AFR Americans for Financial Reform

March 19, 2018

Dear Representative,

On behalf of Americans for Financial Reform, we are writing to urge you to vote in opposition to H.R. 4566, which is being considered on the House floor today.[1] This legislation would eliminate the discretionary authority of the Federal Reserve to perform systemic risk examinations at non-banks. This would be a particularly ironic step for Congress to take on the tenth anniversary of the failure of Bear Stearns, a non-bank investment company whose failure was critical to the 2008 financial crisis. HR 4566 would also eliminate the requirement for stress testing of non-bank entities with over $10 billion in assets.

In the Dodd-Frank Act, Congress charged the Federal Reserve with a range of responsibilities for the oversight of risks to the U.S. financial system. This included extensive responsibilities for stress testing, which is the forward-looking assessment of risks to financial institutions based on potential future conditions. The lack of forward-looking risk assessment was a major contributor to the 2008 financial crisis and maintaining such risk assessments is an important part of preventing the next crisis.

As the key systemic risk regulator under the post-crisis regulatory framework, the Federal Reserve was granted the authority to perform stress tests at major non-bank financial institutions. While it has not yet used this authority, the ability to require stress tests at non-banks is a key element of systemic risk oversight. Institutions at the center of the financial crisis, such as Lehman Brothers, Bear Stearns, and AIG Insurance, were all non-bank financial institutions. Many non-bank financial institutions are central to our financial markets today, including giant multi-trillion dollar asset managers such as Blackrock and Fidelity and large private equity firms, hedge funds, and insurance companies. HR 4566 would eliminate the Federal Reserve’s authority to perform stress tests at such entities.

The Dodd-Frank Act also mandated that non-banks with over $10 billion in assets and a Federal regulator, such as large private equity firms and hedge funds, must undergo regular stress tests performed by their primary regulator. HR 4566 would also eliminate this important mandate.

Oversight of non-banks is a vital part of systemic risk regulation. HR 4566 would greatly weaken Federal authority for systemic risk assessments at these institutions, and it should be rejected. Thank you for your attention to this matter. For more information please contact AFR’s Policy Director, Marcus Stanley, at marcus@ourfinancialsecurity.org or 202-466-3672.

Americans for Financial Reform

[1] Americans for Financial Reform is an unprecedented coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups. A list of coalition members is available at http://ourfinancialsecurity.org/about/our-coalition/