FedFin Daily Briefing

Tuesday, April 4, 2023

House Republicans Launch Attack On New Small-Business Reporting Rule

House Republicans including Reps. Williams (R-TX), Barr (R-KY), and Ogles (R-TN) today introduced a resolution to overturn the CFPB's small business data collection final rule via the Congressional Review Act. The release describing the resolution calls the Bureau's rule "burdensome" and argues that it will harm small businesses by reducing credit availability. We continue to expect that this measure will pass the House by a narrow margin. Its prospects in the Senate are less certain, but passage there is also possible if moderate Democrats join Republicans, which may well be the case given united financial and small-business advocacy against the rule. However, the President seems likely to veto the bill, allowing the rule to stand unless or until pending litigation overturns the Bureau's rulemaking authority or a new director reverses course.

Bipartisan Leaders Demand End to AML "Escape Hatch"

Accelerating the odds for a significant FinCEN rewrite, HFSC Chairman McHenry (R-NC), Senate Banking Chairman Brown (D-OH), Ranking Member Waters (D-CA) and a group of bipartisan lawmakers today sent a letter to Secretary Yellen and FinCEN Acting Director Das emphatically stating that FinCEN's latest beneficial ownership proposal undermines the intent of the Corporate Transparency Act (see FSM Report **AML133**) by allowing an "escape hatch" through which firms can continue to do business with a customer even if they are unable to collect beneficial-ownership information. Language allowing for these determinations does not appear in the Act and the BSA Examination Manual already bars a financial institution from doing business with a customer from whom they cannot reliably collect AML-related information. Thus, the lawmakers call on FinCEN to strike any phrases in the final rule allowing these determinations. No deadline is given for a response.

IMF Says NBFIs Should Have Central-Bank Backing

The IMF's financial-stability report includes a new chapter on NBFIs. Largely echoing all the concerns and policy recommendations in continuing FSB calls for NBFI standards, the Fund goes on to advocate also for NBFI access to central-bank backstops. These could include temporary market-wide liquidity support based on pre-existing risk indicators, lender-of-last resort access for systemic NBFIs in concert with high penalty rates, complete collateralization, and additional supervision and/or standing facilities for use by individual NBFIs under stringent conditions and at cost sufficient to prevent moral hazard. It is unclear if these central-bank backstops would be authorized only for NBFIs under prior regulatory and supervision standards or if, as was the case in the U.S. in 2020, central banks should backstop NBFIs and ask questions later. Papers of this sort have no direct policy impact, but they create a framework in which central banks feel better assured of certain actions, thus making them more likely.

Global Regulators Like Look Of Systemic Insurance Standards, U.S. Implementation

IAIS today published a report assessing the implementation of its holistic supervisory framework across national jurisdictions, concluding that results demonstrate a "very positive outcome." This is reflected in strong implementation of the holistic framework standards and good levels of observance across many of the standards, including by U.S. states. More broadly, the report finds that most supervisors now consider financial stability and macroprudential regulation generally well established, and that investment allocation and asset-liability matching are consistently observed. However, IAIS fears that systemic assessments for individual insurers, supervisory practices related to public disclosures on insurers' liquidity risk, and recovery plan implementation require improvement. Going forward, the FSB will use assessments and progress monitoring available through the holistic framework to inform considerations of systemic risk in the insurance sector. It will also publish a list of insurers that are subject to resolution planning and resolvability assessments and may also publicly express its views on whether any individual insurer is systemically important in the global context.

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-040323:** We have written from time to time about covered bonds.
- **REFORM219:** With Thursday's White House announcement, we know that the Administration will do its best to support Fed and FDIC efforts to color recent events as a failure of Republican-led rulemaking, not also one of agency supervisory acumen, speed, and even competence.
- **REFORM218:** Today's HFSC hearing on recent bank failures was more partisan than yesterday's Senate Banking session (see *Client Report* **REFORM217**).
- **REFORM217:** Today's Senate Banking hearing was extremely well-attended by Senators on both sides of the aisle clearly looking first to understand what precipitated recent bank failures, who is to blame, and what should be done next.
- **RESOLVE50:** As noted yesterday, the FDIC's recent rescues have had several unusual features with implications not only for future policy, but also for pending special assessments to replenish the DIF for the $22.5 billion estimated costs to the Deposit Insurance Fund.
- **RESCUE79:** Recent editorials and other media have often said that the FRB and/or FDIC have powers

or taken actions that is not the factual case as we understand it.

- **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: I**n 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.

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