



FedFin Weekly Alert

Monday, February 27, 2023

❑ THE BULL IN CHINA'S SHOP

As we noted as Russia sanctions were introduced almost exactly a year ago and again on [Friday](#), the U.S. is using this “soft-power” tool not only to punish Russia for invading Ukraine, but also to deter other nations – and most especially China – from going beyond rhetorical to military support. This, combined with the subsequent oil-price cap, has kept most neutral nations on the military sidelines, also forcing China to navigate carefully between anti-Taiwan bellicosity and pro-Russian sympathy. However, China has now gone beyond floating the spy balloon that so peeved Members of Congress at an [earlier hearing](#) at which sanction sabers were noisily rattled. The House Financial Services Committee will mark up the mildest of its sanctions bills on [Tuesday](#), but China is now in full-throated alliance with Russia, possibly soon sending it armaments and other essentials in express violation of current G7 sanctions. What’s next?

First of course isn’t next, it’s now – the Friday sanctions reached out to punish Chinese-owned or -affiliated companies in Europe found to have supported sanctions evasion in sometimes all-too-willing EU members. Next is a hearing scheduled before hostilities grew so acute in the Senate Banking Committee on Tuesday. We’ll provide clients with an in-depth analysis of a session sure to go beyond expert testimony and the general discussion initially planned about whether and how sanctions work. Now, the hearing will be a platform for more sanctions saber-rattling and the extent to which it is bipartisan will guide our forecast of how far Republicans in the House can go in forcing the White House to do more than it might otherwise wish to sanction China in ways with near-term financial-system consequence.

It has been relatively easy to push Russia out of the global financial and economic system in which it was a meaningful member only when it came to oil, gas, wheat, and a few precious metals. China means everything from sneakers to vital medical components and it’s a major player in the global financial system by virtue not only of all of these trade flows, but also exposures of sometimes significant scale at systemic-sized financial institutions around the world and most especially in Asia.

Harder choices thus await the White House if China follows Russia in assuming global powers will blink because national constituencies want warmth along with all the accoutrements of modern household life. Big-box stores and supermarkets stripped of all that comes from China would be frightening sights, as would financial markets scrambling

to handle sudden interruptions in foreign-exchange and trade-payment flows. But, once attacked, twice tough. Thus, the key question for us if China presses sanction buttons is not if the U.S. will respond – it will – but if Congress will let the White House do so in temperate ways – we’ll see.

Headlines From the Past Week’s Daily Briefings

February 21

- **Nonbank Corporate Finance Stokes Systemic, Macro Risk** - A new [BIS paper](#) supports bank assertions that nonbank corporate finance is considerably more procyclical in terms of its threat to financial stability and macroeconomic growth than that conducted by regulated companies.
- **FSB Fears Systemic Risk from Bank, CCP Commodity Risk** - A new FSB [report](#) assesses systemic risk posed by the oil, gas, and wheat commodity markets given its highly-leveraged and illiquid nature and its deep interconnections into the global banking system.
- **FSB Prioritizes Crypto, NBFIs** - The FSB head’s [letter](#) to the G20 reiterates priorities outlined in his [November](#) letter, stating that global regulators will deliver a joint paper with the IMF later this year synthesizing policy findings and regulatory issues around cryptoassets.

February 22

- **BIS Backs Away From Old CBDC, Presses New “Unified Ledger”** - BIS General Manager Agustín Carstens [distanced](#) the global central bank somewhat from its prior calls for two-tier CBDC as quickly as possible ([see Client Report CBDC6](#)).
- **Administration Drops FHA Premiums in Broad Housing Push** - In a victory for mortgage lenders and defeat for private mortgage insurance and the GSEs, Vice President Harris [announced](#) that FHA will shortly reduce mortgage premiums by .30 percent, saving the average homeowner \$800 in total premiums or \$67 a month.
- **GOP Opens Anti-CBDC Campaign** - Starting the GOP’s 2023 campaign against CBDC with a specific initiative, Rep. Tom Emmer SP (R-MN) and nine Republicans have introduced H.R. 1122.
- **FDIC Found Remiss re Systemic Resolution** - In its assessment of challenges facing FDIC leadership, the Office of Inspector General (OIG) [finds](#) that the agency may not be ready to handle an OLA or systemic resolution, nor is it yet able to assess climate financial risk and sanctions compliance.
- **FHFA Looks Into FHLB-Member Community Activities** - Perhaps advancing FHFA Director Thompson’s [commitment](#) to review aspects of the FHLB System, her agency [released](#) a request for views on the extent to which a Home Loan Bank member supported its community to retain eligibility for long-term System advances.

February 23

- **Agencies Strengthen Defenses vs. Crypto-Related Funding** - As FedFin forecast when significant bank crypto-related deposit exposures came to light ([see Client Report CRYPTO38](#)), the banking agencies issued [guidance](#) telling banks to monitor and mitigate risks related to resulting liquidity risk.
- **FSB Sets Out Key Cross-Border Payments Action Items** - The Financial Stability Board [released](#) a list of actions for implementing the G20's Roadmap for Enhancing Cross-border Payments, including three priorities.
- **IMF Presses CBDC, New "Unified Ledger"** - A new IMF [blog](#) post advocates for public sector implementation of new payment technologies including tokenization, encryption, and programmability to improve cross-border payments, limit counterparty risk, and facilitate AML and other compliance.
- **FHFA Proposes GSE-Capital Revamp** - FHFA [sought comment](#) on several significant revisions to the regulatory-capital rules [governing](#) Fannie and Freddie.

February 24

- **HFSC Starts With A Bang** - HFSC Chairman McHenry (R-NC) honors his commitment to advance significant legislation with what is sure to be a raucous mark-up.
- **FHFA New-Product Vetting Delayed** - FHFA [pushed back](#) the effective date of its New-Product Rule by sixty days on grounds that more time is needed for the agency and the GSEs to develop the internal processes necessary for compliance.
- **HFSC Set To Lock Horns On Data Privacy** - With the opening quote in his [release](#) making clear that this will be a partisan fight, HFSC Chairman McHenry (R-NC) formally introduced the privacy legislation that, as noted earlier today, is now set for mark-up.
- **CFPB Begins Administrative Adjudication, Speeding Enforcement Actions** - The CFPB [finalized](#) new adjudication rules that add administrative adjudication to its usual course of seeking redress in federal district courts.

This Week

Tuesday, February 28

Senate Banking Hearing entitled: "Advancing National Security and Foreign Policy through Sanctions, Export Control, and Other Economic Tools." [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **Mr. Daleep Singh**, former Deputy National Security Advisor for International Economics, National Security Council, and former Deputy Director, National Economic Council; **The Honorable Clay Lowery**, former Assistant Secretary for International Affairs, U.S. Department of the Treasury, and former Director of International Finance, National Security Council; and **The Honorable**

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Kevin Wolf, former Assistant Secretary of Export Administration, U.S. Department of Commerce.

HFSC Markup. [10:00 am, 2128 RHOB]. Matters to be discussed: H.R. 554; H.R. 555; the Public Health Emergency Medical Supplies Enhancement Act of 2023; H.R. 1076; H.R. 510; H.R. 839; the China Financial Threat Mitigation Act of 2023; H.R. 803; H.R. 1137; H.R. 540; H.R. 1109; the Data Privacy Act of 2023; the OFAC Outreach and Engagement Capabilities Enhancement Act; and the Aligning SEC Regulations for the World Bank's International Development Association Act.

Future Events of Note

Tuesday, March 7

Senate Banking Hearing entitled "The Semiannual Monetary Policy Report to the Congress." [10:00 am, webcast]. Witnesses: **The Honorable Jerome H. Powell**, Chairman, Board of Governors of the Federal Reserve System.

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](#).

- [CUSTODY5](#): Making full use of powers granted in the 2010 Dodd-Frank Act, the SEC is proposing a wholesale rewrite of the rules dictating how investment advisers must place assets in custody and which institutions are considered qualified for this purpose.
- [GSE-022123](#): As we noted, FHFA is venturing onto treacherous political ground with a [request for input](#) on expanding Fannie and Freddie's ESG imprint.
- [CRYPTO39](#): Although Chairman Brown (D-OH) remained non-committal on the need for crypto legislation, he emphatically called for reform to protect consumers and investors.
- [GSE-021323](#): Following our [initial report](#), we turn here to a more detailed analysis of what's in store for the Home Loan Banks following the [Brookings high-impact forum](#) on Home Loan Banks that are also facing far more unflattering public attention than has been their fate for years.
- [CREDITCARD36](#): Following on a controversial advance notice of proposed rulemaking, the CFPB has now released an NPR setting specific standards for credit-card late fees that also eliminates the inflation adjustments established by the Federal Reserve when implementing the 2009 credit-card law.
- [GSE-020623](#): A new [post](#) from the Federal Reserve Bank of Atlanta summarizes key findings from recent pandemic-era mortgage refinancing research, reiterating [prior findings](#) that more White mortgage borrowers got lower refinancing interest rates in 2020 compared to Blacks.

- **CHARTER29**: In conjunction with rejecting an uninsured crypto bank's application for Federal Reserve membership, the Federal Reserve issued a policy statement conforming state member bank powers only to those authorized for national banks even if the state member is an uninsured depository institution.