Center for Capital Markets Competitiveness

BANK CAPITAL STANDARDS

Main Street businesses need access to capital in the form of debt and equity financing in order to grow and operate. However, financial regulators are imposing a new and heavy patchwork of capital, liquidity, and leverage standards upon the financial institutions that provide much needed financing to Main Street.

The U.S. Chamber believes that growth and innovation within the overall economy can only be fueled by suitable levels of risk taking. However, as this infographic illustrates, regulators continue to pile new capital standards on top of old, without properly considering how those standards make sense together. If unaddressed, **this onerous and uncoordinated approach to regulation could have serious and unintended negative consequences for Main Street businesses hoping to grow and create jobs**.

Capital Conservation Buffer

Finalized: 2013
Regulator: Federal Reserve, FDIC, OCC
Impact: Restricts the amount of capital a bank can return to its shareholders or pay their employees, unless it maintains an additional buffer of 2.5% of common equity tier 1 capital. The buffer has the potential impact of reducing dividends to shareholders, including mutual funds in which millions of Americans invest.

Volcker Rule

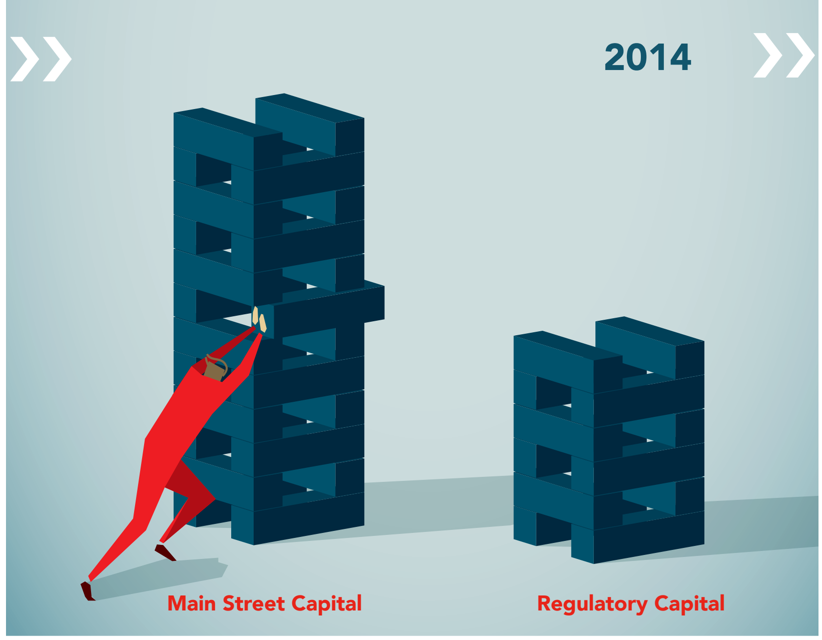
Finalized: 2013
Regulator: Federal Reserve, FDIC, OCC, CFTC, SEC
Impact: Prohibits proprietary trading and investment in "covered funds," such as hedge funds and private equity funds, hurting market liquidity and cutting off access to capital for the real economy.

Credit Valuation Adjustment

Finalized: 2013
Regulator: Federal Reserve, FDIC, OCC
Impact: Unlike European banks, U.S. banks are not exempted from this credit risk adjustment, putting American companies at a meaningful competitive disadvantage compared to European competitors.

Basel III Capital Rule

Finalized: 2013
Regulator: Basel Committee
Impact: Established a new minimum risk-based capital requirement for banks, elevating the quality and quantity of capital needed for banks.



Foreign Banking Organizations

Finalized: 2014
Regulator: Federal Reserve
Impact: Requires foreign banks with a significant presence in the U.S. to comply with U.S. prudential standards, including additional capital for new subsidiaries, making the U.S. markets less attractive and reducing their ability to continue serving American customers.

Liquidity Coverage Ratio

Finalized: 2014
Regulator: Federal Reserve
Impact: Requires a bank to hold high-quality, liquid assets that can be converted into cash in a 30-day stress period. The demand for high-quality assets forces banks to either charge corporates for their deposits or even reject them.

Leverage Ratio and Supplemental Leverage Ratio

Finalized: 2014
Regulator: Federal Reserve, FDIC, OCC
Impact: Requires banks to maintain a new "leverage ratio," measuring common equity tier 1 capital against a bank's total leverage. The current rules disproportionately hurt Main Street companies that use derivatives to hedge their risks.

G-SIB Surcharge

Finalized: 2015
Regulator: Federal Reserve
Impact: Imposes an additional risk-based surcharge on all global systemically important banks ("G-SIBs") which can be as high as 4.5% of a G-SIB's risk-weighted assets. This extra surcharge forces banks to put aside even more capital, rather than lending and helping grow the economy.

KEY

LIMITING CAPITAL AVAILABILITY

REDUCING LIQUIDITY

INCREASING COSTS

DISCOURAGING COMPETITION

Single Counterparty Credit Limits

Proposed: 2016
Regulator: Federal Reserve
Impact: Limits bank holding company exposure to counterparties, especially if counterparties are "economically interdependent." Complex compliance requirements may artificially limit access to credit, particularly for companies with many different affiliates that would be treated as a "single" counterparty.

Net Stable Funding Ratio

Proposed: 2016
Regulator: Federal Reserve, FDIC, OCC
Impact: Imposes new long-term funding requirements, which discourages bank involvement in derivatives and other short-term transactions with nonfinancial end-users and Main Street.

Total Loss Absorbing Capacity and Long-Term Debt Requirements

Proposed: 2016
Regulator: Federal Reserve
Impact: Requires "G-SIBs" to maintain yet another significant capital buffer and raise debt to facilitate an orderly resolution. The substantial amount debt required to be raised will crowd out debt offerings from nonfinancial companies.

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2016 Continued

Countercyclical Capital Buffer

Proposed: 2016
Regulator: Federal Reserve
Impact: Allows regulators to unilaterally raise required capital levels when the Federal Reserve believes there is "excessive" credit growth in a particular sector of the economy. Capital raises for the buffer won't go through a typical notice-and-comment rulemaking process, so costs to bank customers may unexpectedly rise.

Variation in Credit Risk-Weighted Assets

Proposed: 2016
Regulator: Basel Committee
Impact: Dramatically changes how banks assess the potential riskiness of their loan books, otherwise known as the credit risk capital framework. This standard may hurt lending to smaller companies by creating new "floors" for measuring risk.

Operational Risk and Internal Models

Proposed: 2016
Regulator: Basel Committee
Impact: Will force banks in many circumstances to use a one-size-fits-all approach to calculate risk from potential fines, IT risks, and cybercrime, raising the cost of capital for Main Street.

Fundamental Review of the Trading Book

Finalized: 2016
Regulator: Basel Committee
Impact: Overhauls the capital treatment of a bank's "trading book," making trading of certain assets that Main Street uses to raise capital, like commercial mortgage-backed securities, uneconomical.