**Crapo Statement at Hearing with Federal Reserve Vice Chairman for Supervision**
*November 15, 2018*

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 during a full committee hearing entitled, “Semiannual Testimony on the Federal Reserve’s Supervision and Regulation of the Financial System.”

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

“Today we will receive testimony from Federal Reserve Vice Chairman for Supervision Randy Quarles regarding the efforts, activities, objectives and plans of the Federal Reserve Board with respect to the conduct, supervision and regulation of financial firms supervised by the Federal Reserve Board.

“We last heard from Vice Chairman Quarles in October on the Fed’s progress implementing S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act.

“At that time, the Fed had taken actions to implement some provisions of S. 2155, including those related to the 18-month exam cycle, high-volatility commercial real estate and the Small Bank Holding Company Policy Statement.

“Since then, the Fed has taken new steps to implement key provisions of the bill.

“Recently, the Fed issued proposals revising the application of enhanced prudential standards across four categories of firms to reflect each category’s varying risks.

“These proposals are a step in the right direction, and I appreciate the Fed’s work to issue them quickly.

“I understand the amount of staff work that went into getting the proposals out, and thank you and your staff for your work on these proposals.

“The proposals would assign banking organizations to one of four categories based on their size and other risk-based indicators, including: cross-jurisdictional activity; nonbank assets; short-term wholesale funding; off-balance-sheet exposures; and status as a U.S. global systemically important bank, or U.S. G-SIB.

“The category to which an institution is assigned would determine the enhanced prudential standards and capital and liquidity requirements to which it would be subject.

“I look forward to hearing how the application of certain enhanced prudential standards would address the risks associated with cross-jurisdictional activity, nonbank assets, short-term wholesale funding and off-balance-sheet exposures.

“The proposal incorporates a number of very positive changes to the current framework for regional banks, including: relief from advanced approaches capital requirements; a reduced liquidity coverage ratio; and changes to the frequency of supervisory and company-run stress testing and, some cases, the disclosure of the results.

“Despite this positive step, the agencies have left a number of items unaddressed, including: the treatment of foreign banking organizations; additional details on stress testing, including the Fed’s Comprehensive Capital Analysis and Review, or CCAR; and resolution planning.

“I encourage the regulators to revisit all regulation and guidance thresholds that were consistent with the outdated Section 165 threshold to an amount that reflects actual systemic risk.

“Regulators have two options: use a systemic risk factors-based approach, or raise all thresholds to at least $250 billion in total assets to be consistent with S. 2155.

“There are also other noteworthy provisions of the bill on which the Fed, working with other regulators, has yet to act, including implementation of the Community Bank Leverage Ratio and the provision that exempted cash deposits placed at central banks by custody banks from the supplemental leverage ratio.

“The Fed should work promptly to issue proposals to address these critical outstanding issues.

“I was encouraged by Vice Chairman Quarles’ speech last week, particularly the emphasis on providing more transparency around stress testing and capital planning processes.

“Finally, last week, all Republican members of the Banking Committee sent the FDIC a letter on Operation Choke Point.

“Operation Choke Point is an initiative in which federal agencies devised and relied upon a list of politically disfavored merchant categories with the intent of ‘choking-off’ these merchants’ access to payment systems and banking services.

“Staff at the banking agencies use verbal recommendations to encourage banks to stop doing business with disfavored, but legal businesses.

“I plan to look into how policy is communicated from the banking agencies to regulated institutions more broadly.

“I appreciate Vice Chairman Quarles’ joining us today to discuss developments in the Fed’s supervision and regulation and look forward to hearing more about the Fed’s pending work to implement S. 2155.”

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