



FedFin Weekly Alert

Monday, May 29, 2023

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With all eyes focused on the disastrous brinkmanship playing out with regard to the debt ceiling, we know you'll have little time for financial policy over the U.S. holiday weekend. That's not to say that there weren't any important developments last week – see below for analyses thereon – nor that next week won't be busy even if all magically turns right with U.S. fiscal policy. We'll be watching, analyzing, and anticipating, coming back at you Tuesday with a new Petrou memo and much more unless something so important breaks over the weekend that we feel we must interrupt what little off-time we'll all try to find.

Headlines From the Past Week's Daily Briefings

May 22

- **HFSC Set To Tackle LLPAs, GSE Policy** - As [noted](#), HFSC will grill FHFA Director Thompson.
- **Americans Struggle With Inflation, Savings; Bank Use Stable** - Although the Fed's latest economic well-being [study](#) has grim macro results with significant political consequences, it also finds that 94 percent of Americans in 2022 had banking relationships, an unchanged rate from 2021 although gaps remain by age, race, ethnicity, and disability.
- **Kashkari Disputes Need For Broad Reg Rewrite If Big-Bank Capital Goes Way Up** - Renewing his [campaign](#) to hike large-bank capital ratios, FRB-Minneapolis President Neel Kashkari [said](#) that higher capital requirements would have prevented recent failures and that additional, over-complex rules are poor substitutes for them.

May 23

- **House Advances Consensus Anti-China Reporting Legislation** - The House voted 400-5 to approve H.R. 1156, bipartisan legislation addressing Congress' China concerns by mandating a new study.
- **Gruenberg Endorses Bank On Accounts, Notes Continuing Racial Gaps** - In [remarks](#) largely devoid of policy implications, Chairman Gruenberg praised Bank On's impact on financial inclusion, but noted that racial divides still persist as Black and

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Hispanic households are more likely to be unbanked than White ones at every income level.

- **IOSCO Aims at Ending Crypto-Market Arbitrage** - Advancing global crypto standards, the International Organization of Securities Commissions released a consultative [report](#) on the contentious question of centralized-market regulation with which a joint HFSC/AG Committee process is now wrestling ([see Client Report CRYPTO43](#)).
- **HFSC GOP Blasts GSE Fees, Supports FHLB System** - The HFSC hearing with FHFA Director Thompson was largely the LLPA battle we [anticipated](#), with Republicans lambasting recent [actions](#) and Democrats tartly responding that Republicans did not know what they were talking about.
- **Hsu Echoes Gruenberg's Bank-On Praises** - Following Chairman Gruenberg's remarks, Acting Comptroller Hsu similarly [praised](#) Bank On's impact on financial inclusion while highlighting racial and income gaps.

May 24

- **New Fed Paper Shows Link Between Twitter, Market Sentiment, Run Risk** - A new FRB staff [paper](#) uses natural-language models and social-media data to craft a "twitter sentiment index" (TSI) that is then compared to actual market conditions.
- **Democrats Press Clawback, Regulatory Fixes as HFSC Considers Transparency Measures** - The HFSC mark-up so far has focused on one of Rep. Barr's (R-KY) three regulatory transparency [bills](#), with Democrats proposing a series of amendments without any deciding votes.
- **House Oversight Panel Focuses On Supervisory Accountability, Reform** - At the hearing of the Financial Services Subcommittee of House Oversight on bank failures and supervision at the San Francisco Fed, Subcommittee Chairwoman McClain (R-MI) opened with a series of sharply-worded questions on who oversaw the bank, what factors might have distracted them from traditional supervision, why glaring risk factors were not more forcefully addressed, whether regulators were unduly complacent, whether the Fed and FDIC used all of their regulatory tools, and if the agencies have been objective and transparent in their bank failure post-mortems as well as their accounts of the systemic risk exception.
- **Markup Votes Postponed for Transparency, LLPA Bills** - Since our last alert, Democrats continued to submit amendments for Rep Barr's (R-KY) transparency bill at the HFSC markup and party lines cemented over Rep. Davidson's (R-OH) LLPA bill.

May 25

- **Gensler Calls On Banking Regulators To Tighten Short-Term, Collective Fund Rules** - In [remarks](#), SEC Chairman Gensler announced that the SEC is in talks with bank

regulators to close what he believes are regulatory gaps in short-term and collective-investment funds governed by the banking agencies, not the SEC.

- **HFSC Reports Transparency, LLPA Bills** - After the lengthy debate and Democratic amendments we described at the HFSC [markup](#), the committee reported both Rep. Barr's (R-KY) regulatory transparency bill and Rep. Davidson's (R-OH) LLPA rescission bill on strictly party lines by votes of 26-22.
- **OCC Redesigns Liquidity-Risk Framework to Capture Recent High-Impact Developments** - In conjunction with a tough new enforcement [policy](#) (see forthcoming FedFin analysis), the OCC updated the [liquidity](#) section of its examination Handbook to gather the data the agency believes essential in light of recent history.
- **OCC Targets Poor CAMELS, Repeat-Offender Banks With New PCA Framework** - In conjunction with a new liquidity manual designed to position examiners to address recent risks (e.g., social-media runs, FHLB funding), the agency [issued](#) a touch new enforcement policy.
- **House Judiciary Leadership Accuses BofA of Politically-Inspired Data Breaches** - Bringing banks into the GOP campaign against "weaponizing" domestic activities, House Judiciary Chairman Jordan (R-OH) and Antitrust Subcommittee Chairman Massie (R-KY) sent a [letter](#) to Bank of America's CEO alleging that the bank voluntarily provided the FBI with sensitive transaction information related to the violent protests during January 6th without any legal process.

May 26

- No news of note.

This Week

Wednesday, May 31

Senate Banking Hearing entitled: "Countering China: Advancing U.S. National Security, Economic Security, and Foreign Policy." [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **The Honorable Elizabeth Rosenberg**, Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Department of the Treasury; **The Honorable Paul M. Rosen**, Assistant Secretary for Investment Security, U.S. Department of the Treasury; **The Honorable Thea D. Rozman Kendler**, Assistant Secretary for Export Administration, U.S. Department of Commerce; and **The Honorable Matthew Axelrod**, Assistant Secretary for Export Enforcement, U.S. Department of Commerce.

Future Events of Note

Wednesday, June 7

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House Financial Services Committee Hearing. [TBD]. Witnesses: **The Honorable Janet Yellen**, Treasury Secretary, U.S. Department of the Treasury.

Tuesday, June 13

HFSC Committee Markup. [TBD]. Matters to be discussed: TBD.

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](#).

- **[GSE-052323](#)**: Today's HFSC hearing with Sandra Thompson was the anti-LLPA event we [anticipated](#) when it came to Republicans that also saw the stout defense Democrats were sure to provide combined with FHFA's resolute stand on doing nothing to change the LLPAs or guarantee-fees beyond what might come of the pending [RFI](#).
- **[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.