Credit Union National Association CUNA

World Council

September 14, 2023

The Honorable Andy Barr
Chairman
Committee on Financial Services
Subcommittee on Financial Institutions
and Monetary Policy
United States House of Representatives
Washington, DC 20515

The Honorable Bill Foster
Ranking Member
Committee on Financial Services
Subcommittee on Financial Institutions
and Monetary Policy
United States House of Representatives
Washington, DC 20515

Dear Chairman Barr and Ranking Member Foster:

On behalf of the Credit Union National Association (CUNA) and the World Council of Credit Unions (WOCCU), we are writing regarding the Subcommittee's hearing entitled "Implementing Basel III: What's the Fed's Endgame?" CUNA represents America's credit unions and their more than 135 million members. The Credit Union National Association is also a member of the World Council of Credit Unions (WOCCU), which is the leading trade association and development organization for the international credit union movement. Worldwide, there are over 87,000 credit unions in 118 countries with USD 3.4 trillion in total assets serving 393 million physical person members.[1]

Basel III is an international regulatory standard largely shaped after the financial crisis of 2008 and introduced a set of reforms designed to mitigate risk within the international banking sector by requiring banks to maintain certain leverage ratios and keep certain levels of reserve capital on hand. WOCCU was active with the various international standard bodies during the development of this framework.

What is important to note is that embedded in the Basel Framework and the Core Principles for Effective Banking Supervision (BCPs)[2], which are applicable to all banks in all jurisdictions, is the principle of proportionality. Proportionality means tailoring regulations to the size, risk, and complexity of the financial institution. The full Basel III framework was intended to apply to large, internationally active banks, and was never intended to be applied to the fullest extent to smaller, less complex financial institutions such as credit unions.

[1] World Council of Credit Unions; 2021 Statistical Report; (2022); available at: https://www.woccu.org/our_network/statreport.

[2] *See* Basel Committee on Banking Supervision, *Core Principles for Effective Banking Supervision* (September 2012) *available at* https://www.bis.org/publ/bcbs230.pdf. Note: This standard is integrated into the consolidated Basel Framework and is currently under open consultation for amendment.

In fact, the Basel Committee on Banking Supervision in its *High-level Considerations on Proportionality*[3] notes that simpler standardized approaches in the Basel Framework may be suitable for financial institutions that are not internationally active and that in some cases regulation may require further adaptation. The National Credit Union Administration has taken such a proportional approach for credit unions in the United States and adopted a capital regime consistent with the principles of Basel III, yet largely appropriately tailored for the non-internationally active system under its purview. It goes even further by tailoring certain requirements for the size, risk, and complexity of various strata of credit unions under its jurisdiction.

We note that this does not mean an exemption from appropriate safe and sound requirements and in fact, certain approaches are even more stringent than the regulations applicable to banks. However, the proportional approach allows a simpler and more reasonable approach as is contemplated by the Basel III framework. This proportionality in this system of regulation and supervision ensure that the applicable rules and supervision practices are consistent with credit union's relative systemic importance and risk profile and are appropriate for the broader characteristics of the U.S. financial system. If this proportionality were not allowed, it would likely result in lessening the ability of the not-for-profit cooperative model to accomplish financial inclusion.

We note that in the European Union they have reached provisional agreement on the implementation of Basel III international agreements into EU law, which includes amendments to the Capital Requirements Regulation and Directive (CRR/CRD). Under this framework, the approach for credit unions includes what is commonly known as a CRD IV exemption pursuant to Article 2(5) of Directive 2013/36/EU (i.e., CRD IV exempt entities). This allows national-level authorities to impose a simpler approach for credit unions and is the European Union's way of providing proportionality under the Basel III framework appropriate for smaller, less complex financial institutions. A similar approach allowing the National Credit Union Administration to set appropriate capital standards is entirely consistent with how the standard is implemented internationally for credit unions.

We support the Federal Reserve's consideration of adopting the final pieces of the Basel III framework for banks under their purview. However, it is important to understand the proportionality built into the framework that must allow for tailoring for credit unions. Any such amendments must allow for this approach to allow for diversification in the marketplace and to allow community-based financial institutions to continue to serve their communities. On behalf of credit unions worldwide, thank you for considering our views on this important issue.

Sincerely,

Jim Nussle
President and Chief Executive Officer
Credit Union National Association

Sincerely,

Elissa McCarter LaBorde
President and Chief Executive Officer
World Council of Credit Unions

[3] *See* Basel Committee on Banking Supervision, *High-level Considerations on Proportionality* (July 2022) *available at* https://www.bis.org/bcbs/publ/d534.pdf.