FedFin Daily Briefing

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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. The study does not evaluate sentiment when it comes to bank runs, but its findings do show considerable correlations between overnight TSI and next-day equity prices and bond spreads. Even more interesting, the TSI is found to predict the size of what would otherwise be monetary-policy surprises, actually anticipating shocks the day after a closed-door FOMC meeting ahead of the day when policy is announced. Twitter sentiment also worsens when there is unexpected tightening. We note that this study also describes prior research on social-media and broader market sentiment to show that expressions of opinion on broadly-shared platforms have long had market impact even though they have also been ignored as economic indicators and, of late, liquidity threats. Karen Petrou's recent memo drew the link between investor sentiment and deposit runs in recent regional-bank volatility. With the *Wall Street Journal* today now showing recent "meme" runs akin to those for stocks two years ago, this connection between market capitalization and deposit runs may well be even closer than the TSI suggests. If so, this counters those arguing that recent runs were typical, not driven by new social-media factors, heightening the need for new liquidity buffers along lines outlined in a March FedFin report (see *Client Report* **LIQUIDTY33**).

Democrats Press Clawback, Regulatory Fixes as HFSC Considers Transparency Measures

Today's 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. Chairman McHenry (R-NC) framed Mr. Barr's bill as directly addressing the opacity of regulatory decision-making following SVB's demise, while Ranking Member Waters (D-CA) attacked Republicans for failing to address any of the root causes of the crisis, also submitting an amendment that would expand the FDIC's clawback powers and enable the FDIC to fine or ban failed bank executives from working in the industry. Rep. Barr reiterated that regulators should not be given broader powers when they cannot responsibly exercise their current authorities. Rep. Tlaib (D-MI) submitted an amendment that would defer failed bank executive bonuses and Rep. Petterson (D-CO) proposed one that would freeze bonuses if the bank had an outstanding MRIA. Rep. Barr opposed both on grounds that they unfairly target individuals who did not contribute to their bank's woes. An amendment from Rep. Lynch (D-MA) would direct the FDIC during resolutions only to consider the bids of banks with over ten percent of total deposits if no other qualifying bids are available. Reps. Barr and Luetkemeyer (R-MO) stated that, while not interested in helping big banks get bigger, the change would negatively impact the least-cost requirement. However, they both expressed interest in addressing this issue. Rep. Sherman (D-CA) proposed two amendments that would count unrealized gains/losses on AFS securities against capital and bake interest rate risk into stress tests. Rep. Barr argued the former was overly prescriptive and that the latter was outside the scope of the bill; Rep. Sherman withdrew both amendments. Mr. Barr then encouraged Mr. Sherman to introduce the AOCI amendment as a standalone bill. Rep. Casten (D-IL) introduced a bill requiring banks to notify their supervisor of a CRO vacancy and submit a plan to fill it; Mr. Barr again voiced interest in engaging on this issue after the markup but did not endorse its inclusion in his bill. Rep. Luetkemeyer suggested requiring a risk committee instead that can serve as acting CRO when needed. The votes on all pending amendments are postponed. We will update clients on the results of each bill as the markup progresses.

House Oversight Panel Focuses On Supervisory Accountability, Reform

At today's 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. Ranking Member Porter (D-CA) bore into Congress for what she called its short-term memory on bank regulation, criticizing S. 2155 and calling for swift legislative action to reverse 2019 "rollbacks" and implement stronger clawback powers. BPI's witness took aim at the Fed's supervisory culture – something he said emphasizes "process over substance" – and called for structural reform targeting supervisors' approach rather than more rules or tougher enforcement. Kathryn Judge of Columbia Law School called for strengthening regional bank regulations as well as implementing strong executive-compensation clawback authority. The testimony of GAO's witness, Michael Clements, was the same as that delivered to HFSC earlier this month. Under questioning, Mr. Clements echoed comments at a recent hearing with Vice Chairman Barr by saying that supervisory action is more difficult when banks are profitable (see *Client Report* **REFORM226**). However, in an exchange with Rep. Fry (R-SC), Mr. Clements contradicted the Vice Chair's conclusions about Fed supervisory culture as a recent problem, saying that supervisory issues pertaining to enforcement and escalation go back to the S&L crisis.

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 today's HFSC markup and party lines cemented over Rep. Davidson's (R-OH) LLPA bill. Ranking Member Waters' (D-CA) amendment would close a "loophole" in Dodd-Frank she claims creates disparate prudential regulation for banks with BHCs and Rep. Green's (D-TX) amendment would exempt banks with assets under $5 billion from paying back the losses to the DIF following a systemic risk exemption and banks under $50 billion would pay a reduced rate. Rep. Barr claimed Ranking Member Waters' amendment fell outside the scope of his bill but offered to support Rep. Green's amendment if Mr. Green supported his underlying bill, changing his stand after he became concerned with the size of exempted banks and offered to work with Mr. Green on clarifying the language. Rep. Davidson reiterated that the LLPAs punished borrowers with good credit scores and claimed his bill would add transparency and oversight to the price setting process. Majority Whip Emmer (R-MN) echoed Rep. Davidson's claims, adding that the changes would pose a safety and soundness threat to the housing market. Ranking Member Waters attacked the bill, claiming it would repeal a change that would help many low-income borrowers achieve homeownership. The votes on the two amendments and the two bills are postponed.

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.

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- **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.

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