



## Bowman Blasts Barr

In another public sign of a growing FRB divide, Gov. Bowman early this morning [followed](#) Gov. Waller in taking strong issue with what would otherwise appear to be Board policy. As noted [yesterday](#), Gov. Waller stated emphatically that climate risk is not a discrete systemic or prudential risk for large banks. Gov. Bowman takes strong issue with other recent Fed actions, stating that the post-SVB report endorsed by Chairman Powell ([see Client Report REFORM221](#)) was not shared with the Board as a whole and that she does not believe added capital requirements beyond those in the end-game rules, long-term debt, or additional liquidity standards are clearly essential to address supervisory failings. Gov. Bowman also wants an independent review of SVB, calling in addition for a review of recent Fed backstops, noting that these should only be provided for solvent banks and also require review to ensure Fed operational capabilities are robust in the face of new risks such as those related to viral runs. Ms. Bowman does agree that viral runs played a major role at SVB, adding that they were also a factor in Credit Suisse's failure, concurring with Mr. Barr also on the need for clearer supervisory communications and more formal enforcement actions when management is slow to act. She also supports review of FDIC coverage and ceilings.

## Fed Nominees Face Tough Confirmation Fight

In response to President Biden's nomination of Philip Jefferson for Fed Vice Chair and Dr. Adriana Kugler and Lisa Cook to Fed Governor seats, Democrats have voiced strong support while Republicans are biding their time on nominations sure to prove controversial. Senate Banking Chairman [Brown](#) (D-OH) and Sen. [Menendez](#) (D-NJ) praised the nominees' qualifications and highlighted that Dr. Kugler would be the first Latina to sit on the Fed, answering Mr. Menendez's long-standing [calls](#) for Hispanic representation on the Board. Ranking Member Scott (R-SC) reserved judgement in his [statement](#), emphasizing the importance of thoroughly vetting Fed nominees given the current state of inflation. Although he has no direct role in the confirmation process, HFSC Chairman McHenry (R-NC) also [noted](#) their qualifications but advised them to maintain political impartiality and avoid fiscal or social policymaking should they be appointed. We expect Mr. Jefferson's nomination to proceed relatively smoothly on its own, but face obstacles if packaged with the others. Gov. Cook's confirmation was hard-fought and will be again; Dr. Kugler is already being questioned on grounds of sufficient experience to take on this position.

## GOP Presses Broader FDIC, FRB Backstops

Picking up on the FDIC's report ([see Client Report DEPOSITINSURANCE119](#)), Republicans have introduced legislation to provide limited coverage for transaction accounts and address other issues raised by recent events. The FDIC-coverage bills go farther than the FDIC has in mind and differ in key respects we will assess following in-depth review. The measures are S. 1572 from Sen. Hagerty (R-TN) which would introduce a two-year transaction guarantee for non-interest-bearing accounts up to \$100 million, increase the limit on reciprocal deposits, and amend the FDIC's least cost test to widen the cost considerations used for potential sales of failed banks. H.R. 3422 from Rep. Luetkemeyer (R-MO) would amend the Federal Reserve Act to create a permanent Bank Term Funding Program to provide member banks and other depository institutions with short-term liquidity against long-term assets and another bill (H.R. 3423) from Mr. Luetkemeyer would allow insurance for noninterest-bearing transaction accounts for a certain period.

## FRB-NY: SVB, Signature are 1930s Redux

Following on its post [yesterday](#) regarding changing bank-funding sources, the Federal Reserve Bank of New York today [argues](#) that the concentrated, uninsured deposit bases at SVB and SBNY are directly

comparable to those of small rural banks in the 1930s. Although the post does not directly dispute assertions that the 2023 failures are unique due to the role of social media, it suggests that the problem lies more in continuing opacity of bank balance sheets due in the 1930s to information asymmetry and now to the moral hazard inherent in federal deposit insurance. In short, the post concludes that, in the 1930s, depositors were hard-pressed to know the risks of many small banks; now, they don't care about the risks of any bank. In an interesting note, the post also points out that, after FDIC coverage began, small banks almost exclusively relied on insured deposits while larger banks attracted uninsured funds from depositors who believed they knew the risk they ran in a period well before the concept of TBTF banks emerged. The study also finds that 98 percent of deposit accounts now are insured, but only 48 percent of deposits fall under the FDIC threshold, data suggesting that current thresholds (perhaps amplified by brokered and reciprocal deposits) serve most accounts very well but fall far shorter when it comes to large depositors.

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **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

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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.

- **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).