



FedFin Daily Briefing

Tuesday, March 1, 2022

HFSC Readies for Powell Testimony

Apart from a macroeconomic overview, much of the HFSC staff [memo](#) ahead of Chairman Powell's appearance tomorrow details recent Fed actions to enhance diversity, and Fed-official trading problems and resulting policies. The memo also provides a factual discussion of the status of CRA regulation, bank-merger policy, and CBDC. We [continue](#) to expect the hearings to focus on Ukraine and sanctions rather than these day-to-day issues, but there will certainly be some questions on them as the hearing proceeds. As always, we will provide clients with in-depth analysis shortly after the hearing concludes.

Gruenberg Worries re Risks to Come

The FDIC released its usual quarterly [report](#) on IDI conditions, showing considerable strength in the fourth quarter. Still, Acting Chairman Gruenberg's [remarks](#) expressed considerable caution about industry resilience under growing macroeconomic and geopolitical stress. He does not propose any specific measures or actions he believes that the FDIC or other regulators should take to address possible weakness. Indeed, Mr. Gruenberg has yet to go beyond the formidable agenda he announced [upon taking office](#) to detail any new initiatives.

Reach of U.S. Sanctions

Building on our report last week on new sanctions ([see FSM Report SANCTION16](#)) and Karen Petrou's [memo](#), we here address a frequently-asked questions as the Ukraine conflict rages and sanctions increase: the extent to which foreign banks without a U.S. presence must adhere to U.S. sanctions. As detailed in ([see FSM Report AML133](#)), a new law gives federal law enforcement sweeping authority to subpoena foreign-bank records related to sanctions even if the FBO has no U.S.-domiciled relations as long as it has correspondent-banking relationships with a U.S. bank.

To be sure, the extent to which U.S. law enforcement could effectively invoke extraterritorial subpoenas in such cases is unclear. However, the likelihood that any bank resisting such a request would continue to have correspondent-banking relations with U.S. banks is very low given current circumstances. As a result, U.S. sanctions have significant reach across the global banking system regardless of the extent to which a home country (e.g., India, China) agrees to or enforces current anti-Russia sanctions.

FRB Tries Anew re Payment-System Access

Responding indirectly but importantly to the controversies swirling around Sarah Bloom Raskin ([see Client Report FEDERALRESERVE69](#)), the FRB today released a [supplement](#) to its earlier proposal about the extent to which novel entities are granted Reserve Bank master accounts ([see FSM Report PAYMENT17](#)). The supplement details a framework for all requests for accounts and services, with the Fed now emphasizing the need for a transparent review process. It does not, however, address the manner in which one nonbank (Reserve Trust) received a master account under a process so opaque, it puzzled Chairman Powell when asked about it at a recent Senate Banking hearing ([see Client Report FEDERALRESERVE67](#)). Although the Board describes this a supplement to the original proposal, it appears in fact to be a replacement for it, and we will thus shortly provide clients with an in-depth analysis to determine the extent to which this framework authorizes access for nonbanks (initial review suggests it does). Comment will be due 45 days after *Federal Register* publication.

Congress Poised to Tighten Russia's Financial Noose

Signaling that the U.S. Congress will add new sanctions to pending Ukraine relief, Senate Finance Chairman Ron Wyden (D-OR) [today called for an array of financial actions](#) to circumvent Russian finance. Among these is a call for the U.S. to require financial institutions to eliminate all correspondent-banking relationships with Russian oligarchs or the nation, a move now easier to implement in light of the recent law ([see FSM Report AML133](#)) highlighted in a client alert earlier today. Sen. Wyden also calls for direct property seizures as well as application of U.S. AML reporting to private-equity funds and family offices, arguing that the SEC can do so via a rulemaking.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-030122](#): As we noted late [last week](#), FHFA has finalized revisions to its [2020 capital rule](#) that most importantly lighten the GSEs' capital load and reinvigorate credit risk transfer.
- [GSE-022822](#): Responding to continuing FSOC complaints about [nonbank servicers](#), FHFA has proposed [new seller-servicer eligibility standards](#) that crack down hard on any nonbank servicer whose size evokes systemic qualms.
- [SANCTION16](#): In this report, we address many of the questions we've received about U.S. policy in the wake of Russia's invasion into Ukraine.
- [GSE-022422](#): As noted late [yesterday](#), the CFPB has gotten a jump on FHFA and the banking agencies with the first step towards a long-delayed AVM rule demanded in the [Dodd-Frank Act](#).
- [CRYPTO25](#): Despite fierce partisan fighting over pending Fed nominations, today's Senate Banking hearing on stablecoin regulation was considerably more bipartisan than last week's HFSC session ([see Client Report CRYPTO24](#)).
- [GSE-021022](#): Moving far ahead of the banking agencies [AI](#), FHFA [today](#) released a series of supervisory AI/ML standards for Fannie, Freddie, and CSS, perhaps leaving the FHLBs alone because none so far does much within this arena or nobody cared.
- [GSE-020922](#): Continuing her very different vision of Fannie and Freddie, FHFA Acting Director Thompson [today](#) has released a new strategic plan for the agency emphasizing the importance of both equitable and sustainable housing finance.
- [CRYPTO24](#): Today's HFSC hearing on stablecoins makes it clear that the bipartisan legislation Chairwoman Waters (D-CA) prefers is at best a long way off.
- [FEDERALRESERVE69](#): As this report details, all three Fed nominees before the Senate Banking Committee today emphasized the vital importance of Fed independence and their anti-inflation zeal to quell GOP opposition and cement it among moderate Democrats.
- [CONSUMER38](#): Taking action to advance President Biden's competition order, the CFPB is seeking views on fees which it believes exploit consumers by virtue of unfair competition.
- [GSE-020122](#): Nothing could do as much damage to a business based on fee revenue as a determined

CFPB inquiry into fee revenue.

- [CBDC10](#): Months after initially promising to release a discussion draft on central bank digital currency (CBDC), the Federal Reserve is now seeking comment on whether and how it might create one.
- [GSE-012422](#): A new Federal Reserve Bank of Atlanta [study](#) adds another element to those [prior research argues](#) are evidence of widespread racial discrimination in U.S. mortgage finance.
- [GSE-011422](#): As noted in our in-depth analysis of Acting FHFA Director Thompson's confirmation hearing, it's clear that Democrats and Republicans are thinking hard about resurrecting statutory changes to the GSEs' charters.