Ranking Member Pat Toomey (R-Pa.)
Opening Statement
Full Committee Hearing
November 15, 2022 at 10:00 AM

Thank you, Mr. Chairman.

Today, we'll hear from our banking regulators about their recent regulatory activities.

Throughout this Congress, I have warned about the politicization of financial regulation.

Some bank regulators are increasingly straying outside their mandates into politically contentious issues.

Take global warming: In September, the Fed announced a "pilot climate scenario analysis exercise" with six of the largest U.S. banks.

Now, we're told this is merely an exercise in ensuring that banks understand their risks.

But the data – including the Fed's own research – show that there's no physical risk to banks from severe weather events.

The only other risk is so-called "transition risk."

But we know banks are fully capable of pricing risks into their business decisions, including risks from changing customer preferences over time.

The real risk here is political.

My worry is that an attempt to somehow quantify political risk will eventually result in regulations designed to allocate capital away from carbon-intensive companies.

It appears some bank regulators are already committed to doing just that.

For example, the Fed, FDIC, and OCC have all joined the "Network for the Greening the Financial System," an international group of financial regulators with a stated aim to "mobilize mainstream finance to support the transition toward a sustainable economy."

In other words, its goal is to allocate capital away from carbon-emitting industries to those deemed to be sufficiently green.

And let me emphasize: the Fed, FDIC, and OCC have all joined this group.

The NCUA has also warned that credit unions "may need to consider adjustments to their fields of memberships as well as the types of loan products they offer" because of global warming.

Here is the reality: some unelected financial regulators want to accelerate the transition to a lower-carbon economy by misusing their powers to allocate capital away from traditional energy companies.

But addressing global warming requires difficult political decisions involving tradeoffs. In a democratic society, these tradeoffs must be made by elected representatives accountable to the American people through a transparent and deliberative legislative process.

I supported Vice Chair Barr's nomination, despite our policy differences, based, in part, on his commitment to stick to the Fed's narrow mandates.

At his confirmation hearing, Vice Chair Barr stressed that the Fed "should not be in the business of telling financial institutions to lend to a particular sector or not to lend to a particular sector.

I urge him to keep that commitment by pulling the Fed out of the politically contentious issue of global warming.

Federal banking regulators have also been preoccupied with establishing new rules, the need for which are, in some cases, dubious.

For example, last month the Fed and FDIC proposed potential new requirements concerning the resolvability of regional banks. This proposal is predicated on the assumption that the only realistic option to resolve a large regional bank would be to sell it to an even larger bank.

It's not at all clear that this assumption is warranted, or that new requirements are appropriate for regional banks, for at least two reasons.

First, the Fed and FDIC have approved regional bank resolution plans for nearly a decade. And nowhere do these plans contemplate wholesale acquisition by larger banks.

Second, large regional banks have more than doubled their most loss-absorbing capital since the financial crisis. This dramatically improves their resilience and decreases the likelihood they'd need to be resolved.

Some regulators seem to hold the misguided view that the benefits of new requirements always outweigh the costs.

But we know regulation isn't without cost.

As regulation increases, financial activities will continue to migrate out of the banking system.

While some of our banking regulators have been distracted, they've failed to address real challenges facing the financial system.

For example, last year the Fed, FDIC, and OCC committed to providing greater clarity on the involvement of banks in crypto activities, such as providing custody services and issuing stablecoins.

Over a year later, they've provided no public clarity.

During that same period, we've seen several high-profile collapses of crypto companies, including one prominent example last week.

It's very possible that customers harmed by these collapses would've been better off if their crypto assets had been safeguarded by regulated banks that have been providing custody services for hundreds of years.

But many banks have been pressured—by you—not to provide crypto-related services until your agencies provide clarity, leaving them in a state of limbo. I will, however, note that Chairman Harper has not pursued this pressure campaign with credit unions. In fact, he has issued guidance for credit unions on partnering with crypto companies, or using distributed ledger technologies.

However, the ambivalence of the remaining agencies has helped to push crypto activities into foreign jurisdictions with weaker or no regulatory regimes. As a general matter, the failure of Congress to pass legislation in this space and the failure of regulators to provide clear guidance has created ambiguity that has driven developers and entrepreneurs overseas. And we've just once again seen how that ends.

There is one other item I'd like to highlight before we start: the deteriorating liquidity in the market for U.S. Treasuries.

In March 2021, the Fed committed to modify the supplementary leverage ratio – or SLR – in part to allow bank dealers to intermediate in this market. Yet, over 18 months later, the Fed has failed to act.

I understand that Vice Chair Barr has only been in his role for four months and has reasonably suggested that potential amendments to the SLR should be considered in the context of other capital requirements. But we should recognize that a significant decline in Treasury market liquidity is already occurring.

Absent an improvement, I fear that Fed might one day intervene by restarting its bond purchases, which would undermine its objective of fighting inflation.

What I hope to hear from our banking regulators today is that they'll: prioritize these and other real challenges and not stray beyond their mandates into politically contentious issues or establish unnecessary new regulatory burdens.