

**Meeting Between Governor Kugler and Staff of the Federal Reserve Board and
Representatives of the Financial Services Forum
May 3, 2024**

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

Kevin Fromer and Sean Campbell (Financial Services Forum (FSF))

Summary: Governor Kugler and staff of the Federal Reserve Board met with representatives of FSF to discuss their concerns regarding the agencies' Basel III endgame notice of proposed rulemaking (Basel III endgame proposal) and the Board's GSIB surcharge proposal. Representatives of FSF shared results of their own quantitative impact study estimating a greater impact than was projected by the agencies in the Basel III endgame proposal and by the Board in the GSIB surcharge proposal.



**FINANCIAL
SERVICES
FORUM**

Basel III Endgame Comment Overview

Impact Assessment and Key Comments
A Presentation for Governor Adriana D. Kugler

May 2024

Introduction

- Basel III Endgame (B3E) represents the most significant capital initiative since the financial crisis – both in terms of its impact and its scope.
- The FSF has undertaken an extensive quantitative assessment of the capital impact of B3E and this analysis supports our commentary.
- In this presentation we discuss the results of our quantitative analysis as well as our most significant comments on the proposal – both general structural comments as well as specific technical comments.
- **The FSF's overall recommendation is that the Basel III Endgame proposal be re-proposed. A full re-proposal is needed to address our concerns.**

Re-proposal vs. Finalization

- Agency principals have already publicly indicated that “broad and material” changes will be made to the B3E proposal.
- Changes that are broad and material would be expected to result in changes to the fundamental structure of the B3E requirements.
- Such changes would likely raise new questions and issues upon which Forum members would want to comment.
- Any changes motivated by the agencies post-proposal quantitative analysis would invite comment from affected banks.
- A re-proposal would effectively provide a “clean slate” from a process perspective that would provide banks and other affected parties with an appropriate opportunity to review and comment on both the quantitative analysis undertaken by the agencies and the proposal’s modifications.

B3E and Related Regulatory Requirements

- U.S. GSIBs are subject to the most stringent risk-based capital requirements but also the most stringent requirements in a variety of other prudential areas. Importantly, U.S. GSIBs are subject to:

Requirement	GSIB Treatment	Non-GSIB Treatment
GSIB Surcharge	Additional capital surcharge between 1.0-4.0 percentage points	Not subject
Stress Tests	Annual	Every other year (for some non-GSIBs)
Leverage Requirements	5% “enhanced” SLR	3% SLR
Liquidity Requirements	100% LCR and NSFR	0% to 85% LCR and NSFR
TLAC and LTD Requirements	100% TLAC and LTD	Not subject
Resolution Planning	Two-year planning cycle	Three-year cycle with reduced plans

- These additional requirements support GSIB resiliency. In a study of optimal capital requirements, the Bank of England concluded that the presence of additional prudential standards (TLAC) resulted in an optimal level of capital that is consistent with current capital levels.

FSF QIS Analysis: Key Assumptions

- Analysis is as of June 30, 2023.
- Analysis represents the aggregate impact to FSF members from the proposal.
- Required capital is calculated using the proposal's requirements.
- The stress capital buffer used in the calculation is as of 9/30/23.
- The analysis uses two levels of the GSIB surcharge: the level as of 9/30/23 (w/o-GSIB) and the level that is anticipated once: a) 2024 GSIB surcharge increases take effect, b) the FRB's GSIB surcharge proposal is finalized as proposed (w/GSIB).
- Comparison of FSF and FRB QIS data shows close alignment between both sets of data.

	W/O-GSIB Increase	W/GSIB-Increase		
		a) Δ in 2024Q1 GSIB	b) GSIB Proposal Impact**	Total
Average* GSIB Surcharge (%)	3.0	0.3	0.1	3.4
Average SCB (%)	4.1	-	-	4.1

*All averages are total asset weighted averages as of 6/30/23.

**Estimated impact of GSIB surcharge proposal is taken from the Federal Reserve's [proposal](#) and is not an FSF estimate.

FSF QIS Key Takeaways*

	FSF QIS W/O-GSIB	FSF QIS W/GSIB	USNPR*	UK	EU
Increase in Required Capital (%)	24.9	29.9	19.0	3.2	5.6
Increase in RWA (%)	32.8	32.8	24.3	-	-

- Estimated capital impact significantly higher than USNPR estimate
 - FSF 24.9% vs. USNPR 19.0%
- Both FSF and USNPR indicate an impact on capital significantly higher than EU and UK implementation of Basel III. This will widen existing capital disparities between U.S and foreign GSIBs.
- FSF capital impact relative to USNPR driven by increased RWA estimate
 - FSF 32.8% vs. USNPR 24.3%

- Broad array of research suggests that the proposal's increase in required capital would **cost the U.S. economy over \$100BN per year**.**

*FSF estimates are taken from the FSF [comment letter](#), USNPR estimates are taken from the [proposal](#), and estimates for the EU and UK are taken from the [BoE](#). USNPR estimates reflect Category I and II banks.

** economic impact based on 13 academic research papers that quantify the economic cost of increased capital requirements. The underlying research papers are summarized in an [FSF blog](#).

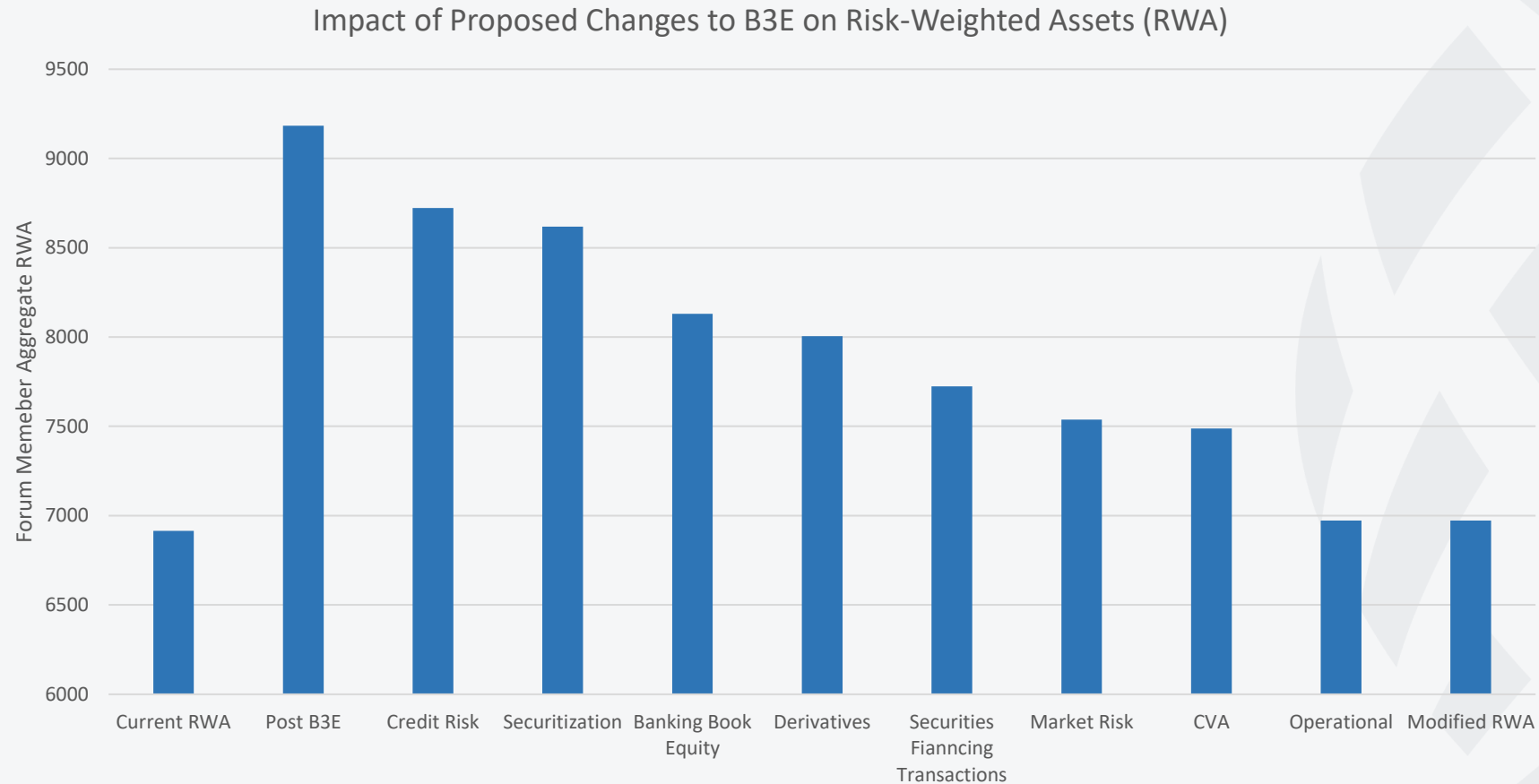
FSF QIS – Capital Impact of Proposed Requirements

Table 1: Impact of Proposed Capital Requirements

	Current	Proposal		Modified		Output Floor	
		Pre- GSIB	Post- GSIB	Pre- GSIB	Post- GSIB	Pre- GSIB	Post- GSIB
Required CET1 (\$BN)	750.9	937.5	975.6	765.1	794.5	717.1	745.9
Change (\$BN)	N/A	186.6	224.7	14.2	43.6	(33.8)	(5.0)
Change (%)	N/A	24.9	29.9	1.9	5.8	(4.5)	(0.7)

- The proposal would result in an **additional \$187 billion in required capital** before considering increased GSIB surcharges. The **increase rises to roughly \$225 billion** once the increase in GSIB surcharges is considered.
- A Modified version of the proposal results in a modest increase in required capital of between \$14 billion and \$44 billion.
- The proposal significantly disadvantages FSF members relative to foreign peers. Allowing continued use of models-based advanced approaches, subject to the Basel Framework’s Output Floor, **would reduce required capital** – even after applying elevated GSIB surcharges to US GSIBs.

FSF QIS – RWA Impact of Proposed Modifications



- The Forum has offered several proposed modifications to the B3E proposal that would improve the risk-sensitivity of the proposal, improve international consistency, and result in a modest increase in required capital.

Conclusion

- The USNPR is expected to raise required capital for FSF members by roughly 25%; including the impact of increased GSIB surcharges raises the estimate to roughly 30%.
- The USNPR is over-calibrated and will result in significant economic costs which we have estimated to be on the order of \$100BN per year.
- The proposal does not fully consider its impact with all other requirements (e.g., GSIB) – the Agencies must consider the overall impact of prudential requirements on capital.
- The US implementation of B3E will also widen the existing capital disparity between FSF members and their foreign competitors.
- Our comment letter provides several structural as well as technical recommendations that are informed by a rigorous data analysis and are intended to improve the risk sensitivity and international consistency of the framework.
- The FSF is coordinating with other trades to follow up with several coordinated briefings to engage more deeply on key areas of concern in the USNPR.
- **A full re-proposal of the USNPR is needed to address the concerns we have raised.**