



FedFin Daily Briefing

Monday, March 6, 2023

GOP Revs Up Fight Vs. Big-Bank Capital Hikes

Firing a fusillade ahead of capital rewrites expected late this month, Senate Banking Republicans [late Friday](#) 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. The letter is focused less on these “end-game” rules, but more generally on Vice Chairman Barr’s plans for a [“holistic review”](#) and statements about the need for big-bank capital hikes. It emphasizes the link between higher capital and less credit availability, noting also that the point of regulatory capital is resilience and banks were remarkably resilient in the pandemic crisis. Nothing more than a timely response is requested, doubtless because senators as [anticipated](#) plan to grill Mr. Powell on capital questions later this week.

BIS Project Finds Retail-CBDC Cross-Border Benefits

In a project boosting retail CBDC, the BIS Innovation Hub today announced the [results](#) of Project Icebreaker, a cross-border retail CBDC pilot between Sweden, Norway, and Israel. The project interlinked the three retail CBDCs through a hub-and-spoke system, where each international transaction was broken into two fully domestic payments facilitated through a centrally run hub. The system allowed users to choose the cheapest exchange rate, reduced settlement and counterparty risk, and complete cross-border transactions within seconds. The project’s key takeaway is that central banks can have nearly full autonomy in designing a retail CBDC without sacrificing cross-border payment interoperability. Policy considerations for central banks include governance agreements, hub resilience, FX liquidity, privacy, AML/CFT compliance, and payment-initiation standards.

GOP Will Deploy IGs To Demand Fed, CFPB, SEC Reform

In addition to a hearing that morning with [Chairman Powell](#), the full HFSC will call federal banking [agencies](#) on the carpet Wednesday for “wasteful” spending and other governance issues. Witnesses will be the inspectors-general for the FRB, CFPB, Treasury, and SEC. Ordinarily, the Fed would get minimal attention at a session of this sort, but we expect GOP Members to question the Fed’s IG hard on reports over the weekend about cost over-runs at the Fed’s [renovations](#) and general Reserve Bank expenditures as well as conflicts of interest related to payment-system access. The Fed’s 2020 rescue facilities will come under stringent GOP questioning about waste and mission and Democratic demands for longer-term facilities with a more progressive focus. Questions may also center on the Fed’s recent balance-sheet losses, although here questioning will be more rhetorical since the IG will surely say that this is an artifact of monetary policy, not lax internal controls. Recent IG reports about Fed insider trading will get attention from Democrats. The CFPB and SEC will come in for unflattering attention from Republicans and general praise from Democrats, with the committee [memo](#) indicating that the majority

will ask questions advancing their plans to push for CFPB structural reform within the appropriations process. Chairman Gensler will be reamed in absentia by Republicans because the Commission has not had a permanent IG since May of 2022. There may be little time for the Treasury IG, but FSOC operations appear to be the GOP's principal concern.

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 today urging him not to scale the proposal back, especially its Scope 3 provisions. The letter claims that most institutional investors support the proposal and worries that the SEC is cowing to corporate pressure. It also argues that similar requirements will soon be in place in the UK and EU, causing US markets to lag behind in investor protection. The Democrats urge Mr. Gensler to prevent any further delays and finalize the rule with strong disclosure standards as soon as possible.

Treasury Wants Fast NBF1, OEF, Crypto Standards

Treasury International Affairs Under-Secretary Jay Shambaugh today outlined U.S. priorities, emphasizing not only the importance of containing Russia and countering new threats, but also quickly advancing numerous global initiatives. Treasury via the FSOC is prioritizing work based on the FSB's NBF1 policy ([see Client Report NBF12](#)), taking credit for global work to enhance MMF resilience even though the SEC has yet to finalize its standards ([see FSM Report MMF19](#)). Mr. Shambaugh also cites FSB work on open-end funds, here making clear that the SEC is leading the way with its [proposal](#) and laying out provisions (including swing pricing) Treasury supports. Treasury also wants fast action on the FSB's crypto policy ([see FSM Report CRYPTO34](#)) and on steps to reduce reliance on third-party providers such as those in the cloud recently targeted in a [Treasury report](#). The speech also reiterates longstanding Treasury policy on the importance of managing climate financial risk, repeating key conclusions in FSOC's 2021 report ([see Client Report GREEN11](#)).

Hsu Pushes To Start The End Game

Acting Comptroller Hsu today [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. Mr. Hsu also said that these rules will apply to large banks without making clear how "large" the threshold will prove. As noted earlier today, Republicans are pressing not only for no capital increase as a result of capital changes, but also for tailoring. At this point, we think the end-game changes will apply only to banks and BHCs over \$250 billion unless the organization is internationally active and/or complex. However, several changes to the end-game rules also affect the standardized-approach capital standards

applicable to all but those electing the single-leverage ratio available only to entities with less than \$10 billion. As a result, which end-game rules apply to which banks will be complicated and likely result in a series of tiered proposals. Mr. Hsu also discussed the need to establish an international crypto construct even as he pressed for fast action on Basel's new crypto standards ([see FSM Report CRYPTO34](#)).

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-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.
- [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.