



FedFin Weekly Alert

Monday, April 11, 2022

❑ LOTS TO DO

Although Congress has left Washington for a two-week recess, it and the rest of the capital will be working hard – FedFin very much included. Key developments to anticipate include:

- **Sanctions Plus:** As Secretary Yellen made clear in her HFSC testimony ([see Client Report SANCTION18](#)) the U.S. and its allies are looking for ways to punish Russia and its allies, and Congress wants more of this on a still faster schedule. A raft of bills is awaiting an [HFSC mark-up](#) and negotiations are under way to position many of them for action when Congress convenes on April 25. Facts on the ground and thus action by the Administration may take some of these bills off the table, and others are largely rhetorical. However, some bills mandate the secondary sanctions the White House has so far been wary of imposing. Given their financial-market consequences, we'll be watching these with particular care.
- **Capital:** As a new in-depth [report](#) details, the Fed is readying U.S. proposals on the "Basel IV" package of changes to credit-, market-, and operational-risk capital. These rules will have significant impact on individual asset classes and overall strategy, with the U.S. agencies no longer inclined to implement them with modifications that would have reduced their bottom-line capital cost for the very largest banks.
- **Stablecoins:** Last week saw speeches from Treasury Secretary [Yellen](#), [Acting Comptroller Hsu](#), and SEC Chairman [Gensler](#) on digital assets, stablecoins very much included. Much of this lays groundwork for the reports due under the President's executive order ([see Client Report CRYPTO26](#)) in October, but we think much will happen between now and then, especially in Congress. [Legislation](#) is in the works not only to define the Administration's choices, but also [to craft CBDC](#) and even create a new form of [digital fiat currency](#) from the Treasury. We will shortly provide clients with in-depth analyses of these measures.
- **Consumer Protection:** The CFPB under Rohit Chopra is a house on fire. Our recent [newsletter](#) summarized many key initiatives on which we've sent you in-depth reports, but many more are to come, especially on the "junk-fee" and anti-discrimination fronts these analyses address. We also expect near-term initiatives – likely in the enforcement arena – from the Bureau as it gathers its data on bigtech and then marshals its supervisors to address them. Mr. Chopra is also

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looking to curtail [core-service providers](#), whom he believes exercise undue market power over community banks.

Headlines From the Past Week's Daily Briefings

April 4

- **FDIC Climate-Risk Principles Set for Public Comment** - Monday's *Federal Register* includes the final [text](#) of the FDIC's request for public comment on climate-risk management principles.
- **FRB-NY Reasserts that Disasters Don't Damage Bank Resilience** - The Federal Reserve Bank of New York [released](#) a blog post on its earlier staff paper finding that weather events triggering federal disaster declaration did not pose significant risk to bank resiliency, even for the most damaging of disasters.
- **GOP Demands Disclosure, Not Rules, Govern Stablecoins** - *Federal Register* includes the final [text](#) of the FDIC's request for public comment on climate-risk management principles.
- **HFSC Presses Financial Industry for Reparations** - The HFSC [memo](#) on hearing about the need for reparations from the financial-services industry indicates that the Oversight Subcommittee will focus on the extent to which banks provided financing for slavery, allowed for enslaved persons to be used as collateral, and how insurers covered enslaved people's work or sales value.
- **Nonbank Small-Business Lenders Face Possible CFPB Sanction** - House Small Business Chair Velasquez (D-NY) has introduced H.R. 7351 to force nonbank small-business lenders into the CFPB's efforts to identify patterns of racial, ethnic, or gender bias via ECOA disclosures.
- **CFPB Demands Lenders Give Consumers Data in Servicing, Other Disputes** - Building on its mortgage servicing [initiatives](#), the CFPB not only filed an amicus brief in a case against Wells Fargo, but also reiterated that banks must participate in "relationship banking" and respond promptly and specifically to consumer inquiries.
- **Gensler Stays Tough on Crypto Platforms, Coins, Tokens** - Noting that Superbowl ads have often presaged consumer-finance disasters, SEC Chairman Gensler said that the cryptoassets hype may pose significant consumer and investor risk.

April 5

- **HFSC Set to Quiz Yellen on Sanctions, Global Finance** - As [anticipated](#), the HFSC [memo](#) ahead of hearing with Secretary Yellen highlights many pending bills designed to increase sanctions against Russia and Belarus, as well as the companies, oligarchs, and others affiliated with them or found to be acting on their behalf.
- **IMF Official Urges Caution on CBDC Adoption** - Bo Li, Deputy Managing Director at the IMF, [urged caution](#) at an East African Finance Conference about building central bank digital currencies, referencing the findings of an [IMF study](#) on CBDC pilot programs.

- **Waters Demands Racial-Equity Action** - As [anticipated](#), the HFSC's Oversight Subcommittee hearing on reparations featured considerable criticism of the financial services industry.

April 6

- **IOSCO Dodging Open-End Fund Reform?** - IOSCO asked for comment on corporate-bond market liquidity and ETF best practices.
- **Chopra Calls CRAs a Cartel** - In a [speech](#) on consumer reporting agencies, CFPB Director Chopra focused not on the sector's decision to change medical-billing practices as the Bureau recommended, but rather on the fact that the three major agencies did so on the same day in the same announcement.

April 7

- **Yellen Reiterates U.S. Tech-Neutrality Principle for Digital-Asset Policy** - Treasury Secretary Yellen [detailed](#) work now under way to comply with the President's digital-asset order ([see Client Report CRYPTO26](#)), laying out principles that will guide the Administration as it builds a framework designed to enhance innovation without harm to financial stability, privacy, equality, and other core objectives.
- **FDIC Hits Brakes on Crypto Activities** - In conjunction with Secretary Yellen's speech, the FDIC issued a [letter](#) requiring the banks it regulates to obtain prior clearance before undertaking crypto-related activities (broadly defined).
- **Brown Seeks Bank Merger Review** - Senate Banking Committee Chairman Brown (D-OH) sent FRB Chairman Powell and Acting Comptroller Hsu a [letter](#) asking them to join the FDIC in seeking comment on bank-merger policy ([see FSM Report MERGER9](#)).

April 8

- **CFPB Tackles Core-Service Providers** - CFPB director Chopra [told](#) community banks and credit unions that he wants to be sure that entities that he described as focused on relationship banking are included in CFPB decision-making, in contrast to the large banks that had previously influenced its actions.
- **Hsu Supports Special-Purpose Stablecoin Charter** - Picking up on both Secretary Yellen's [comments](#) and the PWG's stablecoin report ([see Client Report CRYPTO21](#)), Acting Comptroller Hsu [went farther](#) to conclude that cryptocurrency in general poses systemic risk that warrants immediate attention to stablecoin regulation.
- **FSOC Worries About Commodity-Market Risk** - The FSOC readout from its closed meeting was as inscrutable as usual. However, we infer that the Council convened principally to assess commodity-market volatility in the wake of the Ukraine invasion.

This Week

No meetings of note.

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-040722](#)**: FHFA has finalized new [capital rules](#) for the GSEs designed to accelerate the credit-risk transfer the agency now deems essential for a fast-acting conservatorship exit.
- **[SANCTION18](#)**: As [anticipated](#), today's HFSC hearing with Secretary Yellen largely focused on ways to sanction the Russian Federation and its allies and associates.
- **[DEFI](#)**: As [promised](#), this report provides an in-depth analysis of IOSCO's new [paper](#) on decentralized finance, one sure to advance the [FSB's](#) efforts to bring DeFi systems under greater regulatory scrutiny due to the findings we here detail.
- **[GSE-032222](#)**: As detailed in our new in-depth [analysis](#), the CFPB's [exam-manual rewrite](#) dramatically redefines the compliance-, legal-, and reputational-risk terrain for any consumer-financial company and the vendors or counterparties on which it relies.
- **[CONSUMER39](#)**: Reflecting one of its new director's top priorities as well as that of the Biden Administration, the Bureau of Consumer Financial Protection has significantly revised its examination manual when it comes to behavior that might be viewed as discriminatory in a wide range of consumer-financial products, services, underwriting, advertising, marketing, governance, and other arenas.
- **[SANCTION17](#)**: The Senate Banking Committee's hearing today on illicit finance focused as expected on cryptocurrency and suggests that targeted legislation addressing specific jurisdiction or compliance issues might advance on a bipartisan basis.
- **[GSE-031522](#)**: Although we have done extensive analysis of a U.S. central-bank digital currency (CBDC) in our sister analytical service, we have not viewed as it as an imminent strategic consideration for housing-finance agencies and financial institutions.
- **[CRYPTO26](#)**: We follow our initial client alert here with an in-depth analysis of President Biden's long-awaited [executive order](#) laying down steps intended quickly to construct a U.S. digital-asset policy construct.
- **[GSE-030722](#)**: A new Urban Institute study suggests that banks are more likely to discriminate when it comes to minority borrowers, heightening concerns at a time with increased political risk related to racial equity and mortgage finance.
- **[GSE-030122](#)**: As we [noted](#), FHFA has finalized revisions to its [2020 capital rule](#) that most importantly lighten the GSEs' capital load and reinvent credit risk transfer.