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US regulators say they are open to feedback on capital requirement changes as banks speak up

Article

The news: As US financial regulators **finalize their proposals to raise bank capital requirements** to meet an agreement by the Basel Committee of banking regulators, major banks are pushing back and smaller banks are being spared.

Prompted by the 2008 global financial crisis, the new global capital requirements are due to come into effect in 2025. US regulators planned to roll out their proposals by the end of June, but the timeframe has now trickled into July. **Some expect the proposals to increase capital requirements by 20% at some banks.**

Big banks fight back: Currently, capital requirements apply to banks with assets of $250 billion or more. **The new requirements would expand this to banks with assets of $100 billion or more,** which means some regional banks that felt the pressure of the recent banking crisis might need to bolster up their reserves.

- But banks are pushing back **on one piece of the proposal that increases capital charges on non-interest revenue.** This includes revenues collected from investment banking and credit card fees.
- The banks argue that increasing capital charges on non-interest revenue would be overkill in risk mitigation for banks that have a higher proportion of non-interest income than interest income.
- **Industry groups are encouraging financial regulators to put a cap on the amount of non-interest revenue to which this capital charge would apply**—but regulators haven't given any indication that they'll do this.

Though the new requirements were devised after the 2008 financial crisis, banks fear that the recent regional banking crisis will cause regulators to propose stricter requirements to ensure soundness in the system. But Fed Chair Jerome Powell assured the industry that there will be a 90-day comment and feedback period after the proposal is released. Regulators will take all comments into consideration, and the implementation of the new rule would be phased over time.

Smaller banks spared: The new requirements have caused a stir among smaller lenders as well.

- Community banks voiced concerns about Fed Vice Chair Michael Barr's wider review of capital requirements for the US banking system in response to the year's banking crisis.

- But Powell clarified that any changes that resulted from the review would apply to the largest US banks, and banks with assets between $100 billion and $250 billion.
- Any changes to capital requirements for banks with assets less than $100 billion would need to be soundly justified.

A new approach: Aside from capital requirement updates, the Fed said it's considering additional methods to shore up confidence in the US banking system.

- The agency is contemplating adding behavioral scientists to its ranks who will help direct supervisory oversight through a lens that differs from the economists and lawyers already on the team.
- It's also considering reverse stress tests, which will look at what factors could cause a bank to fail, rather than running the banks through various scenarios to see how they fare.

US financial regulators have a tough road ahead as they work to appease consumers, industry participants, and domestic and global lawmakers. Their willingness to consider feedback and try out new oversight mechanisms is promising. But they must be sure the flurry of changes don't put too much stress on already fragile banks.

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