



## **Gruenberg: End-Game Almost Done, Will Be Tough**

In [remarks](#) today, 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](#)). Much in the talk reiterates key tenets of the Basel IV standards with regard to reducing internal-model reliance, with Mr. Gruenberg's remarks increasing the odds that the NPR will also propose an end to the advanced approach now applicable only to the very largest banks. Mr. Gruenberg also laid out the rationale for changes to the trading-book, RBC, and operational-risk standards, noting also recent bank failures and the rationale it reinforces for applying all these standards to banking organizations with assets over \$100 billion. His comments lead us also to infer that revisions to AOCI-recognition for capital purposes will be included in these end-game revisions, not delayed for the larger "holistic" standards Vice Chairman Barr [plans](#). It is possible that changes to the LCR will not move in tandem with the end-game standards, but the FDIC chair is adamant that they also need a rewrite – a point on which Mr. Powell was also more direct in his comments yesterday. Mr. Gruenberg also reiterated that the comment period will be lengthy, the rule will not be finalized until mid-2024, and there will be lengthy transition periods. Under questioning, he said that fixing capital treatment of AOCI would address interest-rate risk and that FSOC and the FSB need to deal with any risks generated at nonbanks by way of these capital charges. The FDIC Chairman also emphasized the importance of sound banks even if the new capital standards create pressure for mid-size bank consolidation.

## **FSB Tackles Third-Party Risk**

The FSB today [issued](#) a consultation on third-party vendor management, with comments due by August 22. We do not expect this to affect U.S. standards, recently finalized in tougher form and extending to the full panoply of third-party relationships, customers included ([see FSM Report VENDOR10](#)). FSB's approach builds global standards out in areas long addressed by the U.S., e.g., critical service providers, offering a "toolkit" to improve risk management here and in other vendor arenas.

## **Senior Democrats Reintroduce Fed Racial Equity Measure**

HFSC Ranking Member Waters (D-CA) and Senate Banking member Sen. Warren (D-MA) today [reintroduced](#) legislation that would create a new racial justice mission at the Fed. As with an earlier version ([see FSM Report FEDERALRESERVE58](#)), the measure would require the FRB and FOMC to consider racial and ethnic factors across the Fed's full range of duties and functions. The new mandate is expressly targeted to racial and ethnic equity, although the Fed would also be required to report on labor-force trends with a comparison for gender and educational attainment. As noted, the bill would create a new monetary-policy mandate that could significantly alter the Fed's focus, but it is sure not to be enacted.

## **Powell Announces Internal Endgame Draft, Defends FRB-SF**

At a Senate Banking hearing today covering much of the territory discussed in yesterday's 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. Responding to a barrage of GOP questions, the Chairman also stressed that the proposal is still evolving and formal discussions on it have not yet begun. Mr. Powell defended FRB SF's supervision of SVB, noting that they correctly highlighted poor risk management, and even though supervisors were not sufficiently

assertive, the Board is ultimately accountable. Mr. Powell also reiterated the points made yesterday and this morning by FDIC Chair Gruenberg about the need to strengthen liquidity regulation.

Sen. Warren (D-MA) continued her attacks on the Chairman, asking if he takes personal responsibility for advocating for what she claims are weak rules that led to SVB's collapse; he responded only that he takes responsibility for "learning the right lessons." Sen. Menendez (D-NJ) asked if some banks may fail as a result of CRE loans; Chair Powell reiterated that concentrations of CRE are held mostly by smaller banks and the Fed continues to monitor the situation. Ranking Member Scott also quizzed Mr. Powell about the Fed's balance-sheet losses, expressing considerable dissatisfaction with Mr. Powell's response that it is largely an accounting issue with no broad policy consequences despite its cost to Treasury, resulting in additional indebtedness.

---

## 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](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

---

Federal Financial Analytics, Inc.

2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037

Phone (202) 589-0880

E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

© 2023. Federal Financial Analytics, Inc. All rights reserved.

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](#).

---

Federal Financial Analytics, Inc.

2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037

Phone (202) 589-0880

E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

© 2023. Federal Financial Analytics, Inc. All rights reserved.