



Tuesday, May 16, 2023

## **Hsu Presses Reg Harmonization, Resolution Reform, Merger-Policy Rewrite**

We now 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 later this morning. Mr. Hsu for the first time lays out his thinking on revised regulatory and supervisory policy, noting that the principal problem in the recent failures is the lack of a "forceful" supervisory response. Mr. Hsu goes on to recommend that federal and state supervisors "level up" their rules and protocols to prevent arbitrage, stronger large-bank resolution requirements including TLAC and severability, revised bank-merger guidelines, the FDIC's recommended change to deposit-insurance coverage ([see Client Report DEPOSITINSURANCE119](#)), and action on an array of fairness and consumer-protection matters.

## **Yellen Says White House Supports Community-Bank Exemptions**

[Speaking today to the ICBA](#), Secretary Yellen today joined the parade of policy-makers affirming the national importance of community banks. Defending the Administration against strong small-bank protests over the SVB and SBNY rescues, the Treasury Secretary reiterated that these were carefully targeted and that Treasury and the agencies are prepared to take unspecified actions to address runs even at smaller banks if these pose contagion risk. Somewhat contradicting this conditional pledge, Ms. Yellen then goes on to assure the audience that Americans know that all deposits at banks are safe. The President supports exempting community banks from the FDIC's special assessment ([see FSM Report DEPOSITINSURANCE120](#)) and from new large-bank regulations.

## **JEC GOP Counter FRB on SVB Causality**

JEC Republican staff today [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](#)). Specifically, the report concludes that SVB would have needed an LCR of 200 percent to absorb its mid-March runs, double the pre-tailored requirement for the largest banks and almost triple the seventy percent ratio governing the bank prior to the FRB's 2019 tailoring rules ([see FSM Report SIFI34](#)). The paper attributes SVB's failure to capital vulnerabilities forced by unrealized loss recognition.

## **LLPAs Set for GOP Frying Pan**

The [majority-staff memo](#) for tomorrow's Housing Subcommittee hearing makes it clear that, as anticipated, the sole topic will be FHFA's controversial LLPAs and related GSE pricing. Fending this off, FHFA yesterday [released](#) an RFI seeking views on this framework; as noted, we will shortly provide clients with an in-depth assessment of this request as well as an assessment of the hearing's policy impact. The memo creates a legislative history for draft measures to repeal the current LLPA structure in favor of its predecessor, freezing any fee changes pending a GAO study. The hearing will also consider a resolution authorizing Congressional Review Act repeal of recent pricing changes; this might pass the House but stands little chance of enactment.

## **Senate Banking: Tough Grilling For Failed-Bank CEOs, Growing Consensus For Clawback Bill/Tough Rules**

As [predicted](#), today's 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." In his opening statement, Chairman Brown (D-OH) excoriated the CEOs for management failures, but also lambasted Randy Quarles and Trump-era standards. In addition to defending Fed and FDIC supervision, he advocated for strong rules to increase executive accountability, noting that bonuses were tied to return on equity. Ranking Member Scott (R-SC) said that, while regulators were "asleep at the wheel," bank executives were negligent and greedy, noting emphatically that most regional banks are well-run and that the banking system as a whole is safe and sound. Senators on both sides of the aisle grilled the CEOs on their compensation, with Sens. Warren (D-MA), Van Hollen (D-MD), Britt (R-AL), Vance (R-OH), and Warnock (D-GA) asking point blank if they intended to keep this money. The CEOs implied that they did, with SVB's Greg Becker stating that he would leave the matter as well as future executive compensation issues to regulators and Congress. In response, Sens. Warren, Menendez, and Van Hollen emphasized that they would work to redress the behavior via bipartisan clawback legislation, with Sen. Warren calling for a markup as soon as possible. Sen. Menendez also wants to ensure that executive knowledge of supervisory concerns is deemed material inside information on which trading is made illegal.

Sens. Daines (R-MT), Rounds (R-SD), Tester (D-MT), and Sinema (I-AZ) also pointed fingers at Fed and FDIC supervisors for their role in the failures and called for accountability. Asked by Sens. Haggerty (R-TN) and Vance about whether the FDIC asked him to participate in the sale of SVB, Mr. Becker said he offered but was not asked to contribute his knowledge around potential buyers. Sens. Haggerty and Daines also asked Mr. Becker about the extent to which the Federal Reserve Bank of San Francisco focused supervisory attention on climate risk, but Mr. Becker said more than 90% of its supervisory focus is on traditional risks.

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### Recent Files Available for Downloading

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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](#).

- [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.
- **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).