



FedFin Weekly Alert

Monday, May 9, 2022

□ SOCKING IT TO FSOC

As the schedule below notes, this week will again bring FSOC's record and agenda before Senate Banking and the House Financial Services Committee. Much of the session will, as usual, wander into areas outside FSOC's ambit – inflation and sanctions are sure-fire examples of non-FSOC issues on which Treasury alone exercises considerable sway and about which Congress is intensely curious. However, there's a lot to talk about when it comes to high-priority financial policy and, even in Washington, talk often leads to action. We'll provide you with an in-depth report after each of these hearings, listening for:

- **Crypto and Stablecoins:** Hearings earlier this year with Under-Secretary Liang ([see Client Report CRYPTO25](#)) were inconclusive. Ms. Liang reiterated key conclusions in the President's Working Group stablecoin report ([see Client Report CRYPTO21](#)) as well as in the President's executive order on digital assets ([see FSM Report CRYPTO26](#)) without making it at all clear if FSOC would proceed to systemic designations or other actions ahead of or in concert with rules from the banking agencies. Treasury may again plead for Congress to take a leadership role, but it and Congress know well that doing so is a duck-and-cover maneuver as both sides of the aisle and factions within each party take very different stands on the future of digital assets. As a result, more about what the Administration and agencies will do and when is likely to surface. Ms. Yellen will also be pressed on her CBDC thinking ahead of hearings in HFSC later this month.
- **Climate Risk:** Another Presidential [order](#) demands much to mitigate climate risk. The SEC has taken the lead here with its controversial disclosure [proposal](#), a proposal Republicans will surely dispute even as Treasury defends it. Democrats will come at Ms. Yellen from another direction, demanding more from the banking agencies than the risk-management principles pending at the OCC and FDIC ([see FSM Report GREEN12](#)), renewing demands for stress testing and even "brown-penalty" capital charges. As we noted last week ([see FSM Report CLIMATE13](#)), global regulators have rejected capital requirements as part of effective climate-risk mitigation, but proposed standards for scenario analysis, stress testing, and even systemic standards for the largest banks, insurers, funds, and asset managers. We doubt anyone on the Hill has read this report, but Members know that FSOC can designate certain activities and practices as systemic, and some will press it quickly to do so with regard to fossil-fuel finance.
- **M&A:** Another order from the President demands a tough new stand on bank M&A ([see Client Report MERGER6](#)). This isn't an FSOC issue, nor does Treasury have direct authority over merger policy – that's to come from the Department of Justice ([see FSM](#)

Report MERGER10) – or M&A decisions solely within the purview of the banking agencies. Members may nonetheless take the opportunity to press the Treasury Secretary on what she knows these agencies are doing on both the policy front and pending transactions, giving her a chance not only to lay out White House concerns, but also link them to the new inter-agency CRA proposal (see Client Report CRA31) in order to stress the critical importance of community commitment. Of course, discussion may turn from policy to political, with the GOP again arguing that FDIC Democrats staged a coup to oust former Chair McWilliams, trying to put Ms. Yellen on this procedural spot. She won't, we predict, land on it.

Headlines From the Past Week's Daily Briefings

May 2

- **IMF Urges Strict Public-Bank Controls** - The IMF took strong issue with the concept of public banks, concluding that deposit-taking public banks directly competing with private banks should be subject to the same rules and supervision as private banks.
- **CFPB Report Highlights Violations re Mortgage Origination, Deposits, Credit Cards, Remittances** – The CFPB issued its Supervisory Highlights report, highlighting issues the agency is now prioritizing.

May 3

No news of note.

May 4

- **Senate Overdraft-Fee Review Suggests Low Legislative Odds** – The Senate Banking Financial Institutions and Consumer Protection Subcommittee overdraft hearing was a largely collegial and theoretical session until Sen. Warren (D-MA) announced that she is sending letters to the largest banks with overdraft fees to demand that they terminate this practice.

May 5

- **Dems Expand Crypto Concerns to Retirement Accounts** - In a letter Fidelity, Sens. Warren (D-MA) and Smith (D-MN) opposed the firm's decision to include Bitcoin in its 401k plans, reinforcing prior guidance from the Department of Labor that took considerable exception to the use of virtual currency in retirement accounts.

May 6

- **Treasury Sets Precedent with VC-Mixer Sanctions** - Treasury for the first time sanctioned a virtual currency mixer, doing so for North Korea's Blender.io, which operates on the Bitcoin blockchain.

- **BIS Survey Results Highlight Accelerating CBDC Action** - The BIS [issued](#) its latest CBDC survey, finding that nearly two-thirds of central banks think that they may issue a CBDC, with many indicating that the reasons for doing so include payment-system limited operating hours and the length of current transaction chains.
- **Fed Takes Guarded Stand on Banking Industry Condition** - The Federal Reserve's Supervision and Regulation [Report](#) concludes that the industry's market condition has weakened somewhat since the beginning of the year due to geopolitical stress, with U.S. banks now coming close to those in Europe.

This Week

Tuesday, May 10

Senate Banking Hearing entitled: "The Financial Stability Oversight Council Annual Report to Congress." [10:00 am, Dirksen Senate Office Building 538]. Witness: The Honorable **Janet L. Yellen**, Secretary, Department of the Treasury.

Wednesday, May 11

HFSC Subcommittee on Investor Protection, Entrepreneurship and Capital Markets Hearing entitled: "A Notch Above? Examining the Bond Rating Industry." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: Witnesses not yet available.

Thursday, May 12

HFSC Hearing entitled: "The Annual Report of the Financial Stability Oversight Council." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: **The Honorable Janet L. Yellen**, Secretary, Department of the Treasury.

House Agriculture Committee Hearing entitled: "Changing Market Roles: The FTX Proposal and Trends in New Clearinghouse Models." [10:00 am, webcast]. Witnesses not yet available.

Senate Banking Hearing entitled: "Addressing Climate Change with Energy-Efficient and Resilient Housing." [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **Ms. Ruth Ann Norton**, President & CEO, Green & Healthy Homes Initiative.

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](#).

- [**CRA31**](#): The FDIC today led the way with release of a long-awaited inter-agency [proposal](#) updating decades-old CRA regulation.

- **CLIMATE13:** The FSB's report is aimed at establishing global standards that prevent fragmentation along national or regional lines as well as ensuring that regulatory and supervisory actions mitigate climate risk to the greatest extent possible in the face of an array of data and measurement challenges.
- **INTERCHANGE9:** As anticipated, bankers and card networks squared off with merchants at today's Senate Judiciary hearing addressing credit-card interchange fees.
- **GSE-042822:** In this note, we expand on our analysis of the CFPB's new campaign against nonbank financial institutions to look more deeply at its impact on residential-mortgage finance.
- **CONSUMER42:** Today's HFSC hearing with CFPB Director Chopra plowed much ground broken yesterday before the Senate Banking Committee (see Client Report CONSUMER40), but several new furrows were also unearthed.
- **CONSUMER41:** Using what it describes as "dormant" authority, the CFPB is seeking comment on a rule setting the procedures under which it expands its authority to nonbank financial companies it believes pose consumer-protection risk.
- **CONSUMER40:** The Senate Banking Committee's hearing today with CFPB Director Chopra was a sharply partisan session with little immediate impact on what Mr. Chopra plans to do to achieve his sweeping new vision.
- **GSE-042122:** In our last CRT analysis, we looked at transaction viability under the Basel IV rewrite set for rapid release once key Fed nominees are finally confirmed.
- **GSE-042022:** As we noted yesterday, the IMF's financial-stability report includes a searing assessment of fintech risk.
- **CBDC11:** As promised, we turn here to an in-depth analysis of a paper from global regulators on whether CBDC contributes to financial inclusion – one of the most vital arguments from those advocating CBDC in the U.S. and in many other nations.
- **GSE-041522:** Cementing her very different vision of Fannie and Freddie, Acting Director Thompson has now finalized a new strategic plan for the FHFA emphasizing the importance of both equitable and sustainable housing finance.
- **CBDC11:** Progressive Democrats in the House have introduced an alternative digital-dollar proposal ("e-cash") to the "FedAccount" construct urged by Senate progressives that mandates an electronic currency created by the Treasury Department to devise an electronic substitute for physical fiat currency.
- **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.