

United States Senate
WASHINGTON, DC 20510-0309

January 10, 2024

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, D.C. 20551

The Honorable Michael Barr
Vice Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave NW
Washington, D.C. 20551

Dear Chair Powell and Vice Chair Barr:

We write to you regarding the Market Risk Revisions and Credit Valuation Adjustment provisions within the Basel III Finalization (known as “Basel III Endgame” or “B3E”) that proposes substantial changes to the risk-based regulatory capital regime for U.S. banks. We are deeply concerned that Basel III Endgame, as currently proposed, would make it harder for families in our states to make ends meet, reduce economic opportunity for small businesses, and make it more expensive to build energy projects and affordable housing in the United States.

First, B3E as proposed will make it harder for American families to make ends meet. Hardworking families are struggling with stubbornly high prices everywhere they look: at the gas pump, at the grocery store, and in the cost of housing – all while saving for retirement feels impossibly out of reach.

Unfortunately, B3E as proposed will make inflation worse by significantly raising capital requirements (as much as 13x) on derivatives transactions that American businesses utilize to manage business risk and deliver consistent prices to customers. Forcing commercial end users, like corner gas stations, local grocery stores, and construction companies to pay more for their derivatives transactions as they hedge their risks, will result in increased prices being passed along to consumers in the form of higher gas prices, bigger grocery bills, and more expensive housing. Everyday families cannot afford higher prices, more inflation, and less retirement security.

Second, B3E as proposed will reduce economic opportunity for small businesses. While the proposed capital requirements wouldn’t have come close to saving Silicon Valley Bank, they would necessarily raise the cost of extending capital to small businesses, who are already struggling due to inflation, supply chain disruptions, labor shortages, and ongoing economic

uncertainty. Local small businesses need access to capital to hire workers; purchase equipment; lease retail, manufacturing, and/or space; and grow.

Finally, in addition to the higher costs that result from the Market Risk and CVA provisions, B3E as proposed will also make it more expensive to build energy projects and affordable housing in the United States. We share a concern that the effective purchasing power with respect to tax incentives stands to be significantly diminished by Basel III Endgame, increasing the degree to which tax policy is impacted by regulatory policy. That is a deeply inefficient and capital destructive exercise.

Specifically, B3E penalizes tax equity investments by quadrupling the capital requirement, jeopardizing banks' abilities to supply capital for projects involving tax equity. Currently, tax equity receives a 100% risk weight, assuming that no more than 10% of a bank's capital is invested in equities. By assigning a 400% risk weight to tax equity, B3E makes it harder to achieve effective tax equity investments. In fact, in the example of renewable energy projects, some experts estimate that B3E will *shrink* tax equity investments by 80-90%. Treating tax equity investments this way is not aligned with their overall risk profile, and we urge you to reconsider your approach here.

Thank you for your attention to this important matter. We appreciate your public service and your consideration of our views. We hope to be able to work collaboratively with you to develop regulatory policy that makes our financial system more resilient while ensuring families and small businesses have access to the capital they need to build better futures and thrive. Should you have questions or require additional information, please don't hesitate to reach out.

Sincerely,



Kyrsten Sinema
United States Senator



Mike Crapo
United States Senator