



FedFin Weekly Alert

Monday, May 22, 2023

❑ WELL, THAT WAS INTERESTING!

As we [anticipated](#), a series of hearings last week clarified what the banking agencies plan, what Congress thinks about it, and what's soon to come. Based on the reports cited below, we draft the following conclusions from the hearings, testimony, and reaction thereto:

- clawback legislation is still the only bill with a strong chance of [enactment into law](#);
- Democrats are firmly pushing for the agencies to finalize Dodd-Frank's incentive compensation rule, which Chair Gruenberg says will come by the end of the year via an NPR ([see Client Report REFORM224](#));
- Fed ethics reform that would make the Fed-IG a presidentially-appointed and senate-confirmed position is likely to pass along with changes to Reserve Bank [governance](#);
- Rep. Andy Barr's (R-KY) regulatory "transparency" [bills will advance](#);
- Republicans are totally dissatisfied with both the Fed and FDIC's self-assessments and even Democrats want an independent review ([see Client Report REFORM226](#));
- new liquidity rules aimed at stopping viral runs will be generally acceptable, but the GOP will oppose other new liquidity standards imposed by way of a tailoring rewrite;
- Republicans stand ready to oppose any capital increases via Michael Barr's "holistic" standards or tailoring rewrites, although their stand on the end-game rules is less clear ([see Client Report REFORM225](#));
- Democrats support some form of statutory deposit insurance reform, but Republican opposition to raising assessments makes its prospects unlikely ([see Client Report REFORM224](#)); and
- the Fed's various backstop facilities are unlikely to be the focus of Congressional attention.

Headlines From the Past Week's Daily Briefings

May 15

- **Yellen Highlights Investor – Not Uninsured-Deposit – Runs, Buys Sector Mergers** - In an [interview](#), Treasury Secretary Yellen struck a decidedly different tone on bank mergers than voiced in the Administration's policy prior to recent failures.
- **Gensler Outlines Top Financial Stability Concerns** - In [remarks](#), SEC Chair Gensler outlined his financial-stability priorities.

- **Failed-Bank CEOs Defend Themselves, Contest Need For Receivership** - Ahead of testimony before Senate Banking, the CEOs of SVB and Signature have filed statements defending their actions and those of their colleagues.
- **FHFA Seeks Views On New Pricing Framework** - Following an announcement that it would [postpone](#) its controversial decision to retain an upfront fee related to a borrower's debt-to-income level, the FHFA [released](#) a Request for Input on the Enterprises' single-family pricing framework as well as the process for setting their upfront guarantee fees.
- **Barr Stands His Supervisory, Regulatory Ground** - Vice Chairman Barr's testimony for Congressional [hearings](#) has just been released along with the Board's 2023 supervision-and-regulation [report](#).
- **Gruenberg Sticks To His Guns** - FDIC Chairman Gruenberg's Congressional [testimony](#) largely recounted prior statements about the condition of the banking system, recent bank failures, the new special-assessment proposal ([see FSM Report DEPOSITINSURANCE120](#)), and the agency's deposit-insurance reform conclusion ([see Client Report DEPOSITINSURANCE119](#)).

May 16

- **Hsu Presses Reg Harmonization, Resolution Reform, Merger-Policy Rewrite** - We add our assessment of Acting Comptroller's Hsu's [testimony](#) to our analyses of those from Messrs. [Barr and Gruenberg](#) ahead of HFSC's hearing.
- **Yellen Says White House Supports Community-Bank Exemptions** - [Speaking to the ICBA](#), Secretary Yellen joined the parade of policy-makers affirming the national importance of community banks.
- **JEC GOP Counter FRB on SVB Causality** - JEC Republican staff [released a memo](#) finding that tailored liquidity rules did not contribute to SVB's failure, a contrast to the FRB's SVB report ([see Client Report REFORM221](#)).
- **LLPAs Set for GOP Frying Pan** - The [majority-staff memo](#) for the Housing Subcommittee hearing makes it clear that, as anticipated, the sole topic will be FHFA's controversial LLPAs and related GSE pricing.
- **Senate Banking: Tough Grilling For Failed-Bank CEOs, Growing Consensus For Clawback Bill/Tough Rules** - As [predicted](#), the Senate Banking hearing with the CEOs of SVB and SBNY was a feisty session in which Democrats built their case for executive clawback legislation and the failed bank executives defended management while repeatedly placing blame on what they called an "unprecedented series of events."

May 17

- **Bipartisan Senate Consensus Demands Structural Change To Fed IG** - At the Senate Banking Subcommittee on Economic Policy hearing on Fed accountability, Chairwoman Warren (D-MA) was unsparing in her criticism of the Fed and its current IG, Mark Bialek.

- **HFSC GOP Demands LLPA Changes No Matter FHFA's RFI** - [As anticipated](#), Chairman Davidson (D-OH) reiterated GOP demands that the FHFA rescind the entirety of its [LLPA proposal](#) at the HFSC Subcommittee on Housing and Insurance hearing, despite FHFA [conceding](#) to some Republican demands and issuing an [RFI](#) on the Enterprises' single-family pricing framework earlier this week.

May 18

- **FRB-NY: SLR, Other Bank Stress Led to ONRRP Growth** - A new [post](#) from the Federal Reserve Bank of New York summarizes a recent staff report analyzing the ONRRP's explosive growth.
- **Reserve Banks Reconsider Liquidity-Backstop Standards, Set-Up** - FRB-Dallas President Logan [reinforced](#) findings in recent bank failures about the importance of advance planning for accessing FRB liquidity, urging banks to have legal documentation and collateral arrangements well in advance of possible stress.

May 19

- **Bowman Strengthens Stand Against New Rules, Possible Supervisory Overkill** - In case anyone doubted [her meaning](#), FRB Gov. Bowman [repeated](#) her strong opposition to the regulatory rewrites spelled out in what at first seemed the Fed's but is now apparently only Vice Chairman Barr's report ([see Client Report REFORM221](#)).
- **Bills To Reduce Regulatory Independence Advance** - As anticipated at his last [hearing](#), HFSC Financial Institutions Subcommittee Chairman Barr (R-KY) has now formally introduced three regulatory transparency bills.
- **Warren Pounces On Reports Of Treasury-Bond Assessment Proposal** - Sen. Warren (D-MA) sent a strongly-worded [letter](#) to FDIC Chairman Gruenberg demanding that the FDIC reject reported big bank plans to replenish the DIF with at-par Treasury bonds rather than the proposed special assessment ([see FSM Report DEPOSITINSURANCE120](#)).
- **BIS's Carstens Dismisses Crypto, Calls For Tighter Non-bank Controls** - In a wide-ranging [speech](#), BIS General Manager Agustín Carstens sharply criticized cryptocurrencies and called for greater regulation of the nonbank sector to avert a systemic financial crisis.

This Week

Tuesday, May 23

HFSC Hearing entitled: "FHFA Oversight: Protecting Homeowners and Taxpayers." [10:00 am, 2128 RHOB]. Witnesses: TBD.

Future Events of Note

POSTPONED

HFSC Democrats Roundtable on Deposit Insurance Reform. [2:00 pm, 2220 RHOB]. Witnesses: Jenna Burke, EVP and General Counsel, Government Relations & Public Policy, Independent Community Bankers of America (ICBA); Naomi Camper, Chief Policy Officer, American Bankers Association (ABA); Robert James II, Chairman, National Bankers Association (NBA); President, Carver Development CDE; and Director of Strategic Initiatives, Carver State Bank; and Lev Menand, Associate Professor of Law, Columbia Law School; former Treasury Department senior advisor; and former FRBNY economist.

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](#).

- **[REFORM226](#)**: Describing the CEOs' statements at his last hearing as "the dog-ate-my-homework" excuses for grievous failings, Senate Banking Committee Chairman Brown (D-OH) also attacked Republicans for placing blame on monetary policy, not the culture of supervisory laxity he details with various quotes from Trump Administration officials.
- **[CRYPTO44](#)**: Although there were still considerable party-line differences of opinion on stablecoin legislation, today's HFSC Digital-Assets Subcommittee hearing suggests that remaining divides are narrowing, increasing the odds of a new federal-regulatory framework.
- **[GSE-051723](#)**: With Republicans on the anti-LLPA warpath, FHFA is hoping to preserve as much of the current fee structure as possible without paying too high a political price, issuing a [request for information](#) (RFI) in hopes that letter-writing will keep everyone busy until Congress moves on to other matters.
- **[REFORM225](#)**: A joint hearing today of HFSC's Financial Institutions and Oversight Subcommittees expanded on themes at yesterday's full Committee session with bank regulators (see [Client Report REFORM224](#)) and Senate Banking's session with SVB's and SBNY's [CEOs](#), with First Republic's CEO now added to the Congressional firing line.
- **[REFORM224](#)**: In their first appearance following the reports on recent failures, FRB Vice Chairman Barr and FDIC Chairman Gruenberg were harshly criticized by Republicans for both the bank failures and recommended remedies.
- **[DEPOSITINSURANCE120](#)**: As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has now proposed a special assessment to compensate the Deposit Insurance Fund (DIF) for the cost of backing the two banks' uninsured deposits.
- **[CRYPTO43](#)**: Today's joint HFSC-House Ag hearing on assessing crypto's regulatory gaps saw bipartisan calls for Congressional action, but none on what that should be done.

- **[GSE-050923](#)**: As [our in-depth report](#) earlier today details, the Fed's latest financial-stability [report](#) pulls a lot of punches because, as always, it's afraid to frighten the children with frank discussion of what might actually threaten financial stability in the near term.
- **[SYSTEMIC96](#)**: Perhaps because its last financial-stability report ([see Client Report SYSTEMIC94](#)) was contradicted just five months later by a systemic-risk designation, the Federal Reserve's latest [report](#) eschews a conclusion about prospective risk in favor of a review of current concerns.
- **[SIFI35](#)**: In concert with proposing a new systemic-risk methodology, the Financial Stability Oversight Council sought comment on guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs).
- **[DEPOSITINSURANCE119](#)**: In this report, we follow our initial [assessment](#) of the FDIC's deposit-insurance reform [report](#) with an in-depth analysis of its recommendations and their prospects.
- **[REFORM223](#)**: Following our analyses of the Fed's report on SVB ([see Client Report REFORM221](#)) and the FDIC's on SBNY ([see Client Report REFORM222](#)), we turn now to [one](#) from the General Accountability Office sure to have at least as much impact on bipartisan consideration of what needs next to be done to govern regional banks.
- **[REFORM222](#)**: In this report, we build on our assessment earlier today of the Fed's SVB autopsy ([see Client Report REFORM221](#)) with an assessment of the FDIC's self-review of Signature's failure.
- **[REFORM221](#)**: In this and subsequent reports, we build on our initial reactions to SVB/SBNY reports from the Fed, FDIC, and GAO, focusing in more depth on the agencies' plans for near-term action with strategic consequence and key points in the GAO's report that will strongly influence Hill reactions on both sides of the aisle.
- **[GSE-042723](#)**: FSOC's newly-proposed analytical methodology for [systemic risk identification](#) is most immediately important for nonbank mortgage companies and the regulated institutions that love them.
- **[SYSTEMIC95](#)**: Rejecting the Trump Administration's hands-off approach to designating systemically-important nonbank financial institutions or activities and practices, the Biden Administration's FSOC has bifurcated this construct with one proposal on designating entities and another that lays out an analytical approach to identifying systemic risk that would then guide firm and activity designation as well as Council staff coordination with primary federal regulators leading to new rules, product or service prohibitions/restrictions, or firm-specific supervisory action.