REGULATION AND COMPLIANCE

BankThink I was a Fortune 500 treasurer; to me, the Basel endgame looks ominous

By Thomas Deas January 23, 2024, 10:00 a.m. EST 4 Min Read

AMERICAN BANKER

One could be forgiven for thinking the Fed is confused about how U.S. companies actually operate.

The source of this perceived confusion: Bank regulators have proposed a sweeping set of rule changes, ominously referred to as the Basel III endgame, that could dramatically harm the availability of critical financial services offered in the U.S. Key government officials have sought to minimize the impact of the proposal, which would require a roughly 30 percent increase in the levels of capital banks must hold, by attempting to distinguish its effect on lending from its impact on other essential financial services.

Michael Barr, the Federal Reserve Board's vice chair for supervision and primary architect of the proposal, has asserted the likely rise in capital requirements related to lending is 0.03 percentage points — or a "small portion" of the overall increase.

Importantly, companies are not funded solely by loans. Many depend on the U.S. capital markets — the deepest and most liquid capital markets in the world — for accessible debt financing, which represents 75% of total financing in the U.S.

As a former treasurer of a large U.S. corporation and a previous chair of the National Association of Corporate Treasurers, I know that capital requirements — on lenders we rely on — ripple throughout the economy. The Fed's proposed capital rules are a price increase for companies of all sizes and in all sectors. They would have a disproportionate impact on a variety of borrowers, from large multinationals that rely on America's banks for financial services to renewable energy infrastructure, from middle market companies to first-time homebuyers and low- and moderate-income Americans.

Among other things, the proposal would make derivatives more expensive and less available to these end users. Derivatives allow companies in a wide range of industries to reduce their exposure to commodity price volatility.

Many large public companies fund their day-to-day cash needs in the U.S. commercial paper markets, including for derivatives settlements. The proposed rules would increase the costs of issuing commercial paper and ultimately these higher costs would drive another spiral of inflationary pressures.

And since companies conducting day-to-day operations always require backstops for unforeseen events, we all have arranged with our banks for committed credit lines to be continuously available. We pay a commitment fee for these dedicated lines of credit. The costs of higher capital requirements regulators are proposing would be passed directly to end users through increases in these fees.

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REGULATION AND COMPLIANCE

Industry says Basel rule violates law if it isn't revised

A coalition of financial trade groups issued a joint comment letter asserting that the federal bank regulators' proposed capital rule lacked justification and evidence required by the Administrative Procedure Act, threatening legal action if regulators don't delay and significantly amend the rule.

By Ebrima Santos Sanneh

January 12

significantly enhanced the stability of derivatives markets.

By mitigating financial risks through derivatives, companies across industries are able to focus on improving their product offerings and expanding their core businesses, sustaining their employees' job security. Congress recognized the importance of facilitating access to hedging products for commercial end users in both the Dodd-Frank Act of 2010 and the Terrorism Risk Insurance Program Reauthorization Act of 2015. By exempting commercial end users from certain clearing and margin requirements, these laws have contributed to a healthy and efficient market, and regulatory changes that disrupt that balance would undermine these public policy benefits.

The capital proposal would make these financial services — all offered principally by the largest banks — more expensive, undoubtedly making it more difficult for companies to hedge at the most competitive prices.

When viewed in totality, the potential impacts of the proposal become clear. A recent report from Oliver Wyman and Morgan Stanley Research warns that the proposed rules "have the potential to structurally change the economics of wholesale banking and drive activity out of the banking system." Specifically, the report concludes that the material increase in bank capital requirements "may limit financing options for U.S. corporations, who already rely far more on market-based sources of financing (approximately 70% in 2022) than their counterparts in other markets."

Although bank regulators appear comfortable conceding that capital requirements for these critical financial products and services would "increase substantially," they neglect to address that these products and services are vital for a well-functioning economy. Unfortunately, as Senator Jerry Moran (R-Kan.) has recognized, there has been "minimal, if any, economic analysis done on the downstream effect these requirements will have on end users."

Thomas Deas Former Chair, National Association Of Corporate Treasurers

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Synchrony says its consumer credit losses are nearing their peak

The credit card issuer said it's "cautiously optimistic" about its borrowers' financial health, with charge-offs expected to rise not much further than pre-pandemic levels. The upbeat outlook contrasts with a key competitor's guidance of significantly higher losses.

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The next few years will mark the transition of sustainable finance in Latin America through its adolescence and towards maturity.

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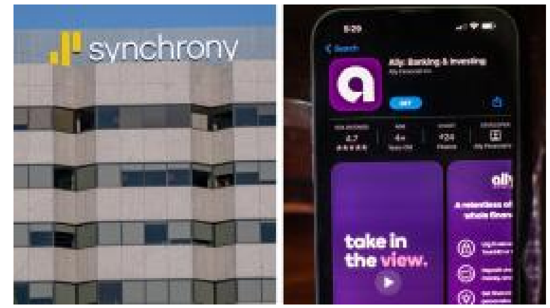
Ally is selling a unit to rival Synchrony. Analysts say it's a win-win.



Investors drove up the stock prices of both companies after Ally Financial said it's selling its point-of-sale lending business to Synchrony Financial. The deal is expected to help Ally focus on its bread-and-butter auto lending business, while also aiding Synchrony's efforts to gain market share.

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