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CHAIRWOMAN

United States House of Representatives
Committee on Financial Services
Washington, DC 20515

PATRICK McHENRY, NC
RANKING MEMBER

December 17, 2019

The Honorable Jerome Powell
Chairman
Federal Reserve Board of Governors
20th Street and Constitution Avenue, NW
Washington, D.C. 20245

Dear Chairman Powell:

I am following up to my October 17, 2019 letter to you regarding the repurchase agreement (repo) markets. A few observations:

- **The root cause of the market spike remains unknown:** The highly unusual activity that took place in the repo markets in September remains a mystery. The Bank for International Settlements recently acknowledged that the explanations given—a due date for U.S. corporate taxes or a large settlement of U.S. Treasury securities—do not adequately explain what happened.[1]
- **Money keeps pouring out:** The Federal Reserve continues to provide an unprecedented $320 billion in liquidity to the repo markets, including an additional $86.4 billion on Monday alone. In my October letter, I articulated my concerns with the long-term implications of this type of market involvement, particularly with respect to the continued growth of the Fed's balance sheet.
- **Prudential regulators are concerned:** On December 4, the Federal Reserve Vice Chairman Randy Quarles testified before the House Financial Services Committee. When I questioned the Vice Chairman about the repo markets, he expressed concern that internal liquidity stress tests were playing a significant role in the volatility of the repo markets. He noted that the liquidity requirements were not only "worth reviewing," but are currently being reviewed by the Federal Reserve. Moreover, even the former Chairman of the Board's Committee on Supervision and Regulation, Daniel Tarullo, acknowledged in a policy speech on December 5 that the post-crisis liquidity regulatory regime might need revisiting. He noted that the post-crisis liquidity rules exacerbate the problem of banks "overhoarding" during times of stress—an outcome contrary to the objectives of safety and soundness.[2] This may be the first time that Vice Chairman Quarles and former Governor Tarullo agree on an issue of such significance.

The post-crisis regulatory regime needs to be reexamined in terms of our liquidity rules and supervision.

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[1] *See* Fernando Avalos, Torsten Ehlers and Egemen Eren, *September stress in dollar repo markets: passing or structural?*, BIS Quarterly Review (Dec. 2019), available at https://www.bis.org/publ/qtrpdf/r_qt1912v.htm.
[2] *See* Tarullo Remarks before the Conference on the Repo Market Disruption (Dec. 5, 2019), available at https://www.brookings.edu/events/the-repo-market-disruption-what-happened-why-and-should-something-be-done-about-it/.

We need to ensure that financial regulations are not creating the very vulnerabilities that they claim to solve. We need certainty that our regulatory regime is properly calibrated to ensure the safety and soundness of our financial markets. I remain concerned that this is a situation where regulatory policy is impacting monetary policy.

While I appreciate the steps the Federal Reserve has undertaken, I request that you provide specific information concerning the timeline and nature of the review to which Vice Chairman Quarles referred in his testimony. Also, I request that the results of this review be made available to the House Committee on Financial Services and the Senate Banking Committee, along with a statement addressing how such results may inform future actions taken by the Federal Reserve.

I appreciate your consideration of this request and the urgency for action. I look forward to your response.

Sincerely,

Patrick T. McHenry

Patrick McHenry
Ranking Member