



FedFin Weekly Alert

Monday, March 13, 2023

□ They're Off...

Although the 188th Congress officially convened on January 3, the race to the statutory finish line generally begins the first week of March and so it proved again this year. We've sent you a blizzard of in-depth reports and daily briefings on what seemed to be nonstop consequential hearings in both the House and Senate. In case you missed any of these, our key take-aways from each are:

- As was made clear at Tuesday's Senate Banking session with Chairman Powell ([see Client Report FEDERALRESERVE72](#)), Republican senators are seriously concerned not only that capital requirements not be increased in the Fed's capital rewrite, but also that tailoring requirements be retained; the Chairman emphatically stated that tailoring would remain but acknowledged that designing capital standards will be a balancing act. Democratic senators, on the other hand, were much more preoccupied with CRA finalization, a matter which Mr. Powell noted the Fed broadly agrees with the OCC and FDIC but that it will be some months before we have a finalized CRA.
- In the House ([see Client Report FEDERALRESERVE73](#)), Chairman Powell also maintained his commitment to tailoring and attempted to reassure GOP Members that the Fed had no plans on becoming a climate regulator. He also stated that the Fed may not need express Congressional authorization to issue a wholesale CBDC as it would for a retail CBDC but tempered this by characterizing it as a gray area needing further investigation.
- At Wednesday's HFSC Subcommittee [hearing](#) with the inspectors-general for the FRB, CFPB, Treasury, and SEC, Republicans took serious issue with the SEC's rulemaking process and what they described as unduly short comment periods. Quizzed by Chairman Huizenga (R-MI) about the status of a review of the Board's controversial climate policy, the Fed's IG noted that his office's review will involve recommendations derived in part from benchmarking to other central banks.
- Thursday's partisan HFSC Subcommittee [hearing](#) on the CFPB focused Republican ire on legal and constitutional issues around the Bureau's funding and enforcement authority, with many insisting that it come under the Congressional appropriations process. Democrats unanimously defended the Bureau, with Chairman Brown (D-OH) and HFSC Ranking Member Waters (D-CA) making clear in a separate press release that they will [block](#) anything that constrains it.
- HFSC Digital Asset Subcommittee Chairman Hill (R-AK) framed the Subcommittee's inaugural [hearing](#) Thursday around building a case for a broad, bipartisan crypto framework that protects both innovation and investors, while his Republican colleagues wasted no breath attacking the SEC on what they call "regulation by enforcement."

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Though no hearings are scheduled for next week, we expect much to occur in SVB's wake. We'll keep you posted on policy implications with in-depth memos and alerts, as well as continue to track all the issues noted above and much, much more.

Headlines From the Past Week's Daily Briefings

March 6

- **GOP Revs Up Fight Vs. Big-Bank Capital Hikes** - Firing a fusillade ahead of capital rewrites, Senate Banking Republicans [sent](#) FRB Chairman Powell a letter arguing strongly against capital increases and laying out a strong view that the agencies are required by law to tailor key standards.
- **BIS Project Finds Retail-CBDC Cross-Border Benefits** - In a project boosting retail CBDC, the BIS Innovation Hub announced the [results](#) of Project Icebreaker, a cross-border retail CBDC pilot between Sweden, Norway, and Israel.
- **GOP Will Deploy IGs To Demand Fed, CFPB, SEC Reform** - In addition to a hearing with [Chairman Powell](#), the full HFSC will call federal banking [agencies](#) on the carpet Wednesday for "wasteful spending and other governance issues.
- **Dems Beg Gensler Not to Scrap Scope 3 Climate Disclosures** - Responding to intense GOP [opposition](#) to the SEC's climate disclosure [proposal](#), fifty Congressional Democrats led by Sen. Warren (D-MA) sent a [letter](#) to SEC Chairman Gensler urging him not to scale the proposal back, especially its Scope 3 provisions.
- **Treasury Wants Fast NBFI, OEF, Crypto Standards** - Treasury International Affairs Under-Secretary Jay Shambaugh outlined U.S. priorities, emphasizing not only the importance of containing Russia and countering new threats, but also quickly advancing numerous global initiatives.
- **Hsu Pushes To Start The End Game** - Acting Comptroller Hsu [reiterated](#) his determination to act as quickly as possible on Basel's end-game rules, noting the interagency statement last year that this would [soon be done](#) without providing an update if this will prove the case by the end of this quarter.

March 7

- **FRB-NY Renews Culture Analyses With Fintech Focus** - Although the New York Fed's corporate-culture efforts were high profile in the wake of the great financial crisis, attention has shifted to matters leading the Reserve Bank to retool its effort.

March 8

- **HFSC Plans Broad Attack, Limited Legislation to Rewrite Administration Crypto Standards** - The HFSC staff [memo](#) makes it clear that the Digital Asset Subcommittee hearing on Thursday will be a strong general GOP attack on Biden Administration crypto policy and specific campaign against the SEC's enforcement-focused strategy.

- **HFSC Plans to Blast CFPB, Press Limited Change** - The HFSC Monetary Policy Subcommittee hearing on the CFPB is sure to be a raucous, partisan affair judging by the [staff memo](#) describing it.
- **CFPB Slams Fees, Promises Mercy** - Ahead of a [meeting](#) later between senior White House officials, Director Chopra, and hundreds of state legislators concerning the [President's](#) “junk fee” agenda, the CFPB [released](#) Supervisory Highlights focusing on recent instances of what it deems unlawful junk fees in deposit accounts, auto loan servicing, mortgage servicing, payday lending, and student loan servicing.
- **GAO Doubts Fintech's Inclusion Advantage** - The GAO [released](#) a report finding that fintech may enhance inclusion, but that this inclusion comes at risk due to the patchwork of rules governing firms offering products – e.g., wage advances – that may put vulnerable households at risk.
- **HFSC Republicans Scrutinize SEC Rulemaking, Fed Climate Policy** - As [anticipated](#), the HFSC Subcommittee hearing with the inspectors-general for the FRB, CFPB, Treasury, and SEC focused on GOP attacks on the SEC's IG vacancy and the CFPB's funding mechanism.
- **Brown, Others Demand ABA Check-Washing Action Plan** - Senate Banking Chairman Brown (D-OH) and Sens. Warren (D-MA) and Cortez Masto (D-NV) sent a [letter](#) to the ABA focusing on the growth of “check-washing” fraud now spiking through mail theft and other means.

March 9

- **Barr Emphasizes Steep Barriers to Bank Crypto, Retail CBDC** - In [remarks](#), FRB Vice Chair Barr reiterated that banks should take an extremely cautious approach when engaging with cryptoassets or counterparties and stressed the need to include stablecoins within the regulatory perimeter.
- **Expected Battle Lines Form Over CFPB Future** - As [predicted](#), HFSC's Subcommittee hearing on the CFPB was a partisan and raucous session, with Republicans focusing most strongly on legal and constitutional issues around the Bureau's funding and enforcement authority and Democrats defending both its legality and effectiveness.
- **Hill Sets Table for Bipartisan Crypto Action** – Thursday's Digital Assets Subcommittee hearing was considerably more conciliatory than the CFPB session, with Chairman Hill (R-AR) making clear in his opening statement that he is not launching a partisan attack against the SEC, the banking agencies, or the White House.

March 10

- **Anti-Woke Is Worse Than Woke When It Comes To Financial Distortion** - A new [study](#) released by the Federal Reserve Bank of Chicago concludes that anti-woke policies distort financial outcomes by looking at 2021 Texas law prohibiting municipalities from conducting certain businesses with financial institutions that violated the law's anti-woke criteria.

- **CFPB Opens Mortgage Servicing to Regulatory Rewrite** - The CFPB published an [RFI](#) seeking the effect of TILA mortgage loan originator rules on small businesses as part of a regular ten-year review.
- **FedFin Assessment: SVB's Failure And Its Aftermath** - As clients will recall, we predicted Silvergate's [failure](#), but not its contagion risk for Silicon Valley Bank, which failed earlier this morning following the combination of a run and capital shortfall.
- **SVB Rumors Stoke Treasury Response** - Following the sudden failure of Silicon Valley Bank, Treasury Secretary Yellen [convened](#) the heads of the Fed, FDIC, and OCC to discuss its ramifications. In the meeting's readout, the Secretary expressed confidence in the banking system's resilience and in the tools available to regulators to address the failure.
- **Congress Begins SVB Inquiry** - In the first of a series of statements sure to come from Congress, HFSC Ranking Member Waters (D-CA) [said](#) that she was alarmed by the collapse of SVB and that she is monitoring and convening Committee members with regulators.

This Week

Thursday, March 16

FTC Open Commission Meeting [11:00 am, webcast]. Matters to be discussed: 6(b) Orders Concerning Deceptive Advertising on Social Media and 6(b) Orders Concerning Small Business Credit Reporting Agencies.

Future Events of Note

Wednesday, March 22

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future Wrap-Up Listening Session" [12:30, webcast]. Matters to be discussed: TBD.

Thursday, March 23

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future Wrap-Up Listening Session" [12:30, webcast]. Matters to be discussed: TBD.

Friday, March 24

FHFA Listening Session entitled: "FHLBank System at 100: Focusing on the Future Wrap-Up Listening Session" [12:30, webcast]. Matters to be discussed: TBD.

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](#).

- **[GSE-030923](#)**: As detailed in our reports earlier this week on Powell's appearance before [Senate Banking](#) and [HFSC](#), much was said about the pending rewrite of big-bank capital standards.
- **[FEDERALRESERVE73](#)**: At today's HFSC hearing, Chairman Powell modulated his hawkish stance just a bit, continuing as he long has done to refuse to take a stand on fiscal policy while advocating for rapid debt-limit action.
- **[FEDERALRESERVE72](#)**: Although Chairman Powell's testimony kept exclusively to monetary policy, today's Senate Banking hearing seemed only to go through the motions set at previous hearings with regard to inflation, growth, and the Fed's long-term objectives.
- **[GSE-030123](#)**: A recent FRB-Atlanta [study](#) finds that closing the racial homeownership gap alone would not redress housing market racial disparities because minority homeowners cannot equitably access home equity and thus enjoy comparable access to the economic opportunities afforded by homeownership.
- **[SANCTION20](#)**: In a remarkably bipartisan session, the Senate Banking Committee today made it clear that Congress wants tougher sanctions against Russia, near-term action against hold-out nations to oil-price caps and other efforts, and perhaps even confiscation of Russian assets to fund U.S. Ukraine aid.
- **[CRYPTO40](#)**: In the wake of revelations by Silvergate and other banks about significant deposit exposures to cryptoasset entities, federal banking agencies have issued a statement about the need to manage liquidity risk associated with cryptoassets.
- **[GSE-022723](#)**: FHFA has proposed a set of refinements to the current GSE [capital construct](#).
- **[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.