



FedFin Weekly Alert

Monday, September 19, 2022

❑ QUESTION TIME

Although cantankerous shareholders can be a bit of an annoyance, big-bank CEOs rarely go through wringers of unrelenting and sometimes downright unpleasant questioning. This will, though, be their fate when a select group of GSIB and super-regional bank CEOs is called before HFSC and Senate Banking later this week. Nothing will come of this inquisition in terms of legislation, but – as the shift in overdraft and racial-equity policy makes clear – big banks can feel compelled to change course even as regulators hear the wind at their back. Key issues this time around will be:

- **Bank Mergers:** These hearings used to be a GSIB-only affair. That they aren't ensures that Chairwoman Waters (D-CA), Sen. Warren (D-MA), and other progressives will demand to know why banks seek to merge and lay out lots of reasons these Members think they shouldn't. Republicans will defend banks and the market, likely pushing back especially on demands for tougher CRA or racial-equity hurdles to merger approval.
- **Racial Equity:** Speaking of which, Wells Fargo will come under heavy fire even though it last week decided to get a racial-equity audit and any other bank that has failed to do the same will hear a lot about it.
- **Climate Risk and "Woke" Banking:** CEOs will be hammered from both sides of the aisle on these tender topics. Democrats will demand much faster action to quell climate risk and abandon fossil fuel; Republicans will press banks to obey the law as the GOP interprets it and provide financial services to all qualified, legal comers.
- **Risk Management:** Based on press [last week](#), we expect Citi's CEO to be questioned about her bank's standing with the Fed. Merger critics will also use this issue to question the ability of large banks to grow and more-capital advocates will use it for their own purposes. Those who want tougher banking-agency enforcement may also use the case to call for tougher, faster intervention if a big bank isn't up to its examiner's snuff.
- **Regulatory Process and Politicization:** Republicans are taking great issue with the [CFPB](#) and SEC ([see Client Report INVESTOR20](#)). Some of this is based on how rules are or aren't made, but some of this pertains to what the rules say – i.e., regulatory "liberalization," said to be propensity for progressive actions. Much is likely

to be made of this at the hearing, with Republicans seeking to call out these agencies by demanding views on them from bank CEOs sure to do their best to take none.

- **Much More:** As is typical in these hearings, CEOs and most likely especially JPM's Jamie Dimon, will be quizzed for opinions on everything ranging from China to Ukraine and inflation to recession. Little of this makes policy even though much of it may make the news.

Headlines From the Past Week's Daily Briefings

September 12

- **Senate Banking GOP Demand CFPB Recant, Retreat, Redo** - All Republican members of the Senate Banking Committee sent CFPB Director Chopra a scathing [letter](#) challenging his legal authority to undertake many recent actions.
- **OFAC Eases Implementation of Oil Price-Cap Sanctions** - As [anticipated](#), OFAC issued initial [guidance](#) to banks and insurers on Russian oil price-cap compliance.
- **Fed Study: Credit Profitability Depends on NIM** - At a time when credit-card rates reached a [quarter-century high](#), the Fed has released a [staff study](#) using new data to conclude that card interest rates are by far the most important source of issuer profitability.

September 13

- No news of note.

September 14

- **Pressure Mounts for Basel Finales** - The Basel Committee's oversight body of central bankers and top supervisors has [pressed](#) nations quickly to finalize the Basel III "end-game" rules referenced not only in FRB Vice Chairman Barr's [maiden speech](#), but also in a statement shortly before this meeting by all of the [U.S. banking agencies](#).
- **FSB Continues Work on FMI Resolvability** - The FSB [announced](#) a survey to gather feedback on its FMI Intermediary information framework to judge how to best ensure resolvability, seeking views from FMI service providers, firms subject to resolution planning, and bank resolution authorities.
- **CFPB, FTC Press for Furnisher Accountability** - The CFPB joined the FTC in filing an [amicus brief](#) taking strong issue with the position that furnishers of credit information have legal discretion over their investigations of indirect credit disputes (i.e., those with debt collectors acting on the furnisher's behalf).
- **SEC Proposes Treasury-Market Conversion to Central Clearing** - Moving to adopt its preferred solution to Treasury-market fragility, the SEC [voted](#) 5-0 to issue a proposal

requiring that market clearinghouses – i.e., FICC, require their members (generally clearing banks) to submit certain secondary-market transactions for clearing along with the small percentage now already centrally-cleared.

- **Gensler Stands by Tough Crypto, MMF, Climate Policy** - Ahead of testimony before the Senate Banking Committee, SEC Chairman Gensler's [testimony](#) reaffirmed the chairman's strong stand on its [crypto jurisdiction](#), reiterating that crypto markets should be subject to like-kind capital rules and that registration is necessary for most crypto tokens and stablecoins.

September 15

- **Financial Transactions to Get More Stringent CFIUS Scrutiny** - The President issued an executive order (EO) [redefining](#) key criteria used by the Committee on Foreign Investment in the U.S. (CFIUS).
- **A BNPL Faces DOA Consumer Standards** - In conjunction with issuing a lengthy [report](#), CFPB Director Chopra [announced](#) that he has directed staff to work on new interpretive rules or guidance for the BNPL sector.
- **Basel Battles On** - Acting as anticipated following instructions from [on-high](#), the [Basel Committee](#) "exchanged views" on pending crypto regulation ([see FSM Report CRYPTO29](#)) – terminology suggesting the committee has yet to reach agreement on this controversial consultation despite a request by central bankers and supervisory heads to finalize standards by year end.
- **Fed Joins Agencies with CRE Workout Policy** - After a delay doubtless reflecting the need to run policies by Michael Barr, the FRB [proposed](#) the same CRE-workout policies released for comment in early August by the OCC, FDIC, and NCUA.
- **Waters Tries Late-Game CRA Tackle** - Chairwoman Waters (D-CA) [announced](#) that she has introduced legislation to update the CRA, making the standards tougher for banks but – as far as known so far – failing to extend the law's reach to nonbanks as urged by CFPB Director Chopra and Sen. Warren (D-CA), among others.

September 16

- **Treasury Presses For CBDC, Fast Payments With Nonbank Access** - We will shortly provide clients with an in-depth analysis of each of the Administration's policy-setting crypto [reports](#), but draw your attention now to key payment-system recommendations.
- **Treasury Presses Crypto Reg Framework, New Role for CFPB** - Continuing our series on the Administration's crypto policy reports, we turn now to the [paper](#) on overall cryptoasset regulation.
- **Administration Also Plans Focus on Crypto Crime, Market Risk** - In addition to the reports assessed in earlier alerts on CBDC, the payments system, and cryptoasset regulation, the administration released numerous other digital asset policy actions.

- **Warren Demands Treasury Address Crypto's Financial Stability, Sanctions Risk** - Even as the White House released numerous cryptoasset reports and Treasury called for action on several [fronts](#), Sen. Warren (D-MA) demands [more](#).

This Week

Tuesday, September 20

Senate Banking Hearing entitled: "Tightening the Screws on Russia: Smart Sanctions, Economic Statecraft and Next Steps." [9:00 am, Dirksen Senate Office Building 538]. Witnesses: **The Honorable Elizabeth Rosenberg**, Assistant Secretary For Terrorist Financing And Financial Crimes, U.S. Department of the Treasury; and **Mr. Andrew C. Adams** Director, Task Force KleptoCapture, United States Department of Justice.

HFSC Subcommittee on National Security, International Development, and Monetary Policy Hearing entitled: "Under the Radar: Alternative Payment Systems and the National Security Impacts of Their Growth." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: **Scott Dueweke**, Global Fellow, Science and Technology Innovation, the Wilson Center; **Emily Jin**, Research Assistant for the Energy, Economics and Security Program, the Center for a New American Security; **Dr. Carla Norrlöf**, Nonresident Senior Fellow, Economic Statecraft Initiative, GeoEconomics Center, the Atlantic Council; **Ari Redbord**, Head of Legal and Government Affairs, TRM Labs; and **Jonathan Levin**, Co-founder and Chief Strategy Officer, Chainalysis.

HFSC Subcommittee on Diversity and Inclusion Hearing entitled: "A Review of Diversity and Inclusion at America's Largest Insurance Companies." [2:00 pm, 2128 Rayburn House Office Building]. Witnesses: **Eloiza Domingo**, Chief Diversity Officer and Vice President, Human Resources, The Allstate Corporation; **Dr. Leroy D. Nunery II**, President, Evolution Advisors LLC; **Kimberly Ross**, Senior Vice President, Federal Relations, American Council of Life Insurers (ACLI); **Baird Webel**, Specialist in Financial Economics, Congressional Research Service and **TBD**.

House Agriculture Subcommittee on Commodity Exchanges, Energy, and Credit Hearing entitled: "Assessing Crypto as a Tool for Financial Inclusion." [2:00 pm, LHOB]. Witnesses: **TBD**

Senate Banking Subcommittee on Housing, Transportation, and Community Development Hearing entitled: "Examining the U.S. Department of Agriculture's Rural Housing Service: Stakeholder Perspectives." [2:30 pm, Dirksen Senate Office Building 538]. Witnesses: **Ms. Elizabeth Glidden**, Deputy Executive Director, Minnesota Housing Partnership; **Ms. Marcia Erickson**, CEO, GROW South Dakota; **Ms. Tonya Plummer**, Director, Native American Housing Programs, Enterprise Community Partners; and **Mr. David Battany**, Executive Vice President, Capital Markets, Guild Mortgage Company.

Senate Judiciary Subcommittee on Competition Policy, Antitrust, and Consumer Rights Hearing entitled: "Oversight of Federal Enforcement of the Antitrust Laws." [3:00 pm, Dirksen Senate Office Building Room 226]. Witnesses: **TBD**.

Wednesday, September 21

HFSC Hearing entitled: "Holding Megabanks Accountable: Oversight of America's Largest Consumer Facing Banks." [10:00 am, 2128 Rayburn House Office Building]. Witnesses: **Andy Cecere**, Chairman, President, and Chief Executive Officer, U.S. Bancorp; **William Demchak**, Chairman, President, and Chief Executive Officer, The PNC Financial Services Group; **Jamie Dimon**, Chairman and Chief Executive Officer, JPMorgan Chase & Co.; **Jane Fraser**, Chief Executive Officer, Citigroup; **Brian Moynihan**, Chairman and Chief Executive Officer, Bank of America; **William Rogers Jr.**, Chairman and Chief Executive Officer, Truist Financial Corporation; and **Charles Scharf**, President and Chief Executive Officer, Wells Fargo & Company.

Thursday, September 22

Subcommittee on Housing, Community Development, and Insurance Hearing entitled: "State of Emergency: Examining the Impact of Growing Wildfire Risk on the Insurance Market." [9:00 am, 2128 Rayburn House Office Building]. Witnesses: TBD.

Senate Banking Hearing entitled "Annual Oversight of the Nation's Largest Banks." [9:30 am, Hart Senate Office Building 216]. Witnesses: **Mr. Charles W. Scharf**, CEO And President, Wells Fargo & Company; **Mr. Brian Thomas Moynihan**, Chairman And CEO, Bank of America; **Mr. Jamie Dimon**, Chairman And CEO, JPMorgan Chase & Co.; **Ms. Jane Fraser**, CEO, Citigroup; **Mr. William H. Rogers Jr.**, Chairman And CEO, Truist Financial Corporation; **Mr. Andy Cecere**, Chairman, President, And CEO, U.S. Bancorp; and **Mr. William S. Demchak**, Chairman, President, And CEO, The PNC Financial Services Group.

Future Events of Note

Thursday, September 29

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future." [12:30 pm, FHFA Constitution Center Auditorium]. Matters to be discussed: FHLBanks' general mission and purpose in a changing marketplace; FHLBank organization, operational efficiency, and effectiveness; FHLBanks' role in promoting affordable, sustainable, equitable, and resilient housing and community investment; addressing the unique needs of rural and financially vulnerable communities; member products, services, and collateral requirements; and membership eligibility and requirements.

Treasury's Federal Advisory Committee on Insurance Open Meeting. [1:00 pm, webcast]. Matters to be discussed: climate-related financial risk and the insurance sector; cyber insurance developments; international insurance issues; and FACI will receive status updates from each its subcommittees and from FIO.

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](#).

- **[INSURANCE61](#)**: Chairman Brown (D-OH) convened a hearing today focused on the insurance industry largely focusing on the extent to which private-equity takeovers endanger insurance solvency and threaten pensioners following risk transfers.
- **[GSE-090722](#)**: Reinforcing the sharp turn-around in housing markets evident since the Fed surprised markets with its first 75 bps hike, a new working paper from the [San Francisco Fed](#) provides the first hard evidence of how monetary-policy shocks in the U.S. hit listing prices hard and fast.
- **[GSE-090122](#)**: As seems always the case, FHFA Director Thompson is as good as her word to Congress earlier this [summer](#), announcing [yesterday](#) a review of the extent to which the Home Loan Banks and their System meet the mission assigned to them and, regardless, if that mission still makes sense.
- **[GSE-083022](#)**: BofA's new no-down payment [mortgage](#) is another innovative product in which banks use their balance sheets to address their CRA obligations by offering down payment assistance or, as here, flat out nothing down.
- **[CRYPTO31](#)**: Reflecting the concerns voiced in a recent executive order from President Biden and a subsequent request for views from Treasury, the Federal Reserve has joined the OCC in demanding prior notice from banking organizations that wish to undertake cryptoasset activities.
- **[GSE-082222](#)**: A new Federal Reserve Bank of Cleveland [study](#) validates forbearance as a mortgage-market buffer, reinforcing the likelihood that policymakers and servicers will turn quickly to it if current mortgage-market conditions turn ugly under the combined stress of higher rates and slow to no growth.