American Bankers Association®

Rob Nichols
President and CEO
202-663-7512
rnichols@aba.com

November 29, 2016

The Honorable Paul Ryan
Speaker of the House
U.S. House of Representatives
H-232, US Capitol
Washington, DC 20515

The Honorable Nancy Pelosi
Minority Leader
U.S. House of Representatives
H-204, US Capitol
Washington, DC 20515

Dear Speaker Ryan and Minority Leader Pelosi:

On behalf of the members of the American Bankers Association (ABA), I am writing to express our strong support for H.R. 6392, the Systemic Risk Designation Improvement Act of 2016, scheduled for consideration on the House floor on Thursday, December 1.

In a recent radio interview, Dodd-Frank Act coauthor former House Financial Services Committee Chairman Barney Frank commented that the systemic risk designation was “too low.” Specifically, he stated “That was a mistake.”

H.R. 6392, a bipartisan bill introduced by House Financial Services Housing and Insurance Subcommittee Chairman Blaine Luetkemeyer (R-MO), addresses this issue by changing the automatic designation of financial institutions as “systemically important” solely based on asset size. This current arbitrary size threshold – and the significant regulatory requirements that come with it – has ensnared several banks, particularly regional banks, without cause, limiting their abilities to serve their communities. This is notable as former Chairman Frank noted in the same interview “when it comes to lending and job creation, the regional banks are obviously very, very important …I hope that if we get some regulatory changes, we give some regulatory relaxation to those banks.”

This legislation, which is nearly identical to the strongly bipartisan bill, H.R. 1309, would remove a regulatory short cut and require the Financial Stability Oversight Council to establish a process to formally designate individual financial institutions as “systemically important” based on a variety of factors, including complexity, scale, interconnectedness and mix of activities. This would provide a more accurate assessment of risk and reduce regulatory burdens where warranted.

Since the enactment of the Dodd-Frank Act and its statutory size thresholds, banking regulators have relied heavily on the single criterion of asset size of financial institutions, creating regulatory “cliffs” whereby all institutions over a certain size are regulated and supervised the same. We have seen this not only with regulations implementing Dodd-Frank, but more broadly in all areas of prudential supervision. Although size-only regulation may be a simple short cut method for supervising financial institutions, it is inappropriate and needlessly burdensome for many financial institutions with noncomplex operations and business models, thereby increasing costs and reducing products and services available to bank customers.

ABA strongly believes that the most effective and value-added supervision regime is one that is risk-based and individually tailored, taking into account a wide-variety of factors relevant to the bank's size, business model, complexity of operations, the nature of its charter, and other factors relevant to the risk of its activities, products, and services.

H.R. 6392 is a meaningful step to allow banking regulators to review institutions appropriately and not solely based on size. ABA urges the House of Representatives to pass this bipartisan legislation.

Sincerely,

Rob Nichols

Rob Nichols
President and CEO

cc: Members of the U.S. House of Representatives