FedFin Daily Briefing

Friday, October 14, 2022

Along with a Squeaker Merger Approval, Fed/FDIC Begin Work on Large-Bank Resolvability

As anticipated in Karen Petrou's speech yesterday, the Fed today unanimously approved and the FDIC will shortly do the same on an advance notice of proposed rulemaking re-enforcing large-bank resolvability. That this complex rulemaking will not slow near-term merger decisions was made clear today also by the Fed and OCC decisions to clear USB's acquisition of MSFG's California banking organization. However, the OCC's decision shows considerable hesitancy; the agency gave only conditional approval based on the bank's ability to demonstrate to the OCC which business lines and activities could be quickly severed to ensure resolvability now regardless of final action on the ANPR (to which the OCC is only indirectly a party by virtue of its seat on the FDIC board). In her statement on this ANPR, Vice Chair Brainard not only reiterated her concerns about regional-bank resolvability but announced that the Fed is undertaking a separate review of large-bank capital. She did not make clear if this is also the holistic review planned by Vice Chair Barr. Mr. Barr's statement hints that it is, indicating that this review will cover GSIBs as well as other large banks. Gov. Bowman's statement expressed numerous reservations about the ANPR, – i.e., unintended consequences due to TLAC-like requirements – and also expressed reservations about the USB merger approval. These stem not from the approval, but from requirements in the Fed's approval order signaling that the new bank may be subject to enhanced prudential standards by the end of 2024, with Ms. Bowman objecting on grounds that the merged bank should be governed only as appropriate under the quantitative criteria established in the tailoring rule (see FSM Report **SIFI34**). Gov. Waller's statement also made it clear that, while he approved issuing the ANPR, he is not at all sure he would approve any requirements to come in its wake. We will shortly provide clients with in-depth analyses of the ANPR and FRB/OCC merger approvals.

Covid Comm Presses CFPB for Still More Credit-Reporting Reform

The Chairman of the Select Subcommittee on the Coronavirus Crisis, Rep. James Clyburn (D-NC) sent a letter to CFPB Director Chopra requesting that the Bureau investigate the three nationwide consumer reporting agencies (NCRAs) for failing to properly address credit reporting errors. Citing data, the Subcommittee obtained from the NCRAs, Chairman Clyburn alleges that reporting errors occurred far more often than previously thought, that the majority of disputes do not result in consumer relief, and that the NCRAs discarded "tens of millions" of submissions without investigation by claiming they came from unauthorized third-parties. He argues this is an attempt to shift responsibility for the accuracy of credit reports to consumers and urges the Director to investigate and take appropriate action if warranted. The CFPB is of course already targeting credit reporting as a major priority, with the latest inquiry only likely to spur it to file enforcement actions and new standards even more quickly than initially planned.

Waller Dismisses Threat To Reserve Dollar Without A CBDC

In remarks today, FRB Governor Waller reiterated his skepticism of foreign-issued CBDCs and stablecoins, arguing that the underlying reasons for dollar dominance are non-technological and CBDCs will not affect them. He dismisses concerns that foreign CBDCs would undermine dollar dominance because they could neither reduce payment frictions nor prevent illicit finance. He also argues that large geopolitical shifts separate from CBDCs that include safe-asset availability and liquid financial markets would be necessary to undermine the dollar's global strength. Arguing that a U.S. CBDC would have little effect on the dollar's international standing, Gov. Waller also raises illicit finance, cost, and financial-stability concerns.

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.

- **INTERCHANGE11:** Leaving its interchange-fee restrictions intact – at least for now – the Federal Reserve has finalized its proposal expanding on its existing requirement that all debit- card transactions must be enabled for processing on at least two unaffiliated payment-card networks for card-not-present transactions.

- **GSE-100622:** FHA's request for input on small-dollar loans could mean much for this equality-essential product or little beyond a lot more public debate.

- **CRYPTO33:** In this report, we build on our initial assessment of FSOC's conclusion that cryptoassets now pose systemic risk and the Council's recommendations about what should be done to curtail it.

- **GSE-100422:** Although one witness at the FHFA listening session on the Home Loan Banks took strong issue with their mission and meaning, another who called them the "most successful program of the last hundred years" pretty much summed up today's testimony.

- **GSE-100322:** Our take on the first two days of FHFA's FHLB "listening session" last week is that battle lines are shaping up much as we expected with the exception of a couple of powerful groups with new ideas about how the System could be put to better use for themselves and/or the public interest.

- **MORTGAGE121:** The CFPB has asked for views on the extent to which it can facilitate certain refinancing (refi) products it believes enhance economic justice.

- **GSE-092622:** As will be evident in our forthcoming in-depth analysis, the CFPB's fusillade last week on mortgage-finance could have far-reaching implications for the entire market based on how far it takes its new campaign for equitable housing finance and whether the market is willing to come along on at least some of the agency's new ideas.

- **AML136:** Treasury is seeking comments on issues raised by the President's executive order (EO) on digital assets to guide further work curbing illicit-finance and national-security risks in this sector.

- **REFORM213:** Senate Banking's hearing with big-bank CEOs proved much more combative than HFSC's session yesterday (see *Client Report* **REFORM212**).

- **GSE-092222:** In this report, we follow our earlier analysis of Treasury's CBDC recommendations and housing finance with an analysis of another Treasury report in response the President's executive order focused on the overall construct of cryptoassets in the U.S.

- **REFORM212:** At today's big-bank oversight HFSC hearing, Committee Democrats focused on each bank's progress on social issues, such as internal diversity, unionization, and historic roles in financing slavery.

- **GSE-092122:** In this analysis, we drill down in Treasury's high-impact reports to the President on the future of digital assets to identify key considerations and strategic implications for housing finance.

- **CRYPTO32:** We follow our prior in-depth analysis of Treasury's CBDC and payments report (see *Client Report* **CBDC14**) with a detailed assessment of the Department's assessment of overall cryptoasset policy.

- **SANCTION19:** Today's Senate Banking hearing on Russian sanctions showcased bipartisan concern that anti-Russian sanctions have yet to have meaningful impact and doubts about the extent to which oil-price caps will reverse this.

- **CBDC14:** In this in-depth report, we follow through as promised on our initial analysis of key sections in last Friday's Treasury report on CBDC and changes to the payment system.

- **INVESTOR20:** The Senate Banking hearing with Chairman Gensler today went as expected: Democrats generally praised his work while Republicans strongly opposed it on both substantive and procedural grounds.

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