



Wednesday, June 7, 2023

Basel Advances Supervisory Rewrite, Wants Quick End To End-Game

The Basel Committee's [release](#) today of its latest meeting confirms that global regulators plan to revise 2012's core supervisory principles ([see FSM Report REFORM92](#)) in light of recent events, releasing a consultation next month. Work is also under way to update the 2022 crypto standards ([see FSM Report CRYPTO37](#)) to address permissionless blockchains and stablecoins. A consultation on climate-risk disclosures is set for year-end, with work continuing on scenario-analysis best practices. The Committee again also unanimously agreed to implement the full Basel III framework – i.e., also the end-game rules – as quickly and completely as possible, another push for near-term U.S. action.

HFSC Urges Careful Use of China Sanctions

At today's HFSC National Security Subcommittee hearing on maintaining the dollar's global dominance, Subcommittee Chairman Luetkemeyer (R-MO) and Reps. Petterson (D-CO) and Kim (R-CA) argued that the sanctions that would follow an invasion of Taiwan need to be used carefully to avoid unintended harm to the dollar's global status. In response to Rep. Kim, the Hudson Institute witness claimed that Treasury does not sufficiently plan for events that would warrant sanctions. Rep. Loudermilk (R-GA) asked what level of scrutiny the Administration and Congress should use when considering these sanctions and the witness from the University of Syracuse responded that scrutiny should be high because – unlike most countries – China could provide an alternative payment system. Ranking Member Beatty (D-OH) and Reps. Nunn (R-IA) and Nickel (D-NC) also voiced concern over the threat of payment system alternatives, with Rep. Nunn citing the Chinese SWIFT alternative CIPS. The witnesses representing the Atlantic Council and Syracuse noted that no current effort to bypass SWIFT currently poses a threat, recommending that the US reinforce its international relationships to counter any long-term risks. Rep. Barr (R-KY) argued that dollar-backed stablecoins could offer the same international benefits as a CBDC without the privacy concerns of the digital yuan. Chairman Luetkemeyer asked how China will decouple from the dollar in the near future; the witness from Syracuse predicted that capital controls and currency manipulation will prevent the Yuan from threatening the dollar, noting that gold-backed Yuan contracts could provide an attractive alternative. Rep. Meuser (R-PA) promoted his bill that would require the Treasury Secretary to submit a plan to Congress to maintain the dollar's strength.

Durbin Leads Renewed Charge For Credit-Card Network Choice

As anticipated, Senate Judiciary Committee Chairman Durbin (D-IL) along with Sens. Welch (D-VT), Marshall (R-KS), and Vance (R-OH) today [reintroduced](#) legislation to extend routing-system requirements to credit cards. The bill, which has also been reintroduced in the House by Reps. Gooden (R-TX) and Lofgren (D-CA), slightly revises last year's measure ([see FSM Report INTERCHANGE10](#)) by addressing security and operational risks associated with unaffiliated network routing requirements. Key provisions strongly opposed by the banking industry appear unchanged. As a result, banking-industry opposition remains fierce and chances of enactment appear slim absent a vehicle where Sen. Durbin's leadership position gives him an edge to add a rider.

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

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- **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.
- **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

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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.

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