



FedFin Weekly Alert

Monday, November 21, 2022

❑ THINGS TO COME

Last week, banking-agency supervisory heads found themselves before Congressional Committees that – at least in the House – will look very different in the next Congress. As Karen Petrou’s [remarks](#) last week made clear, only some legislation will be enacted into law, but many inquiries and investigations will put the Fed, OCC, and FDIC on very hot seats. The heat will be hottest on the right when it comes to HFSC and around the circumference of the seat in the Senate, where only the little bit that’s left of the middle is likely to view many banking-agency actions with the deference that was once the norm for all but the highest-profile or most-disastrous calls. We went into depth on what’s next in our assessment of both the Senate session ([see Client Report REFORM214](#)) and the next day’s House grill ([see Client Report REFORM215](#)), noting in particular:

- increasing bipartisan urgency, especially in the House, to develop federal digital asset legislation. HFSC Chairwoman Waters (D-CA) and Ranking Member McHenry (R-NC) [announced](#) a hearing in December on FTX that promises not only a showcase of congressional rage against its founder, but also details of how a bipartisan legislative framework might take shape. In Senate Banking, Sen. Lummis (R-WY) boosted her stablecoin bill ([see FSM Report CRYPTO28](#)) and claimed it would have mitigated or even prevented the FTX collapse, while Ranking Member Toomey (R-PA) questioned Acting Comptroller Hsu on whether his agency discourages banks from engaging in crypto-related activities. Other regulatory issues under scrutiny included the permissibility of fund comingling in digital asset wallets and accompanying lending standards, the extent to which a U.S. crypto regulatory framework will mirror or strengthen Europe’s, and the shape and features of a stablecoin supervisory framework at the Fed;
- FRB Vice Chairman Barr’s [holistic capital review](#), which is slated for updates in the first quarter of next year. Congressmen across the aisle grilled Mr. Barr on TLAC and the SLR, with the Vice Chair making clear his preference for a gone-concern version of contingent capital requirements and indicating that a revised SLR is being considered – albeit only in the holistic review;
- concern over treasury market liquidity ([see Client Report TMARKET3](#)) and what the Fed is doing about it, with Ranking Member McHenry taking particular aim, grilling Vice Chair Barr on whether the Fed’s decision not to change the SLR lies at the heart of market risk;
- increasing pressure to address lagging deposit rates, with Sen. Reed (D-RI) continuing his crusade against banks he has [previously](#) said are “exploiting” higher rates to benefit executives and shareholders. As noted, CFPB Director Chopra has asserted that bank

failure to raise deposit rates might be an unfair or abusive practice ([see Client Report CONSUMER40](#)), and the Bureau's attention in this area could increase.

Headlines From the Past Week's Daily Briefings

November 14

- **FSB Thinks 2020 Reg Relief Could Go, Stay – It All Depends** - In conjunction with the G20 summit, the FSB has released a [policy paper](#) assessing the extent to which various pandemic-related regulatory forbearances should be continued.
- **FSB Reiterates Climate, Crypto, NBFI Plans** - The FSB head's letter to the G20 reiterated all of the priorities expressed in its [October letter](#) to G20 finance ministers.
- **Regulatory Hearings to Address Last-Gasp 2022 Agenda, Position Panels for a Busy New Year** - With GOP House and Democratic Senate control largely assured, hearings with Messrs. Barr, Gruenberg, Harper, and Hsu illuminated not only current priorities – most notably what's next for federal crypto law and rule – but also the very different priorities HFSC and Senate Banking will advance in the next Congress.
- **FRB-NY Staff: Big U.S. Banks Remain Extremely Resilient** - In its latest assessment of the vulnerability of the fifty largest U.S. BHCs, Federal Reserve Bank of New York staff [confirmed](#) the overall rosy assessment of bank resilience in the Board's latest financial-stability report ([see Client Report SYSTEMIC94](#)).
- **OCC Ramps Up Fair-Lending Enforcement** - In [remarks](#) delivered for Acting Comptroller Hsu, Senior Deputy Comptroller for Bank Supervision Policy Grovetta Gardineer reiterated that ensuring fairness is a top OCC priority.
- **Gruenberg Finally Gets the Nod** - Knowing now that he has secured Democratic Senate control into next year, President Biden finally and formally [nominated](#) Acting FDIC Chairman Gruenberg to assume the chairmanship.

November 15

- **Recognizing Early Stage, FSB Still Slams Climate Stress Scenario Analytics** - In collaboration with the Network for Greening the Financial System (NGFS), the FSB [concluded](#) that risk exposures and vulnerabilities may be underestimated under current climate-stress scenarios because metrics fail to capture second-round effects, potential climate non-linearities, risk-management costs and externalities, and asset-price corrections triggered by transition shocks.
- **FRBNY Launches CBDC Feasibility Project** - Advancing more of the U.S. CBDC infrastructure, the Federal Reserve Bank of New York [announced](#) that its Innovation Center (NYIC) will engage in a proof-of concept project testing the technical, legal, and

business feasibility of distributed ledger technology to settle financial institution liabilities through transfer of central bank liabilities.

November 16

- **Treasury Calls for Tough Fintech and Bank-Partnership Protection, Prudential Standards** - Treasury has completed a long-pending [study](#) of the extent to which nonbank fintechs compete with banks and how this affects financial stability and consumer protection.
- **Williams Presses for NBF1 Standards** - In [remarks](#), FRB-NY President John Williams said that the central bank should not adjust monetary policy to address the price-stability challenges of volatile Treasury markets and that financial-stability questions have generally been well-addressed as evident in the sound U.S. banking system.
- **G20 Blesses FSB, Basel Work Plans** - In addition to top-priority concerns such as Ukraine, the G-20 Leader's Declaration [tackled](#) the usual financial-policy agenda, supporting the FSB's recent NBF1 report ([see Client Report NBF12](#)).

November 17

- **Warren, Durbin Demand Answers about FTX Collapse** - Following FTX's collapse, Majority Whip Durbin (D-IL) and Sen. Warren (D-MA) sent a [letter](#) to FTX founder Sam Bankman-Fried demanding a detailed accounting of the company's decisions and business practices.
- **Jefferson Supports Limited Fed Mandate** - In [remarks](#), FRB Gov. Phillip Jefferson disputes those – including many progressive Democrats – who believe that racial equity and economic equality are an intrinsic part of the Fed's mission.
- **Fed CBDC Survey Suggests Possible CBDC Upside** - A new Fed [literature review](#) evaluating the macroeconomic implications of CBDC focuses on the financial inclusion and payment system impacts CBDC would have in the U.S. and advanced economies.

November 18

- **GAO Study Hikes Pressure on SEC Process** - Adding to the Chairman Gensler's woes, the GAO released a [report](#) finding that the SEC Division of Enforcement did not document its work reviewing staff procedure assessments, hindering future internal reviews.
- **Fed Study Endorses Bank Supervision** - A new Fed staff [study](#) uses their unique access to bank examination reports from banks with less than \$10 billion in assets to evaluate the extent to which supervisory reports and associated CAMELS ratings predict bank outcomes.

This Week

No meetings of note.

Future Events of Note

Thursday, December 8, 2022

Treasury's Federal Advisory Committee on Insurance Open Meeting. [1:00 pm, webcast]. Matters to be discussed: continue discussions of climate-related financial risk and the insurance sector and the availability and affordability of auto insurance from previous meetings; receive an update on developments at the International Association of Insurance Supervisors and from FIO on its activities; and consider any new business.

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](#).

- **[REFORM215](#)**: HFSC today largely focused bank regulators on the same range of questions posed at yesterday's Senate Banking session ([see Client Report REFORM214](#)).
- **[REFORM214](#)**: At today's Senate Banking oversight hearing with the banking agencies, Chairman Brown (D-OH) generally applauded the work of regulators, emphasizing the need for tough standards, like-kind rules for bigtech companies, and an inquiry into why depositor interest rates lag Fed rate hikes along lines [posed](#) earlier by Sen. Reed (D-RI); FDIC Acting Chairman Gruenberg concurred, criticizing banks for sluggish rates.
- **[TMARKET3](#)**: Building on our [initial assessment](#), this report goes in-depth into the Treasury assessment of the market for its obligations and reforms necessary to avert another dash for cash.
- **[NBF12](#)**: As [promised](#), this FedFin report provides an in-depth analysis of the FSB's latest policy on [nonbank financial intermediation](#).
- **[PAYMENT26](#)**: Although the Fed characterized its final payment-system access guidelines as "transparent," FedFin's analysis and other assessments concluded that the Federal Reserve Banks retained considerable discretion to pick and choose those granted master accounts and there would be no ready way to identify which institutions had or lost this essential status for any provider of retail or wholesale deposit-taking services or their equivalent.
- **[GSE-110822](#)**: In its latest blast on racial equity, the Treasury Department's Office of Economic Policy has issued a [blog post](#) cataloguing racial disparities in residential-mortgage finance.
- **[SYSTEMIC94](#)**: As we noted [Friday afternoon](#), the Federal Reserve then released its semi-annual [financial-stability report](#) in an effort not only to comply with its protocols, but likely also to attract as little attention as possible, with the release and even the report saying only as much

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

© 2022. Federal Financial Analytics, Inc. All rights reserved.

about growing risk as the Fed thinks is essential to preserve its credibility.

- **[GSE-110722](#)**: In its latest financial-stability [report](#), the Fed is at pains to provide dozens of pages of helpful data with the few systemic-risk conclusions the Board ventures couched in careful prose designed to assure critics that the Fed knows well what's going on without expressing any views that might suggest serious trouble looms or hint that any of what it surveys will alter the Fed's course in terms of monetary policy, regulatory actions, or systemic considerations.
- **[DATA3](#)**: Beginning a long-awaited rulemaking process on the extent to which consumers have rights to their own data and how these rights may be exercised, the CFPB is seeking views on an array of ideas and questions to guide future action.
- **[OVERDRAFT11](#)**: In conjunction with a Presidential speech and new White House initiative against "junk fees," the CFPB has accelerated its own efforts in this arena with two new policy directives.
- **[GSE-102522](#)**: As we noted [yesterday](#), FHFA has decided not only to [unbundle](#) second and high-dollar loans from its flat-fee paradigm, but now to do the same for about one in five conventional conforming purchase loans outside these categories.
- **[DEPOSITINSURANCE116](#)**: The FDIC has finalized its proposal largely unchanged to raise base Deposit Insurance Fund (DIF) assessments by two basis points (bps) to replenish the DIF by the statutory deadline to reflect deposit inflows that the FDIC no longer expects to be temporary.