

# United States Senate

WASHINGTON, DC 20510

August 17, 2018

The Honorable Randal Quarles  
Vice Chairman for Supervision  
Board of Governors of the  
Federal Reserve System  
Constitution Ave. NW & 20<sup>th</sup> Street NW  
Washington, DC 20551

Dear Vice Chairman Quarles:

We write to you regarding the implementation of S.2155, the Economic Growth, Regulatory Relief, and Consumer Protection Act. We were happy to see your recent comments to the American Bankers Association, promising quick implementation and using preexisting data and regulations rather than formulating new and untested measures. Yet, both Chairman Powell's and your recent public remarks regarding the implementation of S.2155 have concerned us.

Section 401 raised the arbitrary asset threshold for enhanced prudential standards under Section 165 of the Dodd-Frank Act from \$50 billion in total assets to \$100 billion in total assets immediately. For financial companies with total assets between \$100 billion and \$250 billion, relief is automatically granted 18 months after enactment of S.2155, but the law provides the Fed with a "safety valve" that allows enhanced prudential standards to be re-imposed when there is a risk to financial stability or safety and soundness. It is the understanding of my colleagues and me that S.2155 shifted the assumption that financial companies with less than \$250 billion are not systemically risky and the section also allows for the Fed to adequately tailor regulations beyond the \$250 billion asset threshold because financial companies do not suddenly become systematically risky when they cross an arbitrary asset threshold.

In fact, years of the Fed's accumulated data and the very standards it sets for systemic risk thresholds demonstrates that these financial companies do not pose a systemic risk. Therefore, we are confused by your intent to continue to broadly apply comprehensive capital analysis and review (CCAR) stress tests and other enhanced supervision regulations designed for systemically important financial institutions on non-systemic financial companies. Congress did not ask the Fed to create a third layer of treatment between financial institutions above and below \$100 billion in total assets. Rather, Congress acknowledged faults with the existing post-financial crisis laws that swept non-systemic firms into advanced regulatory categories and further empowered the Fed to tailor the regulations to address individual risk-profiles of financial companies.

Furthermore, not only do the Fed's data and standards establish that the financial companies below \$250 billion in assets are not systemic, it also shows that regional financial companies with more than \$250 billion assets are not systemic as well. The law provided the Fed with the ability and responsibility to tailor the regulations applied to these companies. For example, applying the liquidity coverage ratio ("LCR") similarly and without sufficient distinctions to both regional, non-systemic financial companies and global systemically important institutions does not make sense. The Fed has consistently made representations to both Congress and the public that it has and will use its powers to tailor regulations to the appropriate risk profile. Therefore, we urge you to tailor regulations for these financial companies and where your data indicates that they do not pose systemic risks, we strongly urge you to reduce regulations so that all non-systemic firms are treated accordingly.

In conducting these regulatory analyses, we are supportive of your intention to adopt a holistic, risk based approach and urge you to continue to apply the same risk measurements and standards that you are presently using. The Fed has long recognized that arbitrary asset thresholds are not sound proxies for systemic risk and do not provide a clear picture of the totality of risks that individual institutions present. We believe that you should continue to use the systemic risk indicator score data that the Fed already uses in its supervisory role and apply it towards regulations to better match the impact of the regulations to the risk of the financial institution. While Congress raised the SIFI threshold, the central theme in Section 401 of S.2155 is an acknowledgement that arbitrary thresholds are not good policy. Tracking actual, determinable risk is a far better basis upon which to develop regulatory requirements. The actual risks of firms are knowable or known. The weight of those risks should be the basis for determining regulatory requirements. When regulation exceeds risks, tailoring should occur.

Finally, the perceived risk of the international banks was a frequent topic of discussion during debate of S. 2155. The U.S. operations of international banks cover a wide spectrum of activities that encompasses consumer and commercial banking, wealth management and capital markets. The regulatory requirements imposed on this diverse array of institutions should be proportional to their U.S. asset size and risk profiles. The Federal Reserve already requires international banks with substantial U.S. operations to establish intermediate holding companies (IHCs), which provides the Federal Reserve with a platform for consolidated regulation and supervision of these banks' U.S. operations. Consistent with the longstanding principles of national treatment and competitive equality, the IHCs should receive comparable regulatory treatment to U.S. BHCs of similar size and risk profile. Appropriate and risk-sensitive regulation and supervision of international banks' U.S. operations, which represent 20% of total U.S. banking system assets, will enhance their ability to provide vital credit and financial services to their clients and support U.S. economic growth. Furthermore, the regulation of international banks has important implications not only for the vibrancy and stability of the U.S. financial system, but also for how other regulators treat the international operations of U.S. banks operating abroad.

We thank you for your service and we trust that you and your colleagues at the Fed will keep our request in mind as you move forward on the promulgation of rules for Section 401 in S.2155.

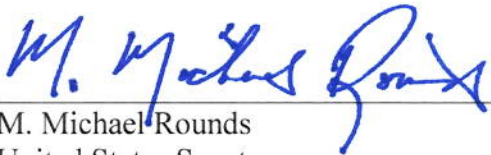
Regards,



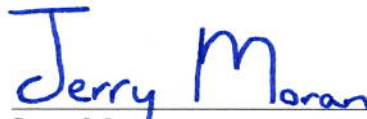
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United States Senator



Thom Tillis  
United States Senator



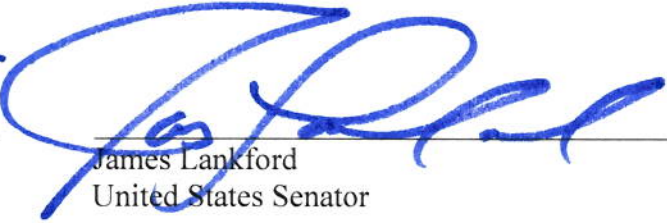
M. Michael Rounds  
United States Senator



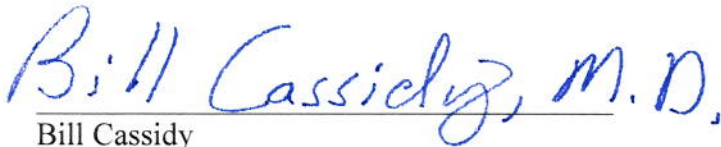
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