FedFin Daily Briefing

Friday, April 21, 2023

House Republicans Renew Anti-Woke Banking Battle

In the latest GOP-led action against "woke" finance, HFSC Financial Institutions Subcommittee Chairman Barr (R-KY) yesterday reintroduced the Fair Access to Banking Act (H.R. 2743), which would prevent large banks from limiting or refusing services to the fossil-fuel, digital-asset, and gun industries. As with Sen. Cramer's (R-SD) February bill, Rep. Barr's House version – which has more than three dozen Republican cosponsors – would codify the OCC's "fair-access" rule (see FSM Report **ESG3**) as well as require written bank justifications for "political" financial services denial. Banks violating the standards would risk losing access to Fed discount window programs. The measure could be reported from HFSC and perhaps even pass the House on narrow party lines, but faces slim odds in the Senate absent a discharge petition or other technique to spring it from Senate Banking.

FRB Review Of CBDC Comments Leaves Open All Options

The Federal Reserve late yesterday released a summary of public comments received on its 2022 CBDC discussion draft (see FSM Report **CBDC10**), arraying comments in ways that make it difficult to judge who said what or where the preponderance of comments is to be found. In general, the Fed's presentation makes it clear that public opinion is not, at least in the Board's view, pressing for any immediate CBDC action and, should it come, it would likely be only for wholesale and/or cross-border payments as Gov. Bowman suggested earlier this week. Some commenters lauded CBDC for its benefits for efficiency, competition, cross-border interoperability, and programmable functionality while others disputed that CBDC is the best way to modernize the financial system. There were also mixed views on CBDC's financial-inclusion potential, with some highlighting the need also for offline capabilities, lowered costs, and privacy and others – including community banks, credit unions, and consumer groups – concerned that a CBDC could widen the "digital divide" and reduce credit access. In addition, the Fed sought comments on CBDC alternatives, with some financial institutions emphasizing that updating the current payment infrastructure as well as the upcoming FedNow Service could better achieve CBDC's purported benefits. Some also endorsed wholesale-only CBDC on grounds that it could achieve narrower benefits without incurring privacy risks, while others vouched for private-sector innovations such as stablecoins or even for easing illicit-finance regulations to spur industry growth. The report also notes bank concerns over cost burdens for intermediaries distributing CBDC and the need for a clearly defined CBDC use case. Some commenters pointed out risks to bank intermediation without bank-like supervision and certain fintechs argued that broader intermediation would support competition.

FSOC Advances Activity, Nonbank Systemic Designation, Regulation

As anticipated, all FSOC members today voted to advance two key proposals to redesign the U.S. systemic framework and speed action on two clear systemic designation priorities: hedge-fund interconnectedness with the banking system and nonbank mortgage companies. We will shortly provide clients with in-depth analyses of the two FSOC proposals. The first creates a new framework for systemic activity-and-practice designations for sectors such as those now clearly on this firing line. The second revises the systemic framework adopted by the Trump Administration in 2019 (see FSM Report **SIFI35**), with Fed Chairman Powell today praising and voting for this approach even though he did the same for the Trump Administration version that would now be largely revoked. Secretary Yellen emphasized the need to ensure that the designation process, while transparent, is expeditious, noting that actions under the current rule could take as long as six years.

Key to the new approach is the deletion of the requirement that nonbank SIFI designations would need to consider the probability of a firm's financial distress or relevant costs and benefits in this often-subjective arena. Republicans are sure to criticize these deletions from the current rule even though they will welcome one key concession: an annual reconsideration of systemic designations to give firms that reduce their risk an easier path out of Fed regulation.

Waters Praises FSOC, Presses for New Bank Standards

While commending FSOC's action earlier today, HFSC Ranking Member Waters (D-CA) urged it to quickly go farther, pressing the Council to send the FRB and other banking agencies recommendations for post-SVB reforms. This is a role we are sure some other FSOC members, especially CFPB Director Chopra, would relish; Mr. Chopra said today that FSOC has lost its credibility, regaining it via the new proposals and surely also by any additional actions along these lines. However, we expect Secretary Yellen to defer to the Fed and other agencies. Rep. Waters wants new standards that ensure that large banks without parent holding companies nonetheless come under stringent standards, aiming this attack squarely on the FDIC as Signature's primary federal regulator but also covering other Fed- and OCC-regulated banks without BHCs. Here, Ms. Waters may well gain attention from the agencies in their pending regulatory revisions as well as from FSOC.

BIS Paper: Fintech Innovation Amplifies Inequality

A new BIS working paper on fintech concludes that increased financial-technology innovation amplifies inequalities between sophisticated and unsophisticated investors and that bridging this gap will require policy focus on fintech accessibility and usability. Further, access to innovative sources of financial information and advice is deemed insufficient. Policymakers are thus advised to focus on expanding the capacity of marginalized consumers to use fintech products by addressing digital literacy and capacity. The BIS staff also advises that policy-makers limit the ability of malicious actors using digital technologies to engage in market manipulation. The study uses microdata from the Survey on Household Income and Wealth conducted by Banca d'Italia between 2004 and 2020 in conjunction with a portfolio-choice model with asymmetric information to analyze the links between advances in financial technology, sophistication levels and portfolio composition and returns, apparently controlling for factors such as household risk-aversion, age, gender, and access to remote banking.

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-042023:** FHFA yesterday proposed a sweeping rule that would codify Sandra Thompson's equitable- and fair-housing standards in a rule that any future FHFA director would have to work a lot harder to reverse.

- **CRYPTO42:** As we anticipated, the HFSC Digital Asset Subcommittee hearing today on federal stablecoin legislation did not entertain bipartisan expressions of support for the draft noticed with the hearing announcement.

- **CRYPTO41:** As anticipated, HFSC's hearing today with Chairman Gensler was a raucous affair which, while divided sharply on party lines when it comes to Mr. Gensler, also laid out general agreement on matters such as the need for stablecoin legislation (the topic of a high-profile hearing tomorrow).

- **GSE-041323:** As we noted earlier today, global regulators are rethinking their 2015 decision not to require an express capital charge for interest-rate risk, a shift with significant implications for the role of U.S. banks as mortgage lenders and investors.

- **IRR8:** As we noted yesterday, the head of the Basel Committee has targeted two capital and liquidity compromises included in the current Basel III construct not addressed in the end-game rules to which the U.S. plans shortly to turn.

- **COMPENSATION35:** Executive compensation incentives have proved among the most important reform priorities in the wake of recent bank failures.

- **REFORM220:** In this report, we drill down on prior forecasts (see *Client Report* **REFORM219**) of near-term regulatory action to identify the revisions sure to be prioritized as NEC Director Brainard and FDIC Chairman Gruenberg seek to reverse rules finalized over their objections when they were in the minority.

- **UDAP8:** Following its usual practice of setting standards by edict, the Bureau of Consumer Financial Protection has laid out an extensive framework that brings a wide range of consumer-finance actions and inactions within the scope of enforcement sanctions governing acts or practices that are not only unfair or deceptive, but also abusive.

- **GSE-040623:** FHFA, Fannie, and Freddie yesterday updated the sometimes-controversial equitable-finance plans FHFA approved last year.

- **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.

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