

The Federal Reserve's Semi-Annual Monetary Policy Report [Hearing](#)

House Financial Services Committee Full Hearing

Hearing Entitled: The Federal Reserve's Semi-Annual Monetary Policy Report

Opening Statements

[Chair McHenry \(R-NC\)](#)

- I have faith that you will not allow politics to cloud your judgment in the fight to tackle inflation. As I have always said, you are a steady hand and I believe you are committed to the Federal Reserve's independence.
- Members on both sides of the aisle have made clear that the Basel III Endgame proposal would be catastrophic for families, communities, and small businesses. Regulators should withdraw it and start over.
- Most importantly, as the Basel III Endgame proposal is discarded or altered, I strongly urge you and other regulators not to finalize your long-term debt proposal.

[Ranking Member Waters \(D-CA\)](#)

- Until we address the underlying housing supply shortage, Americans will continue to pay an increasing share of their income on housing, the affordability crisis will worsen, and inflation will remain too high.

Rep. Barr (R-KY)

- While I'm pleased that the Fed is resolved to get inflation back under control, I'm not pleased by the recent, numerous, unjustified, politicized, and under-analyzed regulatory proposals.
- The Fed needs to withdraw and repropose the irredeemably flawed Basel III Endgame proposal, especially given that 97% of public comments across the ideological spectrum express disapproval of the proposal.

Rep. Foster (D-IL)

- The fiscal response that we engaged in was appropriately tailored and the soft landing is within sight.

Witness

[Jerome Powell, Chairman, Board of Governors of the Federal Reserve System](#)

- We believe that our policy rate is likely at its peak for this tightening cycle. If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year.
- We remain committed to bringing inflation back down to our 2% goal and to keeping longer-term inflation expectations well anchored. Restoring price stability is essential to set the stage for achieving maximum employment and stable prices over the longer run.

Question and Answer Session

Chair McHenry (R-NC)

- There's been a great deal of speculation about when the Fed would cut rates. Some say that there will be a lot of rate cuts this year. Some say none. What do you say? Powell: It will depend on the path of the economy. Our focus is on maximum employment and price stability.
- At what point will the Fed be forced to cut rates? Powell: The Committee would like to see more data that confirm that inflation is moving sustainably down to 2%. We have some confidence in that. Headline inflation has moved down more than 3 full percentage points. We want to see a bit more data so we can be confident we can take that step.
- There have been serious concerns across both sides of the aisle, America, and industries about the Basel III Endgame proposal. The general concern is a lack of economic justification for these actions but also on the substance. The proposal goes much further than the Basel III Committee recommended on capital requirements.
- Is the Fed listening to these comments about the impact the rule will have on everyday Americans? What is the status of the rulemaking? Powell: We got responses in mid-January and we're carefully analyzing them. We're just now reaching the stage where we can begin making decisions about how to proceed. We do hear the concerns and I do expect that there will be broad and material changes to the proposal. I'm confident that the final product will have broad support both at the Fed and in the broader world. For the questions we get on reproposal, I will say that we haven't made that decision but if we get to that point and it turns out to be the appropriate thing to do, we won't hesitate to do it.
- You won't rule out reproposal? Powell: No. I think it's a plausible option.
- It's good to hear that you'll be methodical and that the Fed will do its traditional role of building consensus around substantive changes. Is that your intention? Powell: That's right. It's more important that we get this right than do it fast.

Ranking Member Waters (D-CA)

- What are your updates on the merger review process and does the Fed plan to convene public hearings on the Capital One and Discover merger? Powell: We're in regular contact with the Justice Department on what's going on with their review of merger practices. On the potential merger you mentioned, we haven't received an application

so there's not much to say yet. When we do get the application, we're going to evaluate that merger under the factors laid out under the law.

- Do you believe that your bank merger procedures are ready to do the work necessary when you evaluate this possible merger? Powell: I do.
- Are you supportive of organizing community hearings on this merger? Powell: We've done that in many large mergers, but that's not a conversation we've had yet.
- Do you think the Fed has sufficiently emphasized the role that housing costs play in keeping us from your 2% inflation goal? Do you think it's reasonable to believe that monetary policy can accomplish this goal without a fiscal policy response? If so, how long will it take to get there? Powell: Housing services inflation is one of the three components that we look at that make up the core PCE index. It has been coming down from its heights. The overall story is that goods price inflation has turned negative. In our forecasts, housing services inflation will come down.
- The Bureau of Labor Statistics and the Cleveland Fed created an improved methodology based solely on new lease rents. Has the Fed incorporated this new indicator into its economic assessments? If not, why not? If so, what changes has it had on the level of inflation? Powell: We do incorporate it into our thinking. That's the reason market rents are moving at a slower pace.

Rep. Hill (R-AR)

- If you were to repropose Basel III Endgame, would the Fed delay the long-term debt proposal? Would you agree that the agency should not finalize this long-term debt proposal for bank holding companies until banks have a better understanding of what their capital obligations might be? Powell: We haven't made the first decision yet so I can't say definitively. But that's a question we'd be asking ourselves
- Is the Fed considering changes to the requirement for regional banks to issue long-term debt? Powell: That's another area where the comment period ended a little while back. We're in the process of evaluating the comments. There will be a thoughtful process around that.
- Do you think the flexible average inflation targeting framework was a mistake in hindsight? Is it under review? Powell: We said we would do a review on a five-year basis. The change in approach was based on the fact that we had very low interest rates and inflation for a long time. It was a way to keep inflation expectations anchored at 2%.

Rep. Meeks (D-NY)

- Can you say that there's a connection between conflicts in other areas of the world and the economic pressures that the United States feels? Powell: Certainly.
- Would the connection lead you to believe that there's an urgent need for us to do everything in our power in Congress to support Ukraine so that we can help the commodities market and bring food prices down? Powell: I wouldn't have an opinion on Ukraine funding.

- We're recovering quicker and better than any other economy on this planet as a result of your policies and the policies of Joe Biden.

Rep. Lucas (R-OK)

- Will the Fed work to fix the Basel III Endgame proposal's negative effects on commodity derivatives? Powell: We're aware of the concerns and it's an area we're taking a close look at.
- Will you work with the CFTC to address concerns around clearing services? Powell: We're aware of the concerns and we're prepared to work with other agencies and make sure our capital proposal appropriately addresses them.

Rep. Green (D-TX)

- Do you believe there will not be a recession? Powell: What we're seeing so far this year is continued solid growth. There's no reason to think that the U.S. economy is at a short-term risk of falling into a recession. Having said that though, there's always a possibility. I don't think that possibility is elevated at this time.
- Are we headed to a soft landing? Powell: What we've seen so far is an economy that's growing at a solid pace. We're seeing a labor market that is still tight and strong. Inflation has come down sharply.
- How do you define a soft landing so that a layperson would understand that we have had one? Powell: We want to keep the economy growing, the labor market to remain start, and inflation to continue to move closer to the 2% objective. We want to continue those conditions.
- Will there be an announcement at some point that we've had a soft landing? Powell: I don't think by us.

Rep. Sessions (R-TX)

- What's your view on what this Administration is doing on energy? Powell: We're not responsible for energy policy and we try to avoid commenting on it.
- It arbitrarily keeps prices high. You're not going to comment on that? Powell: It's not appropriate for us to comment.

Rep. Himes (D-CT)

- In a *60 Minutes* interview a few weeks ago, you characterized distress in the commercial real estate market as sizeable but manageable. Do you still feel that risk is manageable? Do you feel like you have the visibility, transparency, and tools to address it? Powell: Yes, it is manageable. We've looked at banks that have significant concentrations and we've been in touch with them to make sure they have a plan to deal with it. There will be losses by some banks. It's going to be a problem we'll be working through for several years.

- Given the context of Silicon Valley Bank, what gives you the confidence that supervisors and examiners will be on top of this? Powell: Our supervisors are out there. We have been engaged with medium and small-sized banks on this. I'm confident that we're doing the right things there.

Rep. Luetkemeyer (R-MO)

- I urge the Board to proceed with extreme caution on any type of price control proposals, especially since the first iteration was so clearly harmful.
- Knowing of the hardship caused by this policy on low-income consumers, does it give you pause to continue down this road? Powell: The law does assign us a specific job which is to assess whether an interchange fee received by a large issuer for processing a debit card transaction is reasonable and proportional to issue or costs. The concerns that have been raised will be things we think about.
- What's the legal basis for updating the regulation? Powell: If the costs change then the regulation should change. That's our reading of the law.
- Do you think there are issues with artificial intelligence that we need to look at? Powell: We're very focused on AI.

Rep. Garcia (D-TX)

- Can you detail how immigrants have been fueling our national growth? Powell: More people working equals a bigger economy.
- To continue on a solid pace, then we need that labor force. Do you agree? Powell: Last year we had a big increase in workers. It came from participation increases from people who are already here and immigration. I'm not going to say anything is needed for the future.
- Is it possible for the Fed to conduct a formal assessment of the positive impact immigrants have on our economy and report back to Congress? Powell: Not really. That's a job for the CBO.
- What strategies and programs are you using in the Fed to ensure that there is diversity and inclusion? Powell: When Reserve banks hire a new president, those processes are very focused on having a diverse applicant pool. We don't have any role in the appointments of Governors. Internally, we're focused on having an open and inclusive place to work.

Rep. Huizenga (R-MI)

- How much do you consult with other agencies on their own rulemaking agenda? Powell: I don't lead that area. There's talking but I'm not sure about coordination.

- When a rule is finalized under another regulator, do you have a policy of looking at your pending rules to see if changes need to be made because of other agency rulemaking? Powell: There's no mandate to do that, but if it would make sense to do that we would.
- I've heard that elements of Basel III overlap with the Fed's annual stress tests. What are you going to do to address that overlap? Powell: We're at the beginning of deciding what to do about Basel III and part of that may be the interaction with stress tests.
- Do you think the banks that failed last year and ultimately needed the government bailout lacked sufficient capital or was it more of a management problem? Powell: I wouldn't say capital for Silicon Valley Bank was the cause. It was a funding structure that was too concentrated.
- Why have some FSOC regulatory agencies, including the Fed, limited their guidance on climate-related risks to only large financial institutions? Powell: It's a new thing. We're not climate policy regulators. We're starting it carefully with large institutions that are already doing it.

Rep. Tlaib (D-MI)

- Do you agree with the April Fed report that compensation incentives contributed to SVB's bank failure? Powell: It's at best a tertiary factor, but it probably had something to with it.
- Do you agree that appropriate rules on incentive compensation could have reduced the likelihood of SVB's failure? Powell: I don't think so.
- Do you think it had to do with Section 956 of Dodd-Frank not being finalized by the Fed? Powell: No.
- Do you support a robust rulemaking for executive compensation? Powell: I do. Section 956 is the law. The agencies are looking at doing something.
- Will you commit to finalizing Section 956 this year? Powell: I'd like to understand the problem we're solving and then I'd like to see a proposal that addresses that problem.
- Do you believe people should profit off of bank failure? Powell: No.
- Do you believe the impacts of climate change pose a real risk? Powell: I believe climate change is real and poses a risk over the long term.
- Who do you see as the major winners and losers from high interest rates in terms of income groups, age groups, and race groups? Powell: The point of high interest rates in the current environment is to bring inflation under control. The people who are hurt the most by inflation are people on a fixed income. Those people benefit the most over time from stable prices.

Rep. Wagner (R-MO)

- Do you agree that it would be more productive for Fed supervisors and regulators to keep their eye on the ball, in this case, commercial real estate and other real estate investments? Powell: Yes. We're doing that.
- Do the median number of your members anticipate that you will be cutting interest rates sometime this year by as much or more than a full percentage point? Powell: No.

- Are you anticipating that there will be more cuts coming? Powell: We're making economic projections. What goes with those forecasts is an appropriate monetary policy. We expect inflation to come down, the economy to keep growing, and the labor market to remain strong. If that's the case, it will be appropriate for interest rates to come down significantly over the coming years.
- Considering that 75% of financing in the U.S. is done through our capital markets, why would the Fed continue to pursue this flawed Basel III proposal instead of reproposing a rule that would not have such a drastic impact on the U.S. economy? Powell: The capital markets concerns are among those that I raised myself in our open meeting.
- How are you reconciling them? Powell: We're working through the comments and coming to a point where it'll be appropriate for us to evaluate changes. Those changes will be broad and material.
- What is the Fed's response to another agency encroaching on its jurisdiction? Powell: We don't comment on other agencies' regulations.

Rep. Velázquez (D-NY)

- Is the Fed monitoring the rising cost of insurance and its impact on the macroeconomy? Powell: We are aware of increases in insurance, including property insurance. It's been adding meaningfully to inflation. It's not something we have control or authority over.
- Can you explain what evidence you're looking for before inflation has returned to 2% and interest rates can be cut? Powell: We're not looking for inflation to go all the way down to 2%. What we want is just more evidence that will give us more confidence that inflation is on a path down to 2% sustainably.
- What evidence? Powell: More relatively low inflation readings.
- How is the Fed working with other agencies to finalize Section 956? Powell: There have been discussions between the regulatory agencies. I haven't seen a proposal. I think something is under consideration.

Rep. Barr (R-KY)

- You have said numerous times that the capital framework is about right and that banks are well-capitalized. Do you still believe this? Powell: I do.
- Given that you believe that, would a reproposal that implemented Basel III in a capital-neutral way do so without jeopardizing financial stability? Powell: It could.
- Does it concern you that 97% of the comments were negative? Powell: It's unlike anything I've seen.
- Why did the Fed choose to do a quantitative impact study during the comment period for the proposal? Powell: We will put the QIS out for comment and those comments will be taken into consideration.

- Have the lawyers at the Fed raised any process concerns or Administrative Procedure Act issues with the Board? Powell: We're committed to doing transparent, reasonable, and data-based rulemaking in compliance with the APA.
- Under your tenure as chair, can you identify any other regulatory proposal that has elicited this much dissent? Powell: No.
- Have you achieved a consensus yet on the Basel proposal? Powell: I'm confident that we will.
- Do you agree that the heterogeneity and the business model diversity within the banking sector contribute to system-wide financial stability? Powell: I do.
- Do you agree that a concentrated business model within the banking sector would present a potentially systemic risk? Powell: Potentially.
- By de facto repealing regulatory tailoring, subjecting category three and four regional banks to one-size-fits-all standards currently only applied to large G-SIBs, discouraging securitization, eliminating the use of internal risk models, and transitioning the industry and regulators to only a standardized framework, would push the industry into a smaller and more concentrated-looking industry, and as a result, increase systemic risk and decrease market competition. Do you share that concern? Powell: It's a real concern.
- We hope that you can commit to reproposing Basel III Endgame.

Rep. Lynch (D-MA)

- Is there a systemic concern with commercial real estate or is this isolated? Would lowering interest rates help those banks? Powell: We've had a secular change in the economy which has left office rental demand lower. We've gone through the commercial banks that have a high concentration and we're ready to deal with that.
- Is there any historical example we can look to if Congress has to take steps to redirect seized Russian funds and redirect them to Ukraine? Powell: Sanctions and foreign assets are directed by the Administration. We don't make those decisions.

Rep. Williams (R-TX)

- I urge you and your colleagues to rethink the misguided Basel III proposal and do what's best for the American people, small businesses, and Main Street America and withdraw the proposal.
- Can you comment on how the Fed is responding to the negative comments? Powell: We're in the process of reviewing the comments. My view is that there will be material and broad changes to the proposal.
- Do you believe the long-term debt proposal goes against the requirements of S. 2155, the *Economic Growth, Regulation Relief, and Consumer Protection Act*? Will you commit to exploring this issue further with your colleagues? Powell: We're committed to implementing 2155.
- How does inflated spending combined with economic headwinds like supply chain shortages impact the economy? Doesn't this type of reckless spending fuel the

pressures of inflation? Powell: There are a lot of causes of the inflation we've seen. Inflation happened in all advanced economies.

Rep. Sherman (D-CA)

- Is there substantial economic analysis that argues that your target rate and the economy would work better if we had a slightly higher target than 2%? Powell: No. Two percent has become a global standard.
- Can I count on you to look at the paradox where Basel III treats clean energy tax credits much more harshly than low-income housing tax credits for no ascertainable reason? Powell: Yes.

Rep. Loudermilk (R-GA)

- What do you believe to be the driving forces behind the record-high levels of credit card debt? Powell: Part of it would be growth in the economy.
- If there was a rule to force banks to tighten lending, do you think the rule would drive businesses and consumers to alternative forms of credit? Powell: I do.
- Will you commit to an analysis of how bank capital proposals like Basel III affect small business credit access and small-dollar lending before finalizing such proposals? Powell: I'll look into that.
- Do you believe it's important that we have an understanding of the effect on small businesses? Powell: I do.
- Have you discussed withdrawing the proposal with Vice Chair for Supervision Barr or other Governors? Powell: I don't want to get into our internal discussions. I understand it is a live option.
- Can you explain the importance of broad consensus at the Fed on proposals like B3E? Are you concerned with recent trends of disagreement among Board members related to major proposals? Powell: I think we're going to get to a broad consensus.
- Do you feel they have validity in their concerns? Powell: I was one of them.
- Has the Fed been instructed within the last three years by Treasury or anyone else to search Americans' legal transactions? Powell: Not that I know of.

Rep. Foster (D-IL)

- From freezing Russian assets, have you seen deleterious effects on the primacy of the dollar? Is there any visible downside to the act of freezing? Powell: I can't point to any.
- Is the data you've collected enough for you to estimate the magnitude of the effects of Basel III? Powell: It's hard to get down to the micro level.
- Are there lessons you've learned about the importance of getting the right balance of fiscal and monetary response to economic shocks? Powell: It's too soon to tell. The pandemic is still writing the story of our economy right now and we should just be prepared to be surprised with the next chapter.

Rep. Davidson (R-OH)

- Today, I've introduced the *Prohibition on the IOER Act* which would prohibit the Federal Reserve from paying interest on excess reserves. By eliminating IOER, we can begin to return our economy to the undistorted free market economy it's supposed to have.
- What's your case for why you should keep paying interest on excess reserves? Powell: Banks have a cost of funds and they have what they can earn. That's what really matters to the spread. Banks can earn a much bigger spread by lending to corporates.
- What's the path back to cash flow positivity for the Fed? Powell: You can't look at the loss without mentioning we've been giving \$100 billion a year in profits to the Treasury. When we raise rates, we absorb paper losses. It has no effect on the way we operate.
- I encourage you to halt any effort to develop a central bank digital currency. It doesn't need to be designed, developed, or established.

Rep. Beatty (D-OH)

- Are you concerned about the effects interest rate hikes are having on the costs of financing new construction? How do you expect to control long-term housing inflation? Powell: When we're raising rates, housing is affected. We understand that and it's just the reality that housing will slow when you raise interest rates. It's beyond valuable for people to have price stability. We have to do this and it will benefit the country in the long term.
- How can we achieve economic goals in a more precise and equitable manner? Powell: I think what we're doing is working. You see inflation coming down. Sometime this year we will likely begin to reduce rates.

Rep. Rose (R-TN)

- What efforts have been made by the Fed to fully communicate its position that the ATM industry does not automatically present a higher risk for illicit finance to financial institutions across the country? Powell: I will have to get back to you on that.
- The Fed has long maintained the principles of national treatment and equality of competitive opportunity when regulating foreign banks and assessing them based on their U.S. operations. Are you still committed to these principles? Powell: Yes.
- How will these principles be reflected as you move to finalize the Basel III Endgame proposal? Powell: We have received a separate set of comments from foreign banks and we'll look at those in that spirit.
- Can you commit to reviewing the synthetic securitization approval process and taking steps to reduce the backlog of pending securitization applications? Powell: There is a lot of appetite to do them. We're not stopping them; we're just being careful. We want to make sure these structures durably transfer.
- Is there a lack of available resources to apply to the approval process or is it intentional slow walking? Powell: I don't know. We're not stopping them; we're being careful with them.

- Has the Fed's Supervisory Climate Committee or the Financial Stability Committee had any discussions regarding the adoption of ESG risks in capital requirements? Powell: I don't know.
- Has there been any discussion in our committees regarding the adoption of ESG risks in capital requirements? Powell: I don't know. It's not something we're considering.

Rep. Casten (D-IL)

- More immigration is generally going to ease inflationary pressure. Is that a safe characterization? Powell: It's probably closer to neutral over the long run.
- Can you speak to forward views on economic growth and inflation? How sensitive are they to your assumptions about Census versus CBO data on what the actual level of immigration is to the country? Powell: CBO assumptions are meaningfully higher and would affect growth.
- Are there parts of the country that are seeing stronger wage growth than others? Powell: There are.

Rep. Timmons (R-SC)

- Can you shed light on the Fed's role within the rulemaking process concerning the long-term debt proposal? Have you provided input regarding the proposal's interplay with Basel III Endgame? Powell: We're one of the proposers of the rule. We're looking at the comments right now.
- I'm concerned that the long-term debt proposal's lack of tailoring contradicts the requirements of the *Economic Growth, Regulation Relief, and Consumer Protection Act*. Do you believe it represents a tailored approach? Powell: The tailoring question is one we will be asking ourselves in our review of the comments.
- Did the advance NPRM released in the fall of '22 include category 4 banks? Powell: I can't confirm that.
- Do you believe regulatory agencies should provide smaller regional banks longer than the three-year phase-in period to meet any final long-term debt requirements? Powell: We'll be looking at that.
- If these proposed regulatory changes had been in effect prior to the fall of SVB and Signature, do you believe the outcome would have been different? Powell: If there had been more long-term debt there to absorb losses.

Rep. Pressley (D-MA)

- What would you expect the impact of lowering interest rates to be on the housing market? Powell: Higher rates have slowed activity. As we start to lower rates, the housing market will pick up.

- It's clear that the current state of our housing market is impacting everyone, and disproportionately hurting those that need stability the most. Does this concern you? Powell: Our job is to do price stability and maximum employment. We don't target the housing market.
- Do you agree we need a more robust fiscal response to increase the supply of affordable housing and lower costs nationwide? Powell: We don't express opinions like that. There's a structural housing shortage and that's the longer-term problem.

Rep. Norman (R-SC)

- When are the CRA regulations going to be out? Powell: The final rule is out. Requirements don't kick in for a couple of years. We're working on follow-up regulations.
- How is the participation rate going for FedNow? Powell: It's slow.
- Is the pricing below cost? Powell: I don't believe so. Not for longer run costs.

Rep. Horsford (D-NV)

- What actions, if any, is the Fed considering to better understand and mitigate the impacts the Basel III proposal will have on minority borrowers who disproportionately rely on high LTB mortgages due to the generational wealth gap that persists? Powell: We've received many comments on the mortgage changes. We understand the concerns and are looking carefully at them.
- Are you concerned that these shifts in risk weights will reinforce the decade-long retreat of banks from the mortgage market and push more originations to non-bank institutions? Powell: It's something we take very seriously and will be taking into consideration.
- Could you discuss why you feel it is necessary to include new requirements around operational risks in Basel III in light of claims it will significantly increase the cost of or prevent banks from offering altogether necessary services such as underwriting, investment advisement, or insurance? Powell: That is one of the concerns that has been articulated about the proposal. We're in the process of turning to the question of what changes to make.
- Would you be able to speak to the necessity of collecting data so that minority- and women-owned businesses are included in the Board's contracting acquisition opportunities? Powell: I do believe we collect that data.
- Why is it important? Powell: Diversity in the workplace is an important thing.

Rep. Steil (R-WI)

- Does the broad diversity of voices that hold concern about Basel III Endgame concern you? Powell: We're in the process of assessing what we need to do to address the comments.

- Can you comment on how the Fed thinks about the economic impact of the SEC's finalized climate rule or regulations more broadly? Powell: We don't comment on other agencies' regulations.
- How does the Fed view the impact of public-sector employment growth relative to private-sector economic growth? How do the two data points factor into your assessment of how the broader economy is performing? Powell: Jobs are jobs. We tend to look at private-sector job creation since it's a better indicator of private-sector momentum in the economy. But we look at both.
- Does the increase in public-sector jobs give you concern? Powell: There's some catch-up hiring going on there now. It's not an issue we're concerned about.
- How does the Fed view the adoption of new technologies, particularly AI, as it relates to labor productivity? Powell: It's hard to say. We need to see more data to determine if it's a longer-term boom. AI can either augment labor or replace labor. That's the question and we don't know what it will do.

Rep. Torres (D-NY)

- How do you reconcile the Fed's repeated assurances about a well-capitalized banking system with Basel III's assumption of an under-capitalized banking system? Powell: Higher capital is always going to add to safety and soundness but there's a cost. Identifying the precise level is difficult.
- If the purpose of Basel III is to align U.S. banks with their peers elsewhere in the world, why is the Fed imposing more stringent requirements? Powell: We're exceeding the minimums with this proposal. I'll agree that we are gold-plating.
- How do you reconcile Basel III's recommendation for standardization with Congress' requirement for tailoring? Powell: You're right. We do need to take on more of the lessons of Silicon Valley Bank as it relates to the smaller large banks, but we don't need to throw away tailoring. It's also appropriate if we're going to have a diverse banking system.
- Do you think Basel III could have the unintended consequences of reinforcing the trend toward shadow banking? Powell: Yes, we've seen intermediation activity moving out of the banking system and this has the risk of doing more of that.
- What is your response to criticism that the Fed should focus its energy on the forms of risk that were responsible for the SVB bank failure rather than focusing on forms of risk that were largely unrelated to it? Powell: I agree. However, we are working on a package of liquidity measures that directly address the SVB situation. We've also taken supervisory actions with other small- and medium-sized banks that don't require new rules.
- There's a concern that Basel III would diminish the availability of LIHTC and the amount of affordable housing development. Is that something you're willing to examine? Powell: Yes.

