



FedFin Weekly Alert

Monday, August 8, 2022

❑ AN UNQUIET AUGUST

As is all too evident, campaign season is roaring and Democrats are doing all they can to persuade Americans that allowing them to retain Congressional control is the best way to ensure a better economic outcome than pretty much anyone else thinks possible. As of this writing, the “Inflation Reduction Act” is moving forward, with the Senate thus set for a “vote-a-rama” in which all sorts of extraneous issues appear seemingly out of nowhere as appendages to a must-pass measure. We are watching this closely and will advise clients as soon as we identify legislation with financial-sector strategic impact. And, while August is indeed vacation season, federal regulators remain very busy in part because several cherished initiatives are at grave risk should Republicans gain control of both the House and Senate. As we have [noted](#), the CFPB is less frightened of Congress because it’s less scrupulous about the niceties of administrative action, but it will use August’s seeming quiet to drop some high-impact initiatives. We are on watch for:

- Signals from the Fed about new regulatory and supervisory policy now that Michael Barr is at this helm. Most of August’s work at the Fed will continue behind closed doors ahead of proposals in the fall on hot-button issues such as merger policy and climate risk. The Fed is also under increasing pressure to do something about payment-system access, CBDC, and – as with the other agencies – digital assets. It will also be laser-focused on figuring out how best to defend its independence ahead of a Jackson Hole meeting designed to buff up the Fed’s lagging credibility;
- What Acting Comptroller Michael Hsu will do as he faces varying views about how long he is allowed to do anything as Acting Comptroller. His position like that of FDIC Acting Chairman Gruenberg (see below) is time-limited, but what these limits are and who has how much time is a matter for much Washington debate;
- Whether the FDIC proceeds with any of the progressive initiatives Mr. Gruenberg and CFPB Director Chopra favor. These could include a final version of a new merger policy ([see FSM Report MERGER9](#)), renewed efforts to limit ILCs and their parent companies, and new broker-deposit ([see FSM Report DEPOSITINSURANCE111](#)) and premium-assessment rules ([see FSM Report DEPOSITINSURANCE114](#));
- If the agencies can finally conquer their disagreements and come up with a coherent posture in Congressional negotiations on stablecoin legislation and digital-asset regulation;
- Who’s where as the agencies race to finalize their CRA rule ([see FSM Report CRA32](#));
- Whether long-delayed rules governing third-party vendors and, by inference, fintech partnerships advance ([see FSM Report VENDOR9](#)); and
- What’s next from the CFPB. Space and time do not permit even an abbreviated version of what’s brewing at the Bureau – see all our client notes to this effect on key topics or let us know if you’d like help finding them.

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Headlines From the Past Week's Daily Briefings

August 1

- No news of note.

August 2

- **FFIEC Turns Back to Troubled Loans** - The banking agencies and NCUA [sought](#) comment on proposed changes to troubled-loan standards that would codify action during the great financial crisis on CRE-related allowances for loan and lease losses ([see FSM Report ALLL5](#)) and Covid-crisis era regulatory and CECL actions ([see FSM Report CECL7](#)).
- **Senate Banking at Another Loggerhead, This One re Housing** - Senate Banking hearing on rising rent was a partisan session, with Democrats urging support for legislation to provide emergency rental assistance and other federal interventions.
- **Hsu Fears Continuing Cyber Risk** - In [remarks](#), Acting Comptroller Hsu indicated that, while banks have generally done a good job combatting cyber threats, this has led to an undue sense of security across the industry, law enforcement, and national-security officials.

August 3

- **Senate Ag Crypto Bill Lauds CFTC, Faces Many Obstacles** - As we anticipated as the crypto debate [continues](#), the Senate Agriculture Committee has sought to claim jurisdiction with a new, bipartisan bill granting the CFTC broad regulatory, supervisory, and enforcement powers over most digital-asset platforms and the assets traded on them.
- **ECB Study Favors CBDCs Over Private Crypto for Cross-Border Payments** - A [study](#) released by the ECB argues that CBDCs would be a cheaper, safer, and more effective vehicle for cross border payments for global transactions than privately-issued cryptoassets or stablecoins.
- **FRB-Minneapolis Renews Attack on Big-Bank Capital Resilience** - Renewing its attack on big-bank capital ratios, the Federal Reserve Bank of Minneapolis [released](#) its own stress-test conclusions, reinforcing its president's longstanding view that the largest U.S. banks are woefully under-capitalized even though test results show considerable variance on a bank-by-bank basis as well as overall resilience.
- **FRB Philadelphia President Touts Fintech's Financial Inclusion Potential** - FRB Philadelphia President Patrick Harker [stated](#) that fintech can increase financial inclusion, specifically citing buy-now pay-later products because they offer financial services to low-to moderate-income customers who would otherwise be locked out of traditional lending because they are more likely to be non-White, lower earning, and younger.

August 4

- **Global Regulators Tackle CCP Operational, Liquidity Risk** - Although no new standards are planned, IOSCO and the CPMI nonetheless [released](#) a request for views on how CCPs can best manage operational and other risks unrelated to default events.
- **Senate Climate Change Session Yields Familiar Talk, Little Action** - Senate Banking hearing on the economic costs of climate change yielded familiar climate, energy, and financial-stability arguments along party lines.
- **Toomey Demands Fed Transparency, Presses Reform** - In a Bloomberg [interview](#), Senate Banking Ranking member Toomey (R-PA) disclosed that a conservative group pressing the Fed for Reserve Trust information determined that there are at least a dozen pages germane to the question of how this firm obtained payment-system access.
- **CFPB Plans to Combat Bigtech in Payments and Commerce** - The CFPB released a [report](#) laying out more details of how it plans to proceed on at least one bigtech concern: the integration of payments and commerce.
- **Brown, Other Dems Demand USB Consumer-Account Data** - Sens. Brown (D-OH), Warren (D-CA), and three other Banking Committee Democrats [demanded](#) information from U.S. bank regarding a recent [CFPB enforcement action](#) related to improperly-opened consumer accounts.

August 5

- **Senate Dems Demand Answers from Equifax re Inaccurate Credit Scores** - In a [letter](#) to Equifax's CEO, Sens. Warren (D-MA), Warner (D-VA), and Krishnamoorthi (D-IL) demanded answers about erroneous credit scores, asking why the company failed to notify affected borrowers and waited several weeks to notify lenders.
- **Brown Targets Life-Insurance Systemic Risk** - Senate Banking Chairman Brown (D-OH) [announced](#) that he plans a hearing questioning the role of private-equity companies in the life-insurance sector.

This Week

Wednesday, August 10

SEC Open Meeting. [10:00am, webcast]. Matters to be discussed: The Commission will consider whether to propose amendments to Form PF to amend reporting requirements for all filers and large hedge fund advisers.

Future Events of Note

No events of note.

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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](#).

- **[LIBOR8](#)**: Moving belatedly but now expeditiously to implement legislation governing legacy-contract benchmarks when there is no contractual fallback rate, the Fed has proposed a new framework for derivatives, consumer loans, certain GSE contracts, and any other legacy contracts without clear LIBOR-replacement provisions and a "determining person" to effectuate them.
- **[GSE-072122](#)**: We yesterday provided a complete assessment of Sandra Thompson's sojourn on HFSC's [griddle](#), noting the lack of any insights into essential issues such as conservatorship's end or the full scope of CRT's new beginning.
- **[GSE147](#)**: At her first hearing as confirmed FHFA Director, Sandra Thompson made it clear to House Financial Services that she is committed to expanding credit-risk transfer (CRT), encouraging equitable finance via new GSE activities, and recapitalizing Fannie and Freddie as quickly as possible.
- **[GSE-071922](#)**: As noted earlier today, the Fed has finally brought forth its LIBOR-transition [proposal](#) specifying permissible benchmarks for legacy contracts without contractual fallback rates.
- **[CRYPTO30](#)**: As part of its response to the President's digital-asset executive order, the Department of the Treasury is seeking views on the broad policy questions on which it believes answers might guide the Administration's next steps.