New White Paper Finds Broad Consensus for Better Systemic Risk Measurements than Arbitrary $50 Billion Threshold

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WASHINGTON – The $50 billion asset threshold the Dodd-Frank Act uses to designate banks as systemically important was never intended to serve as a risk threshold, and more accurate measurements exist, according to a new white paper published today by the Regional Bank Coalition.

"With Congress considering changes to the arbitrary $50 billion asset threshold contained in Dodd-Frank, it is important to look at both how we got here and how the world has changed in the last five years since Dodd-Frank was enacted," said William Moore, executive director of the Regional Bank Coalition. "An examination of the evolution of the legislation that eventually became Dodd-Frank shows clearly that the $50 billion threshold was not intended to designate systemic risk and recent research has developed more holistic approaches to measure risk."

Detailing the legislative history of the Dodd-Frank Act, the white paper finds that the $50 billion demarcation was initially intended to enhance regulator accountability, reduce regulatory gaps and limit the regulatory burden on industry, not to designate whether financial institutions with assets greater than $50 billion presented increased risks to financial stability. Between passage in the Senate Banking committee and the president's signature, however, the bill's regulatory framework was significantly amended on the floor of the Senate, and conforming changes were never made to the $50 billion provision. The $50 billion threshold became a *de facto* threshold for enhanced regulation, even though it was never intended to designate systemic risk.

The paper also examines research by regulators, economists, and analysts into systemic risk and finds a broad consensus that size alone is an inadequate measurement for determining risk. For example, researchers at the International Monetary Fund wrote in May 2014 that, "among large banks only (over $50 billion in assets), size *per se* ceases to be an independent risk factor" and that "large banks create more systemic risk …when they engage more in market-based activities or are more organizationally complex."

"Regional banks show none of the risk characteristics of the large money center banks, yet they are regulated like them," Moore said. "Applying systemic risk regulation to banks that aren't systemically risky diverts attention from regulators and causes regional banks to divert resources that could otherwise be used to support local economies through loans to families and small businesses."

"Congress has a chance to establish a new regime that gives regulators flexibility to protect the financial system from systemic threats, while allowing those banks who pose no systemic risk from rules and costs that make no sense," Moore said. "Our members are ready to step up their support for the American economy, and we hope Congress will reform the rules so they can."

The full white paper can be accessed by clicking here.

About the Regional Bank Coalition: The Regional Bank Coalition is a group of regional banks that support regulation based on risk and business model to ensure safety and soundness. For more information, visit www.regionalbanks.org or follow on Twitter @rgnlbanks.