FedFin Daily Briefing

Friday, May 19, 2023

Bowman Strengthens Stand Against New Rules, Possible Supervisory Overkill

In case anyone doubted her meaning last week, FRB Gov. Bowman today 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**). Ms. Bowman also reiterates her call for an independent study, continued tailoring, and improved supervision. Many newly recommended rules would, she says, create a competitive barbell that advantages TBTF banks and unregulated entities, but she does emphasize the need for rapid improvement of contingency-funding plans along lines outlined yesterday by the head of the Dallas Reserve Bank. Noting one problem in the Fed and FDIC failure reports, Ms. Bowman recommends independent study not only of these cases, but also of the Fed's wire-transfer capacity, collateral management with the Home Loan Banks, and operational readiness. While calling again for more effective supervision, Ms. Bowman now also emphasizes the need for due process (e.g., warning ahead of a CAMELs downgrade). It is unclear if this new focus results from what Senators yesterday asserted is a sudden uptick in supervisory actions in SVB's wake (see *Client Report* **REFORM226**), but it is pushback should that now be the case.

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. We will shortly provide clients with in-depth analyses of these bills, which we expect quickly to proceed to mark-up on largely party-line votes. The bills would seek more from the FDIC on its receiverships and emergency determinations, from the Fed on its use of emergency liquidity powers, and from FSOC on its activities in concert with placing its budget under the appropriations process. Decisions by the banking agencies under systemic authority would also be subject to increased transparency.

Warren Pounces On Reports Of Treasury-Bond Assessment Proposal

Sen. Warren (D-MA) yesterday 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**). She also says that approving what she calls a backdoor bailout would be "outrageous" because it would threaten DIF stability and pose considerable and unfair cost to taxpayers. Supporting her claims that the plan constitutes an "unjustified giveaway," the letter points to the surge in deposits at the biggest banks since the March failures, protection of $30 billion of their uninsured deposits at First Republic, and what Sen. Warren calls favorable loans from the Fed's Bank Term Funding Program. No response is requested.

BIS's Carstens Dismisses Crypto, Calls For Tighter Non-bank Controls

In a wide-ranging speech today, BIS General Manager Agustín Carstens sharply criticized cryptocurrencies and called for greater regulation of the nonbank sector to avert a systemic financial crisis. Defending a two-tiered monetary system grounded in central bank trust, he argues that cryptocurrencies fail to replicate fundamental attributes of money and cannot reliably function without central bank intervention, a lender of last resort, and a robust regulatory and supervisory framework. He also says that recent bank failures warrant greater focus on nonbanks due to their interconnectedness with the traditional financial sector;

liquidity mismatches; and excessive, opaque leverage. Implicitly criticizing the Federal Reserve, Mr. Carsten also argues that central-bank efforts to diffuse crises through acting as market-makers of last resort on grounds of the new mission of preserving public trust in markets may conflict with the primary mission of price stability.

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.

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