



# FedFin Weekly Alert

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Monday, June 26, 2023

## □ READY FOR RECESS?

We sure are after a tumultuous week. During it:

- the Senate Banking [committee](#) marked up Chairman Brown's (D-OH) first reported bill since he assumed the gavel in 2021 and what a big one it is too. Although significantly scaled back from the Warren-Vance clawback bill ([see FSM Report COMPENSATION36](#)), press reports [indicate](#) it contains a Vance amendment banning "megabank" acquisitions. Text is still not available. As soon as it is, we'll analyze and advise;
- Wednesday's Powell hearing before HFSC ([see Client Report FEDERALRESERVE74](#)). At it, Mr. Powell not only unsettled markets with a firm rate-hike pledge, but also tried as hard as he could to distance himself from looming regulatory-capital hikes without in any way saying that the Fed isn't going to approve them. Mr. Powell was also the clearest we can recall on the future of CBDC;
- HFSC Chairman McHenry (R-NC) announced that his panel will mark up controversial crypto-jurisdiction [legislation](#) in concert with the House Agriculture Committee as well as advance a new federal stablecoin [framework](#). During the hearing, Ranking Member Waters (D-CA) continued her press preemption. Without some additional concessions, the bill is in danger and, even with them, its fate is uncertain, but at least it's advancing; and
- under fierce challenges from Senate Banking Republicans, Chairman Powell indicated that he has been briefed on the endgame rules and that the board as a whole will be given ample time to review it. At the same time, FDIC Chairman Gruenberg mounted a stout defense of the endgame rules, saying that protecting bank safety and soundness is his primary objective even if it empowers shadow banks.

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## Headlines From the Past Week's Daily Briefings

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### June 20

- **ECB Targets Bank Risk to NBFIs** - A speech from the ECB's top bank supervisor makes it clear that the EU is pressing ahead with FSOC's proposed limits on bank inter-connections with NBFIs ([see FSM Report SYSTEMIC95](#)).
- **New M&A Policy Sets High Bar For Banking-Agency Approval, Increases Odds Of DOJ Rejection** - Making M&A a good deal harder to pull off, Assistant Attorney General Jonathan Kanter [redefined](#) U.S. bank-merger policy in light of comments on a recent RFI

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([see FSM Report MERGER10](#)) and dramatic changes since current policy was set in 1995.

- **FRB-KC: Community Banks Better Capitalized than GSIBs** - The Kansas City Fed released an [analysis](#) of 2022 bank capital, finding that community banks continued to hold higher levels of capital compared to G-SIBs: ten percent to six percent, respectively.

### June 21

- **Waters Advances Post-SVB Proposals** - HFSC Ranking Member Waters (D-CA) [released](#) ten Democratic bills in response to recent bank failures, noting — [as is indeed the case](#) for at least some of these measures – that Republicans expressed interest in them at the last committee mark-up.
- **Unusual Bipartisanship Advances Senate Clawback Bill** - We will await text to determine the full impact of the bill approved by Senate Banking, but the 21-2 vote makes it clear that it will have no trouble navigating the Senate floor unless more controversial riders are attached.
- **Schumer Lays Out Senate's AI Approach** - Kicking off a high-priority Senate action plan, Senate Majority Leader Schumer (D-NY) laid out his AI [framework](#) dubbed the Safe Innovation Framework.

### June 22

- **Gruenberg: End-Game Almost Done, Will Be Tough** - In [remarks](#), FDIC Chair Gruenberg erased any of the doubt Chair Powell left yesterday as to the nature of the U.S. end-game capital rewrite ([see Client Report FEDERALRESERVE74](#)).
- **FSB Tackles Third-Party Risk** - The FSB [issued](#) a consultation on third-party vendor management, with comments due by August 22.
- **Senior Democrats Reintroduce Fed Racial Equity Measure** - HFSC Ranking Member Waters (D-CA) and Senate Banking member Sen. Warren (D-MA) [reintroduced](#) legislation that would create a new racial justice mission at the Fed.
- **Powell Announces Internal Endgame Draft, Defends FRB-SF** - At a Senate Banking hearing covering much of the territory discussed in the HFSC hearing ([see Client Report FEDERALRESERVE74](#)), Chairman Powell noted that an endgame draft proposal has been circulated internally, he has been briefed on it and that all governors will have ample time to review it.

### June 23

- **House Passes Bill Rescinding FHFA Pricing Changes** - The House passed HFSC Member Davidson's (D-OH) [bill](#) overturning the FHFA's changes to the Enterprise's

pricing [framework](#) by a vote of 230-189 mostly along party lines, with fourteen Democrats voting for the bill.

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## This Week

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No meetings of note.

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## Future Events of Note

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No meetings of note.

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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](#).

- [GSE-062223](#): A [Bloomberg article](#) tells a fascinating tale of high-flying personal real-estate investment and other alleged acts of self-dealing at the expense of the seemingly-hapless Federal Reserve Bank of San Francisco.
- [FEDERALRESERVE74](#): Chairman Powell's HFSC appearance today led to unusually substantive discussion of pending financial-policy actions.
- [GSE-061523](#): The FHFA's [report to Congress](#) this year was eagerly awaited to see if it shed any insight into what FHFA might do after its listening [sessions](#) and Sandra Thompson's [promise](#) to do something sometime soon about the Home Loan Banks.
- [CONSUMER51](#): With Rep. Andy Barr (R-KY) leading the attack with an accusation of CFPB "McCarthyism," today's HFSC hearing with Director Chopra tracked much in yesterday's Senate Banking [session](#).
- [REFORM227](#): Treasury Secretary Yellen was pressed at today's HFSC hearing to comment on pending bank capital standards, the scope of FDIC coverage, and failed-bank resolutions.
- [CONSUMER50](#): Reflecting Acting Comptroller Hsu's focus on consumer protection, fairness, and inclusion, the OCC is seeking views on what could become an annual survey of what consumers and especially bank customers think of their bank.
- [VENDOR10](#): After frequently citing third-party relationships and outsourcing as worrisome risk, the banking agencies have now finalized guidance first proposed in 2021 to govern them.
- [GSE-060823](#): As we will detail in a forthcoming in-depth report, the banking agencies' new "guidance" on third-party vendors essentially brings all nonbank counterparties with whom banking organizations deal under the agencies' enforcement thumb.
- [COMPENSATION36](#): Sen. Warren (D-MA) has introduced a revised version of legislation to ensure that both the FDIC and other federal banking agencies can demand that executives and

others governing failed banks refund direct and indirect compensation to the federal government.

- **[GSE-060223](#)**: As we detailed earlier this [week](#), the OCC's new enforcement [policy](#) is a paradigm shift in terms of the legal and reputational risk run by national banks and federal thrifts – that is, by the depository institutions that matter the most to mortgage finance.
- **[CHINA17](#)**: While largely focused on countering fentanyl, today's Senate Banking hearing on China, saw Committee Democrats try to ascertain the details of a potential outbound investment [executive order](#) and Republicans addressing what they believe to be shortcomings in data privacy, AML regulation, and sanctions policy.
- **[SUPERVISION2](#)**: Following a speech earlier this year by the Acting Comptroller arguing that some banks are “too big to manage” and the furor caused by recent failures, the OCC has significantly revised its enforcement policy.