Meeting Between Governor Kugler and Staff of the Federal Reserve Board and Representatives of Fifth Third Bancorp
October 2, 2024

Participants: Governor Adriana D. Kugler and Kelley O'Mara (Federal Reserve Board)

Tim Spence, Nathan Halford, Nick Podsiadly, and Joan Saenz (Fifth Third Bancorp)

Summary: Governor Kugler and staff of the Federal Reserve Board met with representatives of Fifth Third Bancorp to discuss their concerns regarding the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal), the agencies' notice of proposed rulemaking on long-term debt requirements, and the Board's proposed rulemaking on Regulation II. Representatives of Fifth Third Bancorp asserted that aspects of the proposed rules and publicly discussed potential changes to the Basel III endgame proposal would put Category IV firms at a disadvantage vis-à-vis Category I and II firms. In particular, representatives of Fifth Third Bancorp suggested that Category IV firms should be able to elect to opt-in to the Basel III endgame framework.

Attachment

The accumulation of proposed regulatory reforms could produce a less stable regional banking sector and increase share concentration

Selected rulemaking	Current state-of-play	Direct impact	2nd order effect
Basel III re-proposal	• Category IV banks excluded from all aspects minus AOCI inclusion • Category I-III banks see relief in the form of better risk weights in several categories and lower increase in Op Risk charges	• This makes Category IV banks uncompetitive on investment grade commercial lending and certain mortgage categories given higher capital charges	• Some will dilute returns leaving them with less capital generation capacity under stress or a weaker investor base • Some will rebalance lending activity toward higher-risk activities, making them more volatile
Long term debt	• Category IV banks likely to need to include 3-6% long-term debt in their funding mix, possibly tailored or possibly in line with larger banks	• Ratings agency ratings correlate most strongly with bank size and issuance $-volume will be lower for Cat IV banks, putting them at a funding cost disadvantage	• Some will accept lower returns leading to less capital generation capacity under stress or a weaker investor base • Some will take more credit risk or interest rate risk to maintain NIM%
Deposit insurance	• No appetite to change current rule which provides the same deposit insurance level for all banks and the same DIF assessment calculation	• The largest banks are viewed as too-big-to-fail and therefore benefit from unlimited deposit insurance • Large depositors will view regionals as riskier, meaning more deposit flight under stress and higher funding costs – or a structural share shift to the larger banks	• Some regionals will cede ground to the largest banks in corporate banking and wealth management markets, leaving less competition • Some will accept lower margins, leading to lower capital generation and weaker investor bases • Some will take more interest rate or operational risk
Reg II / Durbin	• Up for review: early discussion suggests lower rates based on average marginal cost calculation methodology	• No accounting for differences in marginal costs between $10 BN and $1 TN+ asset banks, meaning lower margins for regionals • Combined with credit card share concentration, Cat I banks will have a structural advantage in the mass market segment	• Most regionals will cede market share to the largest banks leading to lower consumer choice and less innovation • Loss of non interest bearing deposits will increase funding costs, producing the same outcomes as above