FedFin Daily Briefing

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Banks, Asset Managers Come in for New Climate Controversy

In a letter to HSBC CEO Noel Quinn, Sen. Steve Daines (R-MT) sharply criticized the bank's decision to suspend a top official, Stuart Kirk, for earlier remarks that climate change's financial risk is being overstated. The letter raises policy issues as well as political ones because the Senator warned that the decision may violate US law because it may reflect pressure from BlackRock in violation of its passive-asset commitment to avoid controlling-party designation. Sen. Daines asks whether HSBC had any contact with Blackrock, climate-focused industry groups, or any other US-based groups about Mr. Kirk's speech or the decision to suspend him but gave no deadline for a response.

Bureau Bashes Big Banks, Wants Better Customer Service

Fulfilling its director's promises to target big banks (see *Client Report* **CONSUMER40**), the CFPB today released an RFI seeking ideas on how big banks can be encouraged or perhaps forced to enhance customer service, an attribute Mr. Chopra conflates with consumer protection in a speech accompanying this action. The Bureau is concerned that big banks do not provide "high-quality" service and the interactions necessary for the relationship banking deemed important to fair competition, especially in rural areas. Its new request for information thus targets the timeliness of big-bank and large credit-union responses to customer inquiries, seeking views not only on this but also on whether it would be useful to require banks to share information on how consumer data is provided to third parties and how much compensation is received by the bank when this occurs. This line of questioning relates to Mr. Chopra's separate plan to prohibit certain consumer-data uses. The RFI also cites concerns about "algorithmic banking", echoing the CFPB's recent ruling on algorithmic underwriting and adverse-action notices (see FSM Report **FAIRLEND11**). Comments will be due thirty days after Federal Register publication; an in-depth analysis will shortly be provided to clients.

BIS Finds DeFi Increases Financial Risk, Harms Inclusion

In a bulletin today, the BIS highlighted the negative impact that the anonymous nature of DeFi has on financial risk and inclusion. It finds that overcollateralization is pervasive in DeFi lending because screening of individual borrowers is impossible, but crypto's volatility means that overcollateralization did not eliminate risk of loss. The bulletin cites the recent collapse of TerraUSD as an example, as Terra was widely used as collateral due to its perceived value. When the stablecoin collapsed, it caused a sharp decrease in crypto loan volume. The bulletin also argues that overcollateralization minimizes financial inclusion, as borrowers need to own more assets than they wished to borrow, effectively locking out LMI borrowers and small businesses with limited access to capital. To enable DeFi to harness the potential of smart contracts and composability while mitigating these problems, the authors recommend that DeFi tokenize real-world assets and abandon anonymity to fall under the regulatory umbrella.

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.

- **CRYPTO28:** After protracted negotiations and much public attention, bipartisan senators have introduced a far-reaching bill designed to encourage digital-asset use without undue risk to consumers, investors, or the financial system.

- **GSE-060922:** When Sandra Thompson earlier this year enunciated a new equitable-finance mission, we forecast that Fannie and Freddie would undertake an array of new activities that significantly expand their footprint along with their equity and equality impact.

- **GSE-060722:** FHFA released its first-ever report on the extent to which Fannie, Freddie, and the FHLBs meet their statutory mission.

- **GSE-060222:** Following on the heels of new capital disclosures, FHFA has finalized a planning process designed to ensure that GSEs have something good to say when they post these reports, reassuring markets and perhaps even speeding the way out of conservatorship.

- **GSE-060122:** As detailed in our new in-depth report, the CFPB has issued another sweeping rule by way of a seemingly innocuous circular not subject to public notice and comment.

- **FAIRLEND11:** Continuing its use of novel rulings that preclude public notice and comment, the CFPB has issued a landmark ruling on artificial intelligence (AI) and other forms of algorithmic underwriting stipulating lender responsibility for sending out the adverse action notices required under the Equal Credit Opportunity Act (ECOA).

- **GSE-052722:** FHFA has finalized its October proposal to create a new qualitative capital and governance disclosure regime, going well beyond the disclosures initially mandated in the final capital rule to instill market discipline long associated with private companies, not conservatorships.

- **CBDC13:** Newly in place as Fed Vice Chair, Lael Brainard today made it clear at an HFSC full committee hearing that her prior statements laying out CBDC benefits are still her thinking despite the considerably more ambivalent approach outlined in the Fed's discussion draft (see FSM Report **CBDC10**).

- **DEPOSITINSURANCE113:** Using a new approach to issuing enforcement edicts – a circular – the CFPB has made use of its controversial decision to bring nonbanks under its ambit to bolster the FDIC's efforts to enhance consumer understanding of which funds are entrusted to FDIC-insured depositories and which may be at greater risk in other hands.

- **CRYPTO27:** Sharp disruptions in cryptoasset markets, and especially those for stablecoins, have energized calls for rapid U.S. statutory and regulatory action along lines initially laid out by the President's Working Group on Financial Markets (PWG).

- **CRA32:** Following much talk about the need to update Community Reinvestment Act (CRA) rules since this was last done in 1995, federal banking agencies have finally agreed on a proposed redesign of standards essential to banks that wish to expand or acquire as well as those seeking strong community ties and the policy and political benefit these afford.

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- **GSE-051622:** As we noted last week, the federal banking agencies sighed a mighty sigh and heaved up a massive inter-agency proposal rewriting decades-old standards detailing which activities earn the Community Reinvestment Act (CRA) points essential for any bank's strategic objectives and national reputation.

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