The Daily Dish

Yeah, Go Ahead and Spike the Football

DOUGLAS HOLTZ-EAKIN | SEPTEMBER 11, 2024

Bloomberg reports:

> US regulators will make extensive changes to their bank-capital rules proposal, cutting the expected impact to the largest banks by half and exempting smaller lenders from large portions of the measure, a top Federal Reserve official said.
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> The proposed revisions previewed Tuesday by Fed Vice Chair for Supervision Michael Barr would roughly slice in half the 19% capital hike that regulators had planned for the eight biggest US banks. Those lenders, including Citigroup Inc., Bank of America Corp. and JPMorgan Chase & Co. , would now face a 9% increase in the capital they must hold as a cushion against financial shocks.

This is the latest endgame for the so-called Basel III endgame and represents a clear victory for the banking sector against an overzealous and overreaching regulatory initiative. Every now and then it is not premature; go ahead and spike the football.

To review. Per AAF's Thomas Kingsley:

> Basel is Switzerland's third-most populous city, near the country's northern border on the river Rhine. Known as the cultural capital of Switzerland, the city crams in over 40 museums in addition to the humanistic University of Basel, a harbor for political refugees including Nietzsche and Jung. It is also famous for its pastries and fondue.
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> Sadly, and less deliciously, Basel is also the home of the Basel Accords, an international standardized approach to banking regulation – in particular, bank capital requirements – since the 1980s. Since 2009, all members of the G20 major economies, and some others, have been voluntary participants in the Basel Committee on Banking Supervision. While the committee has no legal power to enforce its recommendations, most countries tend to do so.
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> The third iteration of the Basel Accords, Basel III, was developed in response to the financial crisis of 2007–2008 and focused on increasing minimum capital requirements and decreasing bank leverage. It has taken literally decades for committee member countries to introduce domestic legislation implementing Basel III in domestic law, and in 2017, regulators met to agree on a final version of Basel III described portentously as the Basel III "endgame."

What did the endgame look like? Eakinomics attended the remarks last year by Vice Chair for Supervision Michael Barr previewing the rules: "I'm here to report on my holistic review of capital for large banks and to outline steps that I believe are appropriate to update our capital standards so that banks can continue to serve our communities, households, and businesses," he said. "The review was a top priority because capital is fundamental to safety and soundness."

Translating that to English: The Fed would raise the capital requirements on the largest banks even though there was no evidence of any need for the increase. And it would expand to the regional banks the same requirements because of the failure of Silicon Valley Bank, even though there is zero evidence that capital requirements or risk models led to its problems. And how did it conclude that this was a good idea? By ignoring costs. Sure, there are benefits to regulations, but there are also costs and not all regulatory expansions will pass a benefit-cost test. The Fed seemed to have forgotten about half of the issues in capital requirements.

The proposal was overly onerous and costly, and outrage echoed across the landscape, including this ad from the nonprofit Center Forward decrying the proposed capital rules. Since the Fed proposal contained no empirical analysis of the impact, there was a flurry of analysis on what that impact might be. These analyses made clear the rules made no sense.