FedFin Daily Briefing

Wednesday, March 22, 2023

FTC Builds On Treasury Cloud Concerns, Seeks Competition, AI Views

Signaling apprehension about a number of risks outlined in a recent Treasury report, the FTC today requested comment on the business practices of cloud computing providers. The RFI focuses on issues of market power, competition, and data security, also targeting problems around contract negotiation, service-offering incentives, and the extent to which customers are made aware of CSP security risks. The RFI also seeks feedback on CSP-services offerings based on artificial intelligence. Comments are due by May 22.

Scott, Warren Reach Over Partisan, Ideological Divide to Blast the Fed

Demonstrating the confluence of populist and progressive thinking about the Fed we anticipated at the start of this year, Sens. Rick Scott (R-FL) and Warren (D-MA) have introduced legislation mandating that the Fed's inspector general be fully independent of the chair and board of governors. Doubtless reflecting a compromise with Sen. Scott, the bill also mandates an independent IG for the CFPB, with both officers to be nominated by the President and confirmed by the Senate. Both senators blamed the Fed for poor monetary and regulatory policy. We expect this measure to advance in any bills able to move to floor consideration revising Fed or broader regulatory authority.

Fed Under Still More Pressure to Boost Regional-Bank Supervision

Sen. Warren (D-MA) continued her prolific letter-writing campaign, today also joining with Sens. Duckworth (D-IL), Blumenthal (D-CT), Sanders (I-VT), Reed (D-RI), Hirono (D-HI), Markey (D-MA), King (I-ME), Whitehouse (D-RI), Smith (D-MN), Van Hollen (D-MD), and Schatz (D-HI) to call upon Vice Chairman Barr quickly to heighten regulatory standards for banking organizations between $100 and $250 billion. Notably, the letter focuses principally on increased supervision, calling on the Fed to review all banks in this range in light of the systemic finding reached when covering uninsured SVB and SNBY deposits. No deadline for an answer is given, but the letter certainly presages demands that will be made when Mr. Barr comes before Senate Banking on Monday. As a result, the Fed may decide on a near-term program of top-down supervisory review for all but the largest regional banks even as it continues its investigation of recent failures.

Powell Protests Suggestions Of Fed Supervisory Error

At his press conference today, Chairman Powell sought to defend the Fed so vigorously that some of his comments may ignite still more criticism. Specifically, the chairman asserted that SVB's failure is due to bad management, initially rejecting the need for any supervisory or regulatory reforms, although he later said that some might be necessary even though he also said that the run risk at SVB is "very different." He was not asked about the specifics of Signature Bank or those of other large regionals also facing significant depositor outflows, but his defense of the new 13(3) facility to handle HTM risk suggests that this risk is seen as more widespread than SVB's run risk even though market concern about HTM valuations appears to drive at least some of these massive deposit outflows. The chairman also emphasized that the Fed will use "all its tools" to protect depositor savings, noting separately that the systemic-designation covering uninsured deposits at SBNY and SVB was done to prevent a broader banking-system runs. Mr. Powell also denied that growing CRE stress poses systemic risk, although retrenchment across small and regional banks in this and other sectors could adversely affect the prospects for a soft landing.

Yellen Denies FDIC-Coverage Rewrite, Suggests Need for Liquidity-Rule Revisions

In her appearance today before the Senate Appropriations Subcommittee on Financial Services and General Government, Treasury Secretary Yellen refuted press reports that Treasury is considering significant deposit-insurance coverage expansion, saying only that the banking system is safe and it is too soon to consider structural reforms. She also did not comment on questions from Sen. Collins (R-ME) about the extent to which SVB's bridge-bank marketing as the "safest bank in the U.S." is unfair competition with smaller banks seeking to retain deposits during this time of uncertainty. Under questions from Chairman Van Hollen (D-MD), Ms. Yellen did not provide a timeline for when the FSOC will complete its review and reconsider nonbank systemic designations. The Secretary also noted that the speed of recent deposit outflows may require regulators to reevaluate the liquidity framework. A new in-depth FedFin report (see *Client Report* **LIQUIDITY33**) assesses specific options for doing so.

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.

- **GSIB21:** In this report, we assess the implications of recent events on two assumptions underlying current U.S. and global policy affecting GSIBs and those considered domestic SIBs: first, all are likely to be well insulated from illiquidity and/or insolvency and, when this is not the case, then orderly resolution without taxpayer bailout can be readily deployed.

- **LIQUIDITY33:** Among the most vexing issues in the wake of SVB's failure is the extent to which social media may have led to the first "viral run," a run akin to the meme-stock volatility that lead the SEC and others to fear a new form of "flash-crash" risk.

- **GSE-032023:** In this report, we build on FedFin's in-depth reports about recent bank failures to detail new risks for all of the innocent bystanders in the U.S. mortgage market along with a not so-innocent bystander: the Federal Home Loan Banks.

- **REFORM216:** In this report, we continue our policy postmortem of SVB/SBNY and, now, so much more.

- **DEPOSITINSURANCE118:** As promised in our first post-SVB impact assessment (see *Client Report* **RESOLVE49**), this report begins a series of analyses of specific policy issues.

- **RESOLVE49:** As we noted last night, the President concurred with Treasury, the Fed, and FDIC in deciding that SVB's Friday failure and imminent runs on Signature Bank and, most likely, others posed a systemic risk.

- **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.

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