U.S. Lawmakers Press Regulators on Bank Capital, Derivatives

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U.S. financial regulators sought to reassure lawmakers that they can achieve global coordination and maintain industry competitiveness as they implement the biggest rewrite of Wall Street oversight since the Great Depression.

Harmonization has been a top consideration in international talks on capital buffers for the biggest banks and methods for orderly wind-downs of systemically important firms, officials including Federal Reserve Governor Daniel Tarullo and Treasury undersecretary Lael Brainard told the House Financial Services Committee today at a hearing in Washington.

Representative Spencer Bachus, the Alabama Republican who leads the Financial Services Committee, conducted the hearing amid complaints from bankers that U.S. regulations being imposed under the Dodd-Frank Act may slow economic recovery from the 2008 financial crisis and drive business overseas. Lawmakers sought assurances that regulators were looking out for U.S. interests in dealing with their international counterparts.

“Dodd-Frank was not passed in the EU, and it was not passed in the G-20, so our regulators must take great care,” Representative Jeb Hensarling, the Texas Republican who serves as Financial Services vice chairman, said at the hearing.

The six regulators who appeared before the panel offered general agreement that maintaining a level playing field in areas such as resolution authority and rules for the $601 trillion global swaps market is essential to creating proper safeguards against a repeat of the market tumult that followed the September 2008 bankruptcy of Lehman Brothers Holdings Inc.

‘Best National Regime’

“The best national regime in the world is not going to be adequate if other countries do not adopt robust resolution tool kits and complementary authorities,” said Brainard, Treasury’s undersecretary for International Affairs.

She and Tarullo were joined at the hearing by Federal Deposit Insurance Corp. Chairman Sheila Bair, Securities and Exchange Commission Chairman Mary Schapiro, Commodity Futures Trading Commission Chairman Gary Gensler and acting Comptroller of the Currency John Walsh.

The Basel Committee on Banking Supervision agreed last year to raise the minimum common equity requirement for banks to 4.5 percent from 2 percent, with an added buffer of 2.5 percent, for a total of 7 percent of assets weighted for risk.

Basel members are also proposing that so-called global systemically important financial institutions, or global SIFIs, hold additional capital equivalent to as much as three percentage points, a stance Fed officials haven't opposed, a person familiar with the discussions said last week.

Bank Surcharge

"What is important is not to lose sight of the costs of not acting," Tarullo said today. The surcharge based on some studies may range as high as 7 percentage points above the Basel requirement, he said, adding that the final figure, now under consideration by regulators, may not reach that level.

U.S. regulators have yet to align themselves on the issue, with Bair pushing higher capital levels for the largest banks and Walsh, who oversees national banks, urging caution as talks over new rules continue.

"I'm concerned with how much further we can turn up the dial without negative effects on lending capacity," Walsh told lawmakers. "A very real risk is that lending will fall, will become more expensive and will again move from the regulated banking sector into the less-regulated shadow banking sector."

JPMorgan, Harvard

The committee also heard testimony from a second panel including JPMorgan Chase & Co. (JPM)'s Chief Risk Officer Barry Zubrow, Morgan Stanley (MS) managing director Stephen O'Connor, Timothy Ryan, CEO of the Securities Industry and Financial Markets Association, Harvard Law School professor Hal Scott and Damon Silvers, associate general counsel of the American Federation of Labor and Congress of Industrial Organizations.

O'Connor and Ryan argued that certain derivative rules will push business outside of the U.S., while Zubrow maintained that higher equity capital requirements for the largest U.S. lenders are "unnecessary."

Representative Barney Frank of Massachusetts, the senior Democrat on the Financial Services panel, told regulators they shouldn't let concerns over bank profits affect their decisions.

"They are the means to a sound financial system, they are not the end," said Frank, who co-sponsored the financial- regulation law that bears his name. "Their profitability in and of itself is not important to anyone other than themselves."