

## **Crapo Statement at Hearing with Prudential Regulators**

*December 5, 2019*

**WASHINGTON** – U.S. Senator Mike Crapo (R-Idaho), Chairman of the U.S. Senate Committee on Banking, Housing and Urban Affairs, delivered the following remarks at a hearing entitled “Oversight of Financial Regulators.”

*The text of Chairman Crapo’s remarks, as prepared, is below.*

“Today we will receive testimony from: the Honorable Randal Quarles, Federal Reserve Vice Chairman for Supervision; the Honorable Jelena McWilliams, Chairman of the FDIC; and the Honorable Rodney Hood, Chairman of the NCUA.

“This hearing provides the Committee an opportunity to examine the current state of and recent activities related to the regulatory and supervisory activities of these agencies.

“It has been over a year now since the enactment of S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act, and the work of the agencies to implement most of the law’s provisions, including the tailoring rules for U.S. banks and U.S. operations of foreign banks.

“Your agencies should also carefully review the existing supervisory frameworks and make any necessary adjustments to appropriately align them with the tailoring rules and requirements.

“On July 30, 2019, all of the Republican Banking Committee members and I sent a letter to the federal banking regulators urging your agencies to finalize several outstanding provisions of S. 2155, such as the Community Bank Leverage Ratio and short-form call reports, and to further tailor regulations to promote economic growth, including addressing the Current Expected Credit Losses accounting standard, the Volcker Rule, inter-affiliate margin and Madden.

“Thank you for acting on many of these priorities. I encourage you to continue exploring additional opportunities to tailor rules.

“In that July letter, as well as an October 2018 letter to your agencies, several Banking Committee Republicans and I urged your agencies to revise the Volcker Rule, including using your discretion granted by Congress to address the current “covered funds” overly-broad definition.

“Although your agencies joined the SEC and CFTC to issue a proposal revising several aspects of the Volcker Rule, the ‘covered funds’ provision was left relatively untouched.

“I encourage your agencies to take quick action to address the ‘covered funds’ issue by revising the definition’s overly-broad application to venture capital, other long-term investments and loan creation.

“Separately, in September, short-term borrowing rates spiked as a result of a large corporate tax payment coming due, and \$300 billion in Treasuries hitting the market, even in light of banks holding a surplus of cash at the Fed, currently around \$1.4 trillion.

“In light of these events, banks could have stepped in to alleviate the volatility in those markets by lending some of the excess cash that they hold at the Fed. So, why did they not do that?

“Some have suggested that certain aspects of the Fed’s supervision and regulations imposed after the 2008 financial crisis may have exacerbated this problem, specifically the treatment of cash versus treasuries.

“Although the Fed has taken some steps to address the issue in the short-term by buying Treasuries and lending funds, it is important that the Fed review the details of its current regulatory and supervisory regime for potential long-term fixes.

“Now quickly turning to guidance, Senators Tillis, Perdue, Rounds, Cramer and I wrote to GAO in February asking for its legal opinion as to whether three Federal Reserve Supervision and Regulation Letters constitute a rule under the Congressional Review Act (CRA).

“In its October response, GAO concluded that two of the letters, including one providing a new supervision framework for large financial institutions and another related to recovery planning, are rules under the CRA, and are required to be submitted to Congress for review.

“During the Banking Committee’s April hearing on this very issue, I urged your agencies to follow the CRA and submit all rules to Congress, even if they have not gone through a formal notice-and-comment rulemaking to continue providing more clarity about the applicability of guidance.

“I encourage the federal banking regulators to take a more deliberate approach going forward, and take any necessary steps to rectify informal guidance that has not been submitted to Congress.

“In January 2019, the NCUA announced the portion of regulations that would be reviewed as a part of the process through which the agency reexamines all of its existing regulations every three years.

“The comment period for that review process has since closed, and I look forward to learning more about the regulatory recommendations provided to the NCUA and its roadmap for actions going forward.

“Finally, the Banking Committee has been exploring digital currencies over the last few Congresses, especially in light of the recent development of the Libra digital currency, started by Facebook.

“In July, I asked Federal Reserve Chairman Powell about his understanding of and the Fed’s role in the project.

“Although Chairman Powell noted that the Fed has set up a working group to focus on Libra and is in contact with the other regulatory agencies, he also said that ‘There is not any one agency that can stand up and have oversight over this.’

“Given its scope, regulators across the globe continue to evaluate Libra, its potential impact in the marketplace, and consider appropriate and necessary regulatory responses.

“It seems that digital currencies are inevitable, and the U.S. needs to lead by providing clear rules of the road.

“During this hearing, I look forward to learning more about the status of addressing the overly-broad covered funds definitions in the Volcker Rule, especially with respect to long term investments; how the agencies are thinking through the recent turmoil in the repo market, and what adjustments may be appropriate for a long-term fix; whether the supervisory framework that applies to banks currently needs to be updated to better reflect changes made in the tailoring rules; and how the agencies are thinking about the Libra project, including what U.S. regulatory framework merits consideration to balance innovation and protect its users and privacy.

“I thank each of you for your willingness to join the Committee today to discuss your agencies’ regulatory and supervisory activities, and these important issues.”

###