



## HFSC Lays Out Its ESG Priorities

The majority staff [memo](#) ahead of Wednesday's HFSC hearing on ESG follows the outline anticipated [last week](#) and that laid out in the GOP agenda for ESG-related action ([see Client Report ESG4](#)). Thus, the committee will hear from numerous witnesses supporting assertions that ESG-driven investments allocate funds at considerable disadvantage to investors and retirees. Legislation on which the committee plans to focus includes many proxy-focused measures as well as a bill to reinstate Trump-era OCC rules sanctioning banks for what are perceived to be ESG-related lending decisions ([see FSM Report ESG3](#)). HFSC appears principally focused on proxy voting and the SEC's climate-risk disclosures, leaving asset-management investment strategies to the Judiciary Committee. As noted [last week](#), it is seeking answers from the three largest firms in response to conclusions that they "collude" in this arena.

## OCC Concur On Capital, Tries For The Merger Middle

Acting Comptroller Hsu today confirmed our assessment of Vice Chair Barr's comments earlier today ([see Client Report CAPITAL228](#)) that the three banking agencies are aligned on the new capital construct to be shortly released for public comment. Mr. Hsu also sought to take a middle path between Secretary Yellen's [comments](#) seemingly in broad support of regional-bank mergers and Sen. Warren's (D-MA) views, saying the path for regional-bank mergers is "narrow" but fair. He also emphasized the need for competition among the largest banks and argued that prohibiting all regional bank mergers would lock in the largest banks' market power. Mr. Hsu also argued that there is now a "supply chain" in the banking sector in relation to fintechs that requires careful monitoring, highlighting interagency guidance on third-party risk-management ([see FSM Report VENDOR10](#)). Mr. Hsu was either unwilling or unable to provide a deadline for CRA finalization ([see FSM Report CRA32](#)), only noting strong interagency alignment on these standards.

## Barr, Foster Demand Delay to Capital Rewrite

Anticipating Vice Chair Barr's remarks this morning detailing near-term capital policy changes ([see Client Report CAPITAL228](#)), HFSC Financial Institutions Subcommittee Chair Barr (R-KY) and Ranking Member Foster (D-IL) sent a [letter](#) late Friday demanding that he appear before the Subcommittee to present the conclusions of his capital review and upcoming Basel III implementation plans prior to public release, asking also for details and likely outcomes for industry consolidation. The letter also suggests incorporating contingent capital into the plan, a remedy often championed by Mr. Foster ([see Client Report REFORM225](#)). They request a response sixty days prior to the public notice of the Basel III proposed rule, noting that attaching the proposal will not constitute a sufficient response and thus clearly also attempting generally to delay the interagency proposal. We think it likely that Mr. Barr will respond by making clear his willingness to appear at any time the subcommittee wishes without committing to delaying the NPR.

## House Republicans Keep Spotlight On FRB-SF

Continuing the GOP's attack on the San Francisco Fed's supervision of SVB in the wake of what many believe are "woke" priorities, House Oversight Committee Chairman Comer (R-KY) was joined today by Financial Services Subcommittee Chairwoman McClain (R-MI) in sending a [letter](#) to FRB Chairman Powell taking serious issue with the Federal Reserve Bank of San Francisco and the Fed for what they describe as SVB-related transparency and communication failures. The Members flag unaddressed requests for supervisory information from the FRB-SF and claim that the Fed blocked these requests by asserting blanket

privilege over supervisory information deemed to be confidential. In response, the letter asserts Committee authority to investigate “any matter” at “any time” and repeats previous requests for examination and audit reports and FRB-SF Board meeting minutes. They now also request copies of unredacted interviews related to the Fed’s SVB report ([see Client Report REFORM221](#)) and materials used by former Vice Chair Quarles during his visits with Reserve Bank staff. A response is requested by July 24.

## BIS Survey: Most Central Banks Considering CBDCs

The BIS today released the [results](#) of its 2022 CBDC and crypto survey of central banks, finding that 93% of central banks are engaged in some form of CBDC work and that 80% agree in principle of the value of having both a fast payment system such as FedNow and a CBDC. A majority of central banks also reported that they were uncertain about their legal basis of a CBDC. Over two thirds of central banks are monitoring the financial stability implications of stablecoins, despite the survey confirming that their use remains extremely limited outside of the crypto market. The survey also found that recent crypto market volatility has sped efforts to both advance work on CBDCs and bolster crypto regulation.

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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](#).

- **CAPITAL228**: FRB Vice Chairman Barr’s speech [today](#) outlines near-term U.S. regulatory-capital policy, confirming our [earlier assessment](#) that a sweeping proposal will soon be released.
- **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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