February 22, 2018

The Honorable Sherrod Brown
713 Hart Senate Office Building
Washington, DC 20510

Dear Senator Brown,

Thank you for seeking my views on the *Economic Growth, Regulatory Relief and Consumer Protection Act*, S. 2155. Periodically updating the financial regulatory regime to ensure it evolves with the changing financial landscape is an important task for Congress. However, the approach taken by S. 2155 is problematic. This bill, along with other financial regulatory bills that have recently been considered by Congress, focuses primarily on rolling back existing regulations rather than providing any particular new or updated view of the proper regulatory approach. There is broad consensus around the need for regulatory relief for community banks, which S. 2155 provides in Title II, and which I support in the main. But the bill goes too far in providing relief from automatic, enhanced prudential supervision for larger banks that required significant taxpayer funds in the financial crisis and, critically, whose risks were not apparent to regulators before the crisis began to unfold.

My comments will focus primarily on Section 401 of S. 2155, which statutorily reduces the scope of certain requirements imposed on large bank holding companies. Among other changes, it raises the threshold by which banks would be subject to enhanced supervision and prudential standards from $50 billion in assets to $250 billion. These important enhanced prudential requirements include annual stress tests, liquidity requirements, risk management standards, counterparty limits, and resolution planning to ensure the bank can fail safely.

Policymakers generally agree that the application of these requirements should reflect the riskiness and complexity of the financial institution. In fact, Dodd-Frank envisioned a tailored application that took into consideration the "capital structure, riskiness, complexity, financial activities (including the financial activities of their subsidiaries), size, and any other risk-related factors that the Board of Governors deems appropriate." As a result, the Federal Reserve has already included significant tailoring in its adoption of enhanced prudential requirements. Bank holding companies with greater than $250 billion in assets are subject to more stringent requirements than those with $50 billion in assets and the most stringent requirements are reserved for the eight U.S. banks that have been identified as Global Systemically Important Banks ("G-SIBs").

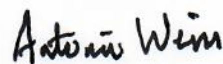
While it may be beneficial to provide greater statutory latitude in how the Federal Reserve applies enhanced prudential standards, automatically removing all bank holding companies with less than $250 billion of assets from these requirements is potentially dangerous. Banks of this size received approximately $65 billion in taxpayer funds in the financial crisis, and included such notable near failures as Countrywide and GMAC. Though Section 401 of S. 2155 would allow the Federal Reserve to determine that individual bank holding companies with greater than

$100 billion in assets pose risks that warrant enhanced supervision, importantly, the risks posed by these institutions prior to the crisis were not apparent to regulators *ex ante.*

Some policymakers, notably former Federal Reserve Governor Daniel Tarullo, have argued that the threshold could responsibly be raised from $50 billion to $100 billion.[1] However, the $250 billion proposed in S. 2155 simply goes too far. It would reduce the number of bank holding companies that are automatically subject to enhanced supervision from 38 to 13. And the U.S. bank holding companies of some of the largest, most interconnected foreign banks would no longer automatically be subject to enhanced U.S. supervision.

Ensuring that financial regulations are appropriately tailored to the risks in the financial system and do not pose undue costs, without sacrificing safety and soundness, is an important goal. And there is broad agreement on the need for regulatory relief for community banks, which I support. But simply rolling back regulations, without providing any updated view on an appropriate regulatory framework, is ill-advised and potentially dangerous.

Respectfully yours,



Antonio Weiss

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[1] Daniel Tarullo, "Rethinking the Aims of Prudential Regulation," speech at the Federal Reserve Bank of Chicago, May 8, 2014.