



Tuesday, May 23, 2023

House Advances Consensus Anti-China Reporting Legislation

The House yesterday voted 400-5 to approve H.R. 1156, bipartisan legislation addressing Congress' China concerns by mandating a new study. This would require the Treasury, in consultation with the FRB, SEC, CFTC and the Secretary of State, to assess the effects of Chinese financial reforms on the United States and global financial systems, describe US policies, analyze financial-security risks, and provide recommendations. The report would be due a year from enactment. We expect this measure to be packaged in the Senate with legislation also passed yesterday in the House to punish Chinese fentanyl traffickers and then go to the President. Draft legislation to be taken up Thursday at an HFSC subcommittee hearing establishes a "trust" at the IMF to counteract discriminatory economic policies at member countries. This bill is most directly aimed at China but could also affect other nations. As always, the bill urges Treasury to seek IMF agreement as Congress cannot dictate policy to the IMF. We will provide clients with an update following this hearing, but – even if this measure is enacted into U.S. law – we doubt it will change IMF policy.

Gruenberg Endorses Bank On Accounts, Notes Continuing Racial Gaps

In [remarks](#) today 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 Hispanic households are more likely to be unbanked than White ones at every income level. He also detailed differences in nonbank payment use, as banked households are more likely to use nonbanks for online payments, but unbanked households are more likely to use them for essential transactions.

IOSCO Aims at Ending Crypto-Market Arbitrage

Advancing global crypto standards, the International Organization of Securities Commissions today 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](#)). IOSCO is not typically prescriptive, laying out principles rather than specific standards, and this consultation is no exception. IOSCO aims at standards that are "principles-based" and "outcome-focused," with the report's primary objective aimed at setting a global crypto-market foundation to reduce regulatory arbitrage. Adopting the FSB's "same-risk, same-rule" construct, much in the consultation focuses on ways to improve cooperation rather than necessarily dictate home-jurisdiction crypto standards when activities are confined to national borders. The report also focuses on securities regulation but includes matters now pending before the CFTC because most nations do not separate securities and commodities standard-setting. Much in the report's recommended principles aims at eliminating conflict of interest in vertically-integrated crypto firms and enhancing custody, investor protection, and retail-market suitability and distribution requirements. Comment is due by July 31 with IOSCO planning finalized standards by the end of this year. Broad FSB recommendations are expected by July 1, with IOSCO also planning a consultation later this summer on DeFi following its recent [report](#).

HFSC GOP Blasts GSE Fees, Supports FHLB System

Today's 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. Ms. Thompson's [testimony](#) likewise defended LLPAs, also noting the importance

of private mortgage insurance to lower guarantee fees. Rep. Sessions (R-TX) asked Ms. Thompson what she plans to do to end the GSEs' conservatorship; Ms. Thompson said only that there is no plan for moving them out of conservatorship as this cannot occur until they are far better capitalized. She also said that this is not a unilateral FHFA decision, noting Treasury's role as well as that of other agencies that need to reconsider various provisions exempting Fannie and Freddie only in conservatorship. Ms. Thompson's testimony spoke only generally about Home Loan Banks, but Members pressed her on this issue and she thus promised a report by September 30. Republicans generally stood by the Banks on grounds that they provide essential liquidity to member institutions; Reps. Cleaver (D-MO) and Torres (D-NY) countered that the Banks increased the cost of recent failures to the FDIC. Under questioning from Rep. Green (D-TX), Ms. Thompson indicated that FHFA will seek public views on algorithmic underwriting later this year. Ranking Member Waters (D-CA) pressed FHFA to end ARMS; Ms. Thompson replied only that most GSE purchases are fixed-rate loans.

Hsu Echoes Gruenberg's Bank-On Praises

Following Chairman Gruenberg's remarks earlier today, Acting Comptroller Hsu similarly [praised](#) Bank On's impact on financial inclusion while highlighting racial and income gaps. To further broaden inclusion, Mr. Hsu recommends that banks consider accepting alternative forms of identification and make Bank On options more visible and accessible to new customers. He also notes that cash-flow underwriting innovations show promise in boosting inclusion as they create opportunities for those once deemed "credit invisible."

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.
- **[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.