AFR Americans for Financial Reform

March 23, 2016

The Honorable Thomas J Curry
Comptroller of the Currency
400 7th Street SW
Washington, DC 20219

The Honorable Martin Gruenberg, Chairman
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429

The Honorable Janet L. Yellen, Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave., NW
Washington DC, 20551

On behalf of Americans for Financial Reform, we are writing with regard to your current review of bank safety and soundness rules under the Economic Growth and Regulatory Paperwork Reduction Act of 1996 (EGRPRA) Notice #4 (December 23, 2015).[1]

The majority of rules under review in this request for comment are safety and soundness rules finalized over the last several years, in response to the financial crisis of 2008 and the implementation of the Dodd-Frank Act of 2010. Most of these rules were finalized within the past five years, and many have not yet been fully implemented. This is a span of time that is much less than the ten-year period envisioned for regulatory lookback review in EGRPRA, and is frankly not sufficient to determine either the full effectiveness of these rules or the regulatory burden that will be involved once the rules are implemented. We believe it is inappropriate to come to conclusions in a global review process about whether these rules should be modified at this time.

Reviewing these rules before they are finalized and while the process of implementation is still ongoing also carries the risk that the burden of implementation will be mistaken for the permanent effects of the rule. Many of the rules under consideration involve one-time costs for banks to develop improved techniques for measuring and tracking both risks and the resources (such as liquidity) available to meet them. These are entirely reasonable and needed investments. The financial crisis revealed severe weaknesses in the ability of large banks and other financial market actors to aggregate and understand their financial risks. Recent reports show that these weaknesses continue.[2] Investments in information technology and data reporting to better understand these risks are a positive and productive development.

Furthermore, many of the costs of this investment are likely to be one-time costs, which will then pay future dividends as risk controls are improved. According to a 2012 survey of financial

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[1] Americans for Financial Reform is an unprecedented coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups. A list of coalition members is available at http://ourfinancialsecurity.org/about/our-coalition/

[2] Bank of International Settlements, "Progress In Adopting The Principles For Effective Data Aggregation and Risk Reporting", January, 2015.

services companies (banking, securities, and insurance) by Accenture Consulting, "Many companies see beneficial results from Dodd-Frank; for example, 64 percent of respondents believe the Act will strengthen their competitive position, especially within the capital markets industry, and a strong majority believe Dodd-Frank will lead to greater profitability across the lifetime of the program."[3] Over 80 percent of responding financial services companies also felt that Dodd-Frank implementation would help them reduce their overall risk. This was true even though a majority also felt that Dodd-Frank would lead to some increased costs.

It would be very unfortunate if the EGRPRA process was used to somehow attempt to avoid these needed investments. While they do involve costs, they are neither "outdated" (as shown by the recent experiences of the financial crisis) nor "unnecessary."

We also will not be surprised to see regulated companies to use the "unduly burdensome" clause of the EGRPRA legislation to claim that regulations involving increased capital, liquidity, or risk management impose excessive costs. These claims have been a hallmark of industry rhetoric since regulators first began to increase capital requirements soon after the crisis. However, they have consistently proven to be unfounded.[4]

The process of capital planning introduced under the Comprehensive Capital Analysis and Review (CCAR) has also been the subject of significant criticism from industry for a supposedly opaque modeling process that they argue involves unrealistic assumptions. AFR strongly supports the CCAR process. A major strength of this process is that it provides an independent, forward looking, and conservative external check on bank risks. Many of these benefits would be lost if modeling assumptions were pre-announced to industry or could be modified by banks in the CCAR process based on claims about their supposed lack of realism.

Furthermore, CCAR is designed to ensure that banks can continue to provide financial intermediation during a downturn. This goal requires levels of capital which can support a sustained and indeed even an increased balanced sheet size during economic downturns. While this may be claimed to be an unrealistic assumption, it is necessary to achieve the goals of the CCAR.

Thank you for the opportunity to comment on the EGRPRA process. If you have questions, please contact Marcus Stanley, AFR's Policy Director, at 202-466-3672 or marcus@ourfinancialsecurity.org.

Sincerely,

Americans for Financial Reform

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[3] Accenture Consulting, "Coming to Terms With Dodd-Frank: Balancing Strategic Considerations With Tactical Implications", 2015, available at https://www.accenture.com/us-en/~/media/Accenture/Conversion-Assets/DotCom/Documents/Global/PDF/Industries_7/Accenture-Coming-Terms-Dodd-Frank.pdf.

[4] Cechetti, Steven, "The Jury is In", Centre for Economic Policy Research, Policy Insight Number 76, December, 2014. Available at http://www.cepr.org/sites/default/files/policy_insights/PolicyInsight76.pdf.