



Thursday, July 6, 2023

Basel Redesigns Global Bank-Supervision Construct

As promised at its last [meeting](#), the Basel Committee today [released](#) a public consultation on revisions to its 2012 core supervisory principles ([see FSM Report REFORM92](#)). FedFin will soon provide clients with an in-depth report, noting for example how the new approach addresses climate-related financial risks, digitalization, and NBFIs. The Committee also notes that the revisions are outcome-oriented rather than prescriptive on process, doubtless reflecting SVB and Credit Suisse by noting that that optimal supervision should move beyond passive assessment of compliance. Comments are due by October 6.

Accommodative CRE Policy Goes Live

Publication in the *Federal Register* today [makes effective](#) a finalized policy statement issued by the banking agencies and NCUA late last week on how financial institutions are to handle troubled commercial real estate (CRE) loans. As noted in FedFin's analysis ([see FSM Report REALESTATE25](#)), this policy provides banks with considerable loan-mod flexibility that eases near-term losses at possible risk of longer-time stress. As detailed in a housing-finance focused FedFin [report](#), accommodations for multi-family loans are encouraged even though examples of how to do so include numerous caveats.

Senate Dems Demand CFPB Voice-Cloning Action

Following his [letter](#) to large bank CEOs regarding AI fraud, Chairman Brown (D-OH) along with Sens. Menendez (D-NJ), Reed (D-RI), and Smith (D-MN) today sent a [letter](#) to Director Chopra urging action against AI-related financial scams. As in the letter to the banks, the Democrats highlight the threat of voice cloning, stating that it can be used to trick consumers and to bypass voice authentication security measures. The Senators do not ask for any specific action, only pressing the Bureau to act as soon as possible, a request we expect soon to materialize as a CFPB advisory or similar action. Although the Bureau can press for additional consumer protections, its authority also to demand tighter bank security is at best uncertain.

FSB Turns to GSIB Resolvability

The FSB's plenary today [announced](#) that recent events have spurred it to assess the resolvability of GSIBs and other large banks, providing neither timeline nor focus for this work. It does, though, have an inquiry already underway in Switzerland. Much of the work at this session focused on readying additional actions for release following presentations later this month during G20 finance-minister and GHOS sessions. Key new documents will include cryptoasset policy recommendations and an update on the global climate-risk roadmap.

FRB-NY Study Advances Wholesale Digital Currency

Although making clear that it sets no new policy nor endorses any CBDC action, the Federal Reserve Bank of New York's Innovation Center published a DLT proof-of-concept [finding](#) that shared ledgers can effectively support both wholesale domestic interbank and cross-border payments. This is a significant advance to the wholesale digital-currency to which Chairman Powell is open ([see Client Report FEDERALRESERVE74](#)), with the release today also offering a preliminary finding that this form of digital currency is viable under current law. It differs from CBDC in that the construct is designed to handle

all money, accommodating both “bank money” as well as any CBDC the Fed might choose to launch. Although the study also notes that frictions remain regarding speed, cost, accessibility, and settlement, it still leads to a finding that warrants exploring tokenized regulated deposits and the benefits of central bank and commercial bank digital money operating together on a shared ledger.

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-070523](#)**: As an in-depth FedFin analysis today addresses ([see FSM Report REALESTATE25](#)), the banking agencies and NCUA late last week issued far-reaching [guidance](#) encouraging loan accommodations and even forbearance for troubled commercial real estate (CRE) projects, including multifamily obligations.
- **[REALESTATE25](#)**: The banking agencies and NCUA have agreed on a final policy statement providing guidance for how financial institutions are to handle troubled commercial real estate loans, giving banks considerable latitude to forbear when borrowers are unable to meet their obligations but are deemed to be able to pay at least some of it over time.
- **[GSE-063023](#)**: In non-public remarks ahead of a presentation by FedFin managing partner Karen Petrou, Sen. Jack Reed (D-RI) laid out what he thinks banking agencies will do next, doubtless based on what they’ve told him that they’ll do next.
- **[COMPENSATION37](#)**: The Senate Banking Committee has overwhelmingly approved bipartisan legislation to reform executive compensation following larger insured-depository institution (IDI) failures, with parent-company executive compensation also at risk in some circumstances.
- **[ESG4](#)**: Late Friday, GOP HFSC Members issued a withering [report](#) criticizing the Biden Administration for using financial regulators to do its political bidding on ESG objectives that it believes “contort” financial regulators into political instrumentalities that put retail investors at risk.
- **[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.

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- **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.