American Bankers Association
Building Success. Together.

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The Honorable Blaine Luetkemeyer
Chairman
Subcommittee on Financial Institutions
and Consumer Credit
United States House of Representatives
Washington, DC 20515

Dear Chairman Luetkemeyer:

On behalf of the members of the American Bankers Association (ABA), we write to commend you and express our support for your legislation H.R. 3312, the Systemic Risk Designation Improvement Act of 2017.

It is timely and important to assess whether the current financial regulatory system is achieving policymakers' objectives. Even regulators have acknowledged that new regulations have overshot their mark by imposing unintended costs on consumers and the economy unnecessary to address genuine systemic risks. 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.

For example, 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.

The bipartisan legislation you have crafted would replace the DFA's automatic SIFI designation with a process for the Federal Reserve Board (Fed) to make a determination that an individual financial institution, or group of institutions, is systemically important and subject 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. We have seen this not only with regulations implementing Dodd-Frank, but more broadly in other areas of prudential supervision. Although size-only regulation may be a simple shortcut means of 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 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 its 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, for better coordination among regulators, and for revisiting regulations that may have led to negative unintended consequences for consumers and the economy; 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 support for this legislation.

Sincerely,

Bob Nichols

cc: Members of the United States House of Representatives