FedFin Daily Briefing

Monday, November 14, 2022

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. The report is at least as equivocal as FSB papers have recently become, essentially saying that national jurisdictions should keep what were once seen as emergency measures if they think it wise or remove them carefully if this hasn't already been done. Much in this document reiterates the margin-reform assessment in Thursday's FSB document on NBFIs analyzed in a new in-depth report clients will shortly receive. The FSB is also looking at potential sources of credit risk, debt overhangs, and contagion risk. More discussion is also planned on capital and liquidity buffers.

FSB Reiterates Climate, Crypto, NBFI Plans

The FSB head's letter to the G20 today reiterates all of the priorities expressed in its October letter to G20 finance ministers. As previously noted, global regulators intend to release final climate-disclosure standards in 2023 and the FSB will focus crypto-related work on implementation of its "same activity, same risk, same regulation" framework (see FSM Report **CRYPTO34**). The letter also details findings in the new NBFI report (see *Client Report* **NBFI2**).

Regulatory Hearings to Address Last-Gasp 2022 Agenda, Position Panels for a Busy New Year

With GOP House and Democratic Senate control largely assured, this week's hearings with Messrs. Barr, Gruenberg, Harper, and Hsu will illuminate 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. The HFSC majority-staff memo highlights the current chair's priorities – e.g., diversity – but also for the first time broaches pending revisions to bank-capital regulations to implement the Basel "end-game" standards the agencies committed to propose this year and to advance Vice Chairman Barr's "holistic" objectives. The memo also notes policy issues germane to the new FDIC/FRB regional-bank resolution proposal (see FSM Report **RESOLVE48**) noting the Fed's recent report finding a higher number of unresolved supervisory problems at the largest banks. Among the bills set for discussion is one that might advance in the lame duck setting price caps on credit-card interchange fees (see FSM Report **INTERCHANGE10**), with the Democratic memo also noting also bills that might come to the floor in areas such as climate-risk stress testing, bank merger "modernization", and "repeat-offender accountability" with slim to no chances of enactment this year.

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**). Using longstanding models, the blog post finds that the largest BHCs are at "historic" resilience levels even though asset liquidity has slightly declined even as deposits have become somewhat less stable and capital ratios have declined since the last exercise in 2021. Judged in terms of vulnerabilities, the models used in this analysis find an increase in capital vulnerability under acute stress due to recent distributions and asset increases. Fire-sale vulnerabilities surpassed their spike in the first quarter of 2020. The liquidity-stress ratio has begun to rise since 2021 although it remains at an historically low level. Run vulnerabilities have also increased to levels above those before Covid but remain below historic highs.

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. A new fair-lending manual will shortly be released even as the agency focuses on tough enforcement, better screening processes to catch mortgage and retail-banking discrimination, identify AI/ML-related violations and, following a GAO recommendation, better tracking all of these efforts. The talk also makes it clear that the OCC fully supports the CFPB's guarded approach to AI/ML, noting that the agency will not hesitate to bring UDAAP or other enforcement actions in this arena if internal controls, governance, and transparency do not suffice. Ms. Gardineer also reiterates the inter-agency request to banks to develop special-purpose credit programs aimed at improving economic equality.

Gruenberg Finally Gets the Nod

Knowing now that he has secured Democratic Senate control into next year, President Biden today finally and formally nominated Acting FDIC Chairman Gruenberg to assume the chairmanship. Sen. Brown just as quickly not only supported the nomination, but also said he would seek to advance it as quickly as possible. Despite Rep. McHenry's statement slamming the nomination, we expect this nomination to go forward in a package with the September nominations of two Republicans to fill out the FDIC board in terms of a confirmation hearing during the lame-duck. However, the GOP nominations will move to the floor only after the Senate votes to confirm Mr. Gruenberg to prevent the pending GOP nominee for Vice Chair, Travis Hill, from assuming the chair in the absence of a confirmed office-holder. We expect a similar formal nomination of Mike Hsu to become the Comptroller of the Currency.

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.

- **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.
- **NBFI2:** 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 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.

- **RESOLVE48:** The FRB and FDIC have moved beyond the resolution-planning requirements mandated in the Dodd-Frank Act then implemented over the years to what could be a new resolution regime for banking organizations considered category II or III companies under the inter-agency tailoring rules.

- **MERGER11:** As promised, this analysis focuses on the OCC and FRB approvals of the acquisition by U.S. Bancorp of MUFG's Union Bank in California.

- **DEPOSITINSURANCE115:** The FDIC board today voted 3-0 to increase DIF assessment rates by 2bps, finalizing its proposal (see FSM Report **DEPOSITINSURANCE114**) and rejecting industry arguments on grounds that a small DIF premium increase now would make a more damaging procyclical assessment increase under adverse economic conditions less likely.

- **CRYPTO34:** Speaking for global banking, securities, and insurance regulators, the Financial Stability Board has taken its firmest stand to date on cryptoassets and outlined high-level and often principles-based global standards to govern them going forward.

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