



# *FedFin Daily Briefing*

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Tuesday, December 6, 2022

## **FSB Again Ratifies Focus on Crypto, Climate, Macro Risks**

Following its meeting today, the FSB Plenary [announced](#) 2023 priorities to be finalized in January. Focus will center on heightened monitoring of financial stability risks, enhanced NBF and CCP resilience, work on the global crypto regulatory framework, cross-border payments reform, cyber and operational resilience, and financial risks from climate change. Its climate work will focus in 2023 on the financial-stability implications of carbon transition plans. The Plenary also pledged to enhance its cryptoasset monitoring framework by closing data gaps, utilizing DeFi-specific vulnerability indicators, and monitoring connections between DeFi and the traditional financial system.

## **FinCEN Targets De-Risking Compliance**

Pointing to possible enforcement actions, Treasury Assistant Secretary for Terrorist Financing and Financial Crimes Elizabeth Rosenberg [today](#) noted FinCEN concerns with the extent to which institutions apply a rules-based approach to de-risking rather than a risk-based one, leaving it vulnerable to fast-changing risks and without access to valuable suspicious activity information. In de-risking, some financial institutions have simply disengaged from entire sectors or jurisdictions, which she argues drives business towards less compliant or even bad actors. FinCEN thus will soon release a de-risking strategy report with recommendations on improving public-private engagement, regulatory adjustments, and international supervision. No timing was announced.

## **Warren, GOP Senators Put Silvergate On FTX Hotseat**

Reflecting at least some bipartisan agreement on the need for new crypto standards, Sens. Warren (D-MA), Kennedy (R-LA), and Marshall (R-KS) late yesterday sent a [letter](#) to the CEO of Silvergate Bank demanding detailed information regarding its relationship with FTX and FTX affiliates. As noted in Karen Petrou's Monday [memo](#), Silvergate is the bank known so far to be most exposed to this sector because its business model was almost entirely crypto-focused. Press [reports](#) today indicate that the bank has stated its ability to manage this exposure and comply with AML requirements. Claiming that the bank's behavior may have violated BSA anti-money laundering as well as FinCEN SAR requirements, the letter demands information regarding Silvergate's BSA compliance and internal procedures. The senators also want details on the bank's capital planning and overall risk-management construct. Responses are due December 19.

## **GOP Threatens Woke Asset Managers With BHC Designation**

The Senate Banking GOP [report](#) today on ESG asset management contains an interesting aside about the extent to which passive ownership of banking organizations could make the three largest asset managers de facto BHCs. The staff report thus urges Congress and the FRB to consider the extent to which this has occurred – a request we view as a quiet threat to asset managers that Republicans could pursue BHC treatment should ESG practices not quickly meet their expectations regarding an end to “woke” investing. BHC designation for nonbank asset managers would force a business-model paradigm shift given the imposition of the operational capital standards so costly to banks in this sector along with many other safety-and-soundness and resolution standards. Noting that Vanguard and BlackRock have received express assurances

from the FRB that they have not taken control of banking organizations, the study argues that Vanguard, BlackRock and State Street – already a BHC – have qualitative control by virtue of their voting power. The study also notes that the Fed previously signaled that passive ownership might require additional restrictions to avoid triggering a presumption of control, an issue addressed in more detail in the Fed’s 2020 standards liberalizing when control is likely to occur ([see FSM Report TAKEOVER10](#)).

## Brown Fires First Shot in 2023 ILC Wars

Putting down a market for the next Congress, Senate Banking Chairman Brown and two Democratic colleagues [today](#) introduced their bill end bar ILC charters for nonbank parents. The bill follows one introduced by Sen. Kennedy (R-LA) in 2019 to accomplish the same purpose ([see FSM Report ILC13](#)), signaling that Sen. Brown may have GOP allies even though he may not have sought them now. GOP control of the House makes the chances of companion legislation less likely than would have been the case in this Congress given incoming Chairman McHenry’s support for industry innovation. However, the bill has strong support from large and small banking organizations and thus might advance to reflect the wishes of banking-industry constituents. We will shortly provide clients with an in-depth analysis of this measure.

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### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-120522](#): Making an important addition to the ongoing debate about Treasury-market liquidity, a new [paper](#) from the Bank for International Settlements provides sobering data on agency MBS liquidity with significant implications not only for secondary-market liquidity, but also primary-market stability.
- [CRYPTO35](#): In the first Congressional review of crypto since the collapse of FTX, Senate Agriculture leadership largely defended the bill they produced, S.4760.
- [CONSUMER44](#): Reviving what it calls “dormant” authority, the CFPB has finalized a proposed “procedural rule” expressly reiterating its right to govern an array of nonbanks and establishing procedures for making supervisory orders public.
- [GSE-112122](#): As came out into the open [last week](#), FSOC will finally turn to rewriting the Trump era [rewrite](#) of the Obama Administration’s FSOC protocols regarding systemic financial institutions and activities.
- [FINTECH31](#): As [promised](#), this report provides an in-depth analysis of [Treasury’s report and resulting recommendations](#) to the President’s Competition Council on the impact of new nonbank consumer-finance entrants from a competition, consumer-protection, and financial-stability perspective.
- [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.