

December 18, 2017

The Honorable Paul Ryan
Speaker of the House
Washington, D.C. 20515

The Honorable Nancy Pelosi
Minority Leader
Washington, D.C. 20515

Dear Speaker Ryan and Minority Leader Pelosi:

On behalf of the members of the American Bankers Association (ABA), we write to express our support for H.R. 3312, the Systemic Risk Designation Improvement Act of 2017 scheduled for consideration before the House of Representatives this week.

It is timely and important to assess whether the current financial regulatory system is achieving policymakers' objectives. We support Congressional efforts to identify where statutory and regulatory provisions need revisions and make the adjustments that will promote economic activity without compromising systemic stability.

Under the Dodd Frank Act (DFA), an institution with \$50 billion or more in consolidated assets is automatically deemed to be a "systemically important financial institution" or "SIFI", and subject to higher levels of regulation regardless of the real "risk" it might pose to the financial system. This arbitrary size threshold – and the significant regulatory requirements that come with it – has unnecessarily ensnared many banks without cause, limiting their abilities to provide needed credit and other services to consumers, businesses and their communities.

This bipartisan legislation crafted by House Financial Services Financial Institutions and Consumer Credit Subcommittee Chairman Blaine Luetkemeyer, along with Representatives Sinema, Williams, Scott (GA), Hill, Gottheimer, Budd, Stivers and Meeks, would replace the DFA's automatic SIFI designation with a process for the Board of Governors of the Federal Reserve System (Fed) to make a determination that an individual financial institution, or group of institutions, is systemically important and subject it to enhanced supervision and prudential regulation. The Fed would make its determination by analyzing a variety of relevant measures of risk, rather than being bound by the sole criterion of asset size - which taken alone is a poor measure of risk - and allow the regulators to "tailor" their supervision and reduce regulatory burdens as appropriate.

Since the enactment of the DFA and its statutory size thresholds, banking regulators have relied heavily on the asset size of financial institutions, creating regulatory "cliffs" whereby all institutions over a certain size are subject to very similar regulatory and supervisory standards. Size-based regulation is inherently arbitrary and risk-blind, and it is needlessly burdensome for many financial institutions with noncomplex operations and business models, thereby unnecessarily increasing costs and reducing products and services to bank customers.

ABA believes strongly 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 including size, business

model, complexity of operations, and other factors relevant to the risk of an institution's activities, products, and services. H.R. 3312 addresses this issue by establishing a process that allows banking regulators to review institutions appropriately and not solely based on size.

While we are encouraged by the recent comments of some regulators acknowledging the need for more tailored regulation, and for better coordination among regulators, Congress has an important role in driving this change. We believe that H.R. 3312 takes an important step toward reforming our financial regulatory system, and we urge the House of Representatives to support for this legislation.

Sincerely,

A handwritten signature in black ink that reads "BOB NICHOLS". The letters are bold and slightly slanted, with a cursive-like flow.

cc: Members of the United States House of Representatives