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United States House of Representatives
One Hundred Nineteenth Congress
Committee on Financial Services
2129 Rayburn House Office Building
Washington, DC 20515

March 28, 2025

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

Dear Chair Powell:

We appreciate your continued commitment to operating the Federal Reserve in a balanced and transparent manner. However, several actions undertaken by the Federal Reserve Board (FRB) in recent years reflect a worrying trend of increasing regulatory burdens enacted without thorough exploration of the potential costs. We write to highlight these concerns and urge you to withdraw or rescind the following rules and guidance.

When financial institutions are given clear expectations and rules that are commensurate to their complexity and risk profiles, the American banking system can thrive. When they are forced to devote increasing amounts of time and resources to compliance systems to navigate thousands of pages of new rules, the current trend of bank consolidation will likely continue, reducing competition and innovation in the economy.

Specifically, in March of 2024, the FRB finalized a rule to update operational risk management requirements for certain systemically important financial market utilities (FMU), as designated by the Financial Stability Oversight Council (FSOC).[1] The update places too much emphasis on these firms' management of severe weather events and other natural disasters. The FRB should not wade into major questions like seeking to regulate FMUs on how they respond to climate change without clear congressional authorization. The FRB should rescind this final rule and work more extensively with interested stakeholders before updating risk management practices.

The FRB also proposed two rules that we believe must be withdrawn or modified:

[1] Bd. of Govs. of the Fed. Reserve System, "Federal Reserve Board announces final rule that updates risk management requirements for certain systemically important financial market utilities (FMUs) supervised by the Board," (March 8, 2024). https://www.federalreserve.gov/newsevents/pressreleases/bcreg20240308a.htm.

- On July 27, 2023, the FRB proposed significant revisions to the capital surcharge for Globally Systemically Important Banks (GSIBs).[2] Established after the 2008 financial crisis, the GSIB surcharge is intended to address the potential negative consequences on the U.S. financial system that would flow from the stress or failure of one of these firms. Unfortunately, in 2023 the FRB did not properly explore the interactions between this surcharge and the broader capital reforms it proposed at the same time. This creates the potential result of duplicative capital charges for the largest banks that may lead to reductions in lending and capital markets activities that foster economic growth. To be clear, any GSIB surcharge update should account for economic growth and inflation, reduce the potential for cliff effects to result in undue capital surcharges, and reduce the incentives for banks to adjust their balance sheets in order to unduly reduce their capital surcharges. We believe this proposal should be modified to account for these identified issues.

- On October 25, 2023, the FRB issued a notice of proposed rulemaking (NPR) to: (i) lower the maximum interchange fee that a large debit card issuer can receive for a debit card transaction; and (ii) establish a regular process for updating the maximum amount biennially going forward.[3] Since the proposal would update the maximum interchange fee based on average costs for all financial institutions with over $10 billion in assets, it would likely place smaller debit card issuers at a significant competitive disadvantage since they do not have the efficiencies of scale that larger issuers possess. The proposal would also likely result in banks increasing other account fees to make up for lost revenue from debit interchange fees. Lastly, the FRB failed to adequately consider fraud costs, which disincentivize banks from investing in fraud prevention given they can no longer cover these costs through debit interchange fees. We believe this proposal should be withdrawn.

Additionally, the FRB issued guidance to banks that exceeded its statutory authority and likely violated the Administrative Procedure Act (APA). This guidance should be rescinded and any further actions that change legal and regulatory obligations of financial institutions should be issued pursuant to notice and comment rulemaking:

- In September 2022, the FRB announced a Pilot Climate Scenario Analysis (CSA) exercise to examine bank climate risk-management practices. As part of the pilot, six of the nation's largest banks were required to participate despite the fact that the scenario analysis exercise was never voted on by the full Board of Governors.[4] Uncertainty about the future path and outcomes of the climate renders the outputs of climate-related financial risk analyses, such as this one, potentially inaccurate in their predictions of future events. It is also highly

[2] Bd. of Govs. of the Fed. Reserve System, "Agencies request comment on proposed rules to strengthen capital requirements for large banks," (July 27, 2023). https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm.

[3] Bd. of Govs. of the Fed. Reserve System, "Federal Reserve Board requests comment on a proposal to lower the maximum interchange fee that a large debit card issuer can receive for a debit card transaction," (October 25, 2023). https://www.federalreserve.gov/newsevents/pressreleases/bcreg20231025a.htm.

[4] Bd. of Govs. of the Fed. Reserve System, "Federal Reserve Board announces that six of the nation's largest banks will participate in a pilot climate scenario analysis exercise designed to enhance the ability of supervisors and firms to measure and manage climate-related financial risks," (September 29, 2022). https://www.federalreserve.gov/newsevents/pressreleases/other20220929a.htm.

questionable whether the purported climate-related financial risks adequately address the relevant time horizons of financial institutions with dynamic portfolios that are frequently adjusted to reflect changing risk profiles. The FRB should cease these exploratory analyses on climate and wait for clear congressional authorization before taking steps to regulate financial institutions on climate-related risk.

- On February 24, 2014, the FRB issued a letter to financial institutions regarding the agency's process for applications.[5] The letter reflected new obligations and expectations for banks' merger applications and should have been issued for public comment so that stakeholders could share their concerns before having to comply with these new legal requirements.

We appreciate your consideration on these important matters and look forward to working with you and your staff to ensure the financial regulatory framework works more efficiently and effectively for all Americans.

Sincerely,

[5] Bd. of Govs. of the Fed. Reserve System, "SR14-2/ CA 14-1: Enhancing Transparency in the Federal Reserve's Applications Process," (February 24, 2014). https://www.federalreserve.gov/supervisionreg/srletters/sr1402.htm.

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cc: Representative Maxine Waters, Ranking Member, Committee on Financial Services
Kevin Hassett, Director of the National Economic Council