

United States Senate

WASHINGTON, DC 20510

November 06, 2025

Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th St and Constitution Ave NW Washington, DC 20551

Michelle Bowman
Vice Chair for Supervision
Board of Governors of the Federal Reserve System
20th St and Constitution Ave NW Washington, DC 20551

Dear Chairman Powell and Vice Chair Bowman:

We write to express our support for the Board of Governors of the Federal Reserve System's (the Board's) continued work to finalize a Basel III Endgame rulemaking that strengthens the resiliency of the U.S. financial system while preserving the efficiency and competitiveness of U.S. capital markets. We agree that a clear and durable final rule is in the public interest, and we appreciate the work that you are undertaking to ensure that is the case. As you work toward finalizing a reproposal, we want to highlight concerns from the original proposal, such as the structural overcapitalization of risks arising from the application of certain Basel Committee standards already accounted for, that the reproposal should address.

In assessing the final rule, we urge the Board to view capital requirements holistically. As part of this effort, the Board should endeavor to make sure that any proposal uses the baseline that existed before the post-pandemic capital ramp-up, not relative to today's elevated capital levels. Since 2020, aggregate common equity tier 1 ratios for large U.S. banks have increased by more than 20 percent. This rise was driven in part by the growth in the Board's balance sheet and the economy, not increased risk. Using current capital levels as the reference point would institutionalize excessive requirements, leading to higher costs and less access to capital for U.S. consumers and small businesses.

Additionally, as part of reviewing capital requirements holistically, the Board should avoid structural duplication in the reproposal. The originally proposed Basel III Endgame rule was impracticable and would have increased aggregate bank capital requirements by roughly 25 percent. The dual-stack construct, which under the proposal would have applied both Basel's Expanded Risk-Based Approach and the legacy U.S. Standardized Approach while applying all buffer requirements to both, creates unnecessary redundancy. Because the Expanded Risk-Based Approach would almost always serve as the binding constraint, inflating risk-weighted assets (RWAs) and then layering the Stress Capital Buffer (SCB) on top would compound capital requirements well beyond what Basel intended. This inflation of RWAs would also magnify Global Systemically Important Bank (GSIB) surcharge calculations, further amplifying overall requirements.

Likewise, we request that any reproposal avoid imposing redundant operational risk RWAs that would elevate aggregate capital requirements well above losses observed even in severe historical scenarios. U.S. banks hold capital for operational risk through the Board's stress test and resulting SCB. Adding a separate standardized operational risk charge and then applying the SCB on top would result in

overcapitalizing the same underlying loss exposure. Historical stress test data shows that operational risk losses are already capitalized in stress losses via the SCB.

We also request the Board to reassess the punitive weighting of the p-factor within the securitization framework and instead keep it at or below the status quo of 0.5. The existing calibration, adopted in 2013, appropriately differentiates between on-balance-sheet lending and securitized exposures by making sure that banks hold additional capital to account for the structural features of securitizations. Doubling the p-factor to 1.0 would reduce risk sensitivity by treating the securitization of higher-quality assets as if they carried similar risk as less-stable pools. The change would increase funding costs for consumers and small businesses and constrain market liquidity.

As the Board's April 2025 *Financial Stability Report* observed, "the banking sector remained sound and resilient overall, and most banks continued to report capital levels well above regulatory requirements." This assessment underscores that the existing framework already supports a resilient banking sector. A further across-the-board increase in capital through the p-factor or other duplicative mechanisms would not materially enhance stability but would impair credit intermediation.

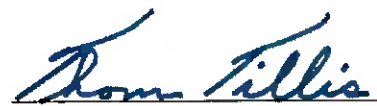
We support timely finalization of the Basel III Endgame rulemaking and urge the Board to address the areas identified above and modernize bank capital requirements to optimize access to capital, retirement savings and economic growth, while maintaining financial stability.

Sincerely,


M. Michael Rounds
United States Senator

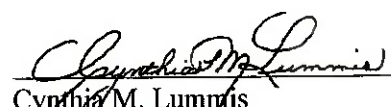

Tim Scott
United States Senator


Mike Crapo
United States Senator

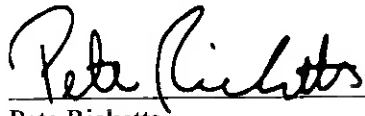

Thom Tillis
United States Senator


John Kennedy
United States Senator

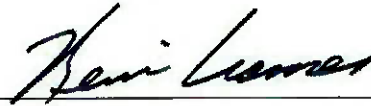

Bill Hagerty
United States Senator


Cynthia M. Lummis
United States Senator


Katie Boyd Britt
United States Senator

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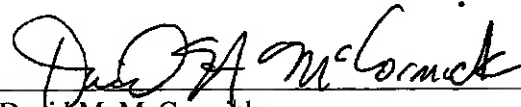
Pete Ricketts
United States Senator

A handwritten signature in blue ink, reading "Kevin Cramer", written over a horizontal line.

Kevin Cramer
United States Senator

A handwritten signature in blue ink, reading "Bernie Moreno", written over a horizontal line.

Bernie Moreno
United States Senator

A handwritten signature in blue ink, reading "David M. McCormick", written over a horizontal line.

David M. McCormick
United States Senator