



Basel Endgame's Impact on American Businesses

The proposed “Basel Endgame” rulemaking from the Federal Reserve and other financial regulators would significantly increase capital requirements for the largest banks operating in the US and impose unnecessary costs on American small businesses and corporations. The proposed increases to capital requirements would increase American businesses’ cost of financing by limiting banks’ capacity to offer loans, including small business loans, at attractive prices and imposing higher costs on underwriting and holding most types of debt securities of larger U.S. corporations. Banks affected by the Basel Endgame proposal currently provide **\$1.84 trillion in commercial and industrial loans as well as \$14.7 billion in agricultural loans annually**.

Impact on Small Businesses

- ▶ First of all, the U.S. proposal would impose unnecessarily high financing costs on smaller, highly creditworthy companies that have not yet gone public, a requirement that the EU, UK and others have chosen not to implement themselves, thereby resulting in increased loan costs for U.S. businesses as compared to their international peers and making the U.S. a less attractive jurisdiction for starting a business.
 - The Basel Endgame proposal would not allow companies that are investment-grade and deemed at low-risk of default to qualify for lower capital requirements unless they or their parent also have securities listed on an exchange, unlike other international jurisdictions which do not have this requirement.
 - Small and mid-size businesses generally do not list securities on the NYSE or NASDAQ, as the cost of going public is immense. This provision would hit credit worthy small businesses that are at the core of U.S. economic growth with higher interest rates for their bank lending.
 - According to a recent paper published by the Federal Reserve, the banks affected by this proposal extend loans to 155,589 unique U.S. corporations. Of these, approximately 153,000 are private firms and therefore would not meet the securities listing requirement.¹
- ▶ Additionally, the U.S. proposal would not allow a lower capital requirement designated specifically for small- and medium-sized businesses (SMEs) that is afforded under the Basel agreement and which other international jurisdictions plan to implement, thereby requiring U.S. banks to hold more capital in order to provide small business loans, driving up the costs of those loans.
- ▶ Lastly, other provisions in the rulemaking such as an increase in capital requirements for off-balance-sheet commitments as well as an increase in capital charges for non-significant equity exposures will also negatively affect banks’ ability to lend to small businesses.

Impact on U.S. corporations

- ▶ The Basel Endgame proposal will lead to higher underwriting costs for initial offerings, will harm the secondary market for these securities (thereby reducing liquidity and further increasing financing costs) and in some cases will leave companies to use more expensive private debt options.
 - Changes to the market risk requirements would substantially increase capital requirements applicable to banks’ trading books, where banks hold debt securities they are underwriting.
 - Additionally, the proposal would force banks that generate revenue from fees—including underwriting and advisory services—to overcapitalize for these activities, thereby substantially increasing their costs.

Conclusion

Due to the harm the proposed Basel rulemaking will impose on the U.S. economy and American businesses, Congress must urge the Federal Reserve and other financial regulators to withdraw this rulemaking and carefully consider the costs of higher capital requirements before re-proposing a more sensible rulemaking.

¹ See. Caglio, Cecilia, R. Matthew Darst, and Şebnem Kalemli-Özcan; “Risk-Taking and Monetary Policy Transmission: Evidence from Loans to SMEs and Large Firms,” NBER Working Paper Series (2021), page 11.