at which runs tend to move now. It's not like what I would call the old days, when people talk by way of phone, and they would try as best as they could to communicate. It seems that now what would take, maybe a week, would now happen overnight.

Can you give some indication as to how being properly capitalized can be -- or not being capitalized properly can be impacted by these very fast runs?

JARSULIC: Well, the speed at which a financial institution can face problems because its lenders depart can often be very, very fast. That is, as you point out, the uninsured depositors who departed from Silicon Valley did so very quickly. Once they learned that there were potential solvency problems there, they were gone.

I would say, though, that during the financial crisis of 2008, where social media was not such a factor, there was also an incredible rapid run on big banks. That is, the funding that they were doing via repo lending, which is often just overnight lending, vanished very quickly for certain classes of assets. The funding that they were able to obtain from asset backed commercial paper, which turns over fairly quickly, also vanished very, very rapidly.

And so I think that what happened with Silicon Valley is a great example of how quickly insolvency, or perceived insolvency can affect an institution and the entire financial system. And so, given that fact, there's a much, much stronger argument than is commonly recognized for very well-capitalized that is, banks.

That is, banks who have a very high level of equity financing, because those banks, even if people get scared and decide to pull out some short-term funding that they have, those banks will remain solvent. That is, they will have assets that can cover more than cover their outstanding debt, and that makes them stable.

GREEN: Thank you. You know, there are a good many people, sir, who contend that the banks already have enough capital on hand and that they could handle another 2008 crisis. How do you respond to those comments?

JARSULIC: Well, I think in my testimony, I gave a couple of examples of double digit losses from banks that were allowed to fail in 2008 from Silicon Valley Bank. I would also draw your attention to work by Chicago economists Luigi Zingales, who -- when things were happening in 2008, used information from the credit default swap market to estimate how much the large, I think large -- largest nine banks in the U.S. would have lost.

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But for intervention from Congress in TARP, from the Fed and other agencies, his estimate was those banks would have lost 22 percent of the value of all their assets had there not been intervention. It's a paper that appropriately titled Paulson's gift. And so, given those data, given those estimates, I think much higher levels of equity are needed and would do a great deal both to improve the stability of the system and increase the ability of these institutions to provide credit, and therefore help economic growth.

GREEN: Thank you. Mr. Chairman, I'll submit questions for the record.

BARR: Thank you. The gentleman's time has expired. The gentlewoman from Texas, Mrs. De La Cruz, is now recognized.

DE LA CRUZ: Thank you so much Mr. Chairman, for holding, once again, this meeting that we know is so important. It's so important to rural communities and Hispanic communities like my own, where we depend on regional banks, on community banks for lending to small businesses.

In fact, Hispanics led small business growth here in this country several times, especially under President Trump. Our economy is the envy of the world because of our ability to get capital to people into small businesses so quickly. And so when capital is restricted, or when banks that serve Hispanic communities and districts like myself, like mine, heavy regulatory burdens, places immense pressure on communities like mine and really affect the economy. That being said, in speaking with small business owners, they tell me if I can't get a loan.

In fact, this morning we had the Texas Farm Bureau in a meeting and they said, when we can't get loans from our banks, that affects how much produce and how much we're able to harvest -- in our -- on our farms. And so this is a very, very serious issue. I'm going to ask Mr. Gould and/or Mr. Bentsen, regulators are always adding you more regulations. With the drop in the number of banks over the past decades, this sector's vibrancy may be facing death by thousand cuts, with Basel III being the latest of them and the greatest of them. My question to you is, have you seen any detailed analysis of the combined effects of the numerous regulatory proposals that have been proposed since March 2023, including the Basel III Endgame, GSIB, surcharging, stress testing, and long-term debt. I feel like I keep going on and on. But have you seen any details analysis when it comes to these areas?

GOULD: I have not. I mean, I think some, at least in the capital space, had hoped that the Vice Chair Barr's nine-month holistic capital review would provide some of that analysis. But there was nothing, I think, beyond the speech, at least that was publicly disclosed.

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BENTSEN: Congresswoman, certainly in the industry quantitative impact study we did with respect to the Basel III Endgame, we saw a detailed analysis, which we -- the regulators probably should have done at the front end of this process that showed the impact that hit across different parts of the markets. And if you think about -- I know your district quite well. If you think about the agricultural economy and the energy producing economy, again, very capital intensive finance through loans and leases that's backed up by securitization, either directly or indirectly through the banking sector.

And again, the rules is compiled, are punitive towards that and raise the cost. So that's just one example. But in terms of how it factors in with all the other proposals, I have not seen with the long-term debt. But they definitely are correlated.

DE LA CRUZ: Well, you said something that really stood out to me right now. But you said, they should have been done on the front end. Tell me more about that.

BENTSEN: Well, in the Basel III Endgame proposal, at the Basel level, at the international level, the Basel Committee, which the U.S. is very major participant in, as chaired it periodically, Chair Quarles -- I think Vice Chair Quarles Chaired it at one point, if I recall correctly, but it might have been the Financial Stability Board. But nonetheless, they conducted two quantitative impact studies on the underlying Basel III proposal and fundamental review of the trading book, which is a key component of that. And after doing one, they went back and did another because they were so concerned about it. This has been going over the 10-year history of this proposal.

In the case of the U.S. implementation, the regulators chose to put it out without doing an impact study. The industry did one because we felt it needed to be done. We think it was instructed to process. And then the regulators subsequently decided they too would do a quantitative impact study, which we hope and we believe is going to be released when they do the re=proposal. I would argue at that point in time, because they're doing a re-proposal, there will be new calibrations, new, you know, a whole new framework. It's worthwhile to do yet another impact study. And those things take time.

DE LA CRUZ: Well, and as you just mentioned, these impact studies are so important because it seems like the regulations are being made without truly understanding the effects on the entire economy. And under the current administration, we've seen record inflation. And without seeing how this is truly going to affect, we could lead to more problems. Thank you. I yield back.

BARR: Gentlelady's time has expired. I'd like to thank our witnesses for their testimony today. Thank you to the Ranking Member.

Without objection, all members will have five legislative days within which to submit additional written questions for the witnesses to the Chair, which will be forwarded to the witness for their response. I ask our witnesses to please respond as promptly as you are able.

This hearing is now adjourned.

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