



# *FedFin Daily Briefing*

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Thursday, December 8, 2022

## **Comment Deadline Set For Fed's Climate-Risk Management Principles**

The [Federal Register](#) today includes the Fed's comment request on proposed climate risk-management standards that would guide banking organizations with assets over \$100 billion ([see FSM Report CLIMATE15](#)). As noted, the FRB would give large banking organizations considerable discretion to manage climate financial risk as long as the organization expressly and transparently does so. Banks would also have flexibility in conducting scenario analyses, which would not mandate capital planning akin to the specific requirements in broader stress-testing standards. Comments are due February 6.

## **Basel: Climate Risk Not Ready for Capital Requirements**

The Basel Committee [today](#) published a clarification by way of FAQs to its recently-finalized climate-risk management principles ([see FSM Report CLIMATE14](#)). The FAQs make it still clearer that these principles are not meant to add a new capital charge to the current Pillar 1 framework, but they also retain the more ambiguous injunction that banks are to take appropriate action – implicitly including capital buffers – if climate risk is found to require an additional backstop. These add-on charges could come on the bank's own volition under the Pillar 1 provisions that specify banks should always have more than minimum capital allotments if risks so warrant, but they also and more expressly fall under Pillar 2 to the extent supervisors think more capital is warranted and banks have failed to anticipate this. As noted, the pending U.S. risk-management principles ([see FSM Report CLIMATE15](#)) follow this approach and have neither an express capital mandate nor even a suggestion that scenario analyses should include it.

## **Warren, Smith Turn FTX Spotlight on Banking Agencies**

As predicted in Karen Petrou's [memo](#) on Monday, Congressional interest has now turned to the role of banks and their regulators in the FTX debacle. Sen. Warren (D-MA) and Sen. Smith (D-MN) today sent [letters](#) to the Fed, FDIC, and OCC alleging that the agencies missed critical signs in the FTX collapse and demanding an investigation into connections between crypto and the banking sector. The senators argue that Alameda Research's investment in the small Moonstone Bank was a clear attempt to bypass banking license requirements to gain access to the financial system and should never have been approved. Citing this and other banks such as [Silvergate](#), the senators argue that banking exposures to crypto may be more sizeable than previously thought and raise safety-and-soundness concerns. The senators thus ask the banking agencies' leadership if they plan to conduct a review of such relationships, to name any banks engaged in various crypto-related activities, and to provide any information on Alameda's relationship with Moonstone. A deadline of December 21 is given for a response.

## **FSB Heightens Focus on CCP, Insurer Resolvability**

After over at least a decade of talking about nonbank resolvability, the FSB [today](#) announced that addressing it has become an "urgent" priority. As a new report details, the FSB is particularly concerned that CCPs and systemic insurers are likely to falter or fail under stress, sending shock

ripples across the global financial system. Even so, FSB action will be deliberate, with the Board planning a consultation sometime next year exploring an array of CCP-resolution options. The FSB is also planning another round in 2023 looking at insurance-company resolvability along with still more attention to intra-group and conglomerate structures. Although far more satisfied with work to date on GSIB resolution, the FSB nonetheless worries about ring-fencing and cross-border impediments to resolution along with the treatment of unallocated TLAC. More work on these issues also continues in 2023; we will provide clients with an in-depth analysis of this paper if its details provide more insight into what global or national regulators may come to do.

## OCC's Risk Inventory Continues To Target Deposit, Operational, Climate, Crypto Risk

As with its June 23 [report](#) on bank risks, the OCC's December inventory reiterates concerns such as deposit outflow due to rate hikes, operational risks due to cyber-threats and third-party relationships, and compliance and credit risks. It also emphasizes its earlier climate-risk management principles ([see FSM Report GREEN12](#)), noting that it is working with the other agencies to finalize an inter-agency approach much as the Fed has now also proposed to do ([see FSM Report CLIMATE15](#)). The report also takes a very dim view of crypto-related risk, but much of this was noted in the last report.

## Warren, Smith Back DOL Disqualification Proposal

Tackling yet another "big-bank" concern, Sens. Warren (D-MA) and Smith (D-MN) sent a [letter](#) today applauding the Department of Labor's Employee Benefits Security Administration (EBSA) proposal to disqualify banks found guilty of criminal misconduct from being qualified professional asset managers. The Senators claim that the DoL has historically failed to hold big banks accountable for criminal actions, with this proposal closing a critical "loophole" and thus protecting retirement funds.

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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](#).

- [CLIMATE15](#): Following the pattern set in 2021 by the OCC, the FRB has now proposed climate risk-management standards as high-level principles to guide banking organizations with assets over \$100 billion.
- [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](#).