AFR Americans for Financial Reform

May 23, 2023

The Honorable Patrick McHenry
Chairman
House Committee on Financial Services
2129 Rayburn HOB
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
4340 O'Neill HOB
Washington, DC 20515

Dear Chairman McHenry and Ranking Member Waters:

Americans for Financial Reform strongly urges you to oppose H.R. 3556 "*Increasing Financial Regulatory Accountability and Transparency Act.*" Not only does this bill put forward dubious policy proposals purportedly aimed at making the Federal Reserve more transparent, the most egregious provision will hamstring the Financial Stability Oversight Council's ("FSOC") ability to effectively monitor systemic risk in the financial system.

This bill would fundamentally weaken the FSOC by subjecting its designation authority to Congressional review. If passed, the bill would allow any firm the FSOC designates as systemically important to lobby Congress to rescind the FSOC's designation. This would render the FSOC designation authority under Title I of Dodd-Frank futile–given that any company large enough to be designated certainly has the resources to successfully lobby Congress–and unnecessarily politicizes the agency's efforts to monitor companies that pose an outsized risk to our financial system. This bill comes at the heels of the FSOC's announcement to reinvigorate its designation process, a welcome step in preventing the next financial crisis.

H.R. 3556 would also cap the agency's funding at the funding level of its fiscal year 2022. This would represent another attempt by Congress to control the funding of a federal financial regulator designed to have a stable and adequate funding level. The effect of this bill would be to further reduce the efficacy of this agency by starving it of much needed funding. The FSOC's budget is proposed by the Treasury Secretary and approved by a vote of members of the Council. In 2020, the then Treasury Secretary drastically reduced the FSOC's budget to $6 million from its high of $8.2 million in 2012. Secretary Yellen's proposed budget for 2023 is $13.4 million which will provide the agency with the resources to resume its designation work, hire staff to do so, and provide the Office of Financial Research the tools to maximize its potential. In light of the recent banking crisis and the systemic gaps it exposed among midsize banks, now is not the time for Congress to underfund the FSOC.

Lastly, the bill will require the President to appoint an “independent” voting member who is of a different party from the President and ban the council from establishing any advisory committees. These provisions are painstakingly obvious attempts to politicize the work of the agency and eliminate the newly created Climate-related Financial Risk Advisory Committee (CFRAC.) It is highly inadvisable to restrict the FSOC from creating advisory committees to lead comprehensive research into the various risks affecting our financial system, especially as our banking system grapples with the rise of digital assets, increased weather-related events that affect financial markets, the growing shadow-banking sector, and increasing cybersecurity threats. And that is just naming a few of the novel threats affecting our financial system.

Together, these proposals substantially undermine the FSOC’s ability to effectively oversee financial system stability and designate non-bank and bank systemically-important financial institutions (“SIFIs”). The proposals would vastly expand the ability of any firm seeking to evade adequate regulation to obstruct any SIFI designations. If adopted, these proposals would guarantee that the FSOC will be a weak and timid agency, without the will or ability to curb systemic risks to protect the American public.

For more information, please contact Alexa Philo, Senior Policy Analyst for Banking, Systemic Risk, Economic Justice, and Racial Equity at Alexa@ourfinancialsecurity.org.

Sincerely,
Americans for Financial Reform