



FedFin Weekly Alert

Monday, August 7, 2023

❑ A CRUSHING CAPITAL BURDEN

No, we're not talking about the proposals – enormous, complex, and in some cases ill-drafted and confusing though they are. We're talking about how much work it's taking to go beyond the top-line analyses and section-by-section repeats we're seeing in so many releases to give you in-depth, strategy, and market-focused analyses of what key parts of the rules say and how they'll redefine banking as we and the financial system know it. There's much not to love about the current construct, but the complexity of the new capital framework makes it stunningly difficult not just for us, but we fear also for the regulators, to know if the new framework will prove a Frankenstein. When we finish our read of all the proposals' sections and that for GSIBs, we'll release a final, bottom-line strategic conclusion. Until then, it's critical to understand each key part of the rule and how it defines individual business lines and the markets that depend on them. So, be sure to read:

- our in-depth assessment of the over-arching capital framework and the new definition of regulatory capital it contemplates ([see FSM Report CAPITAL230](#));
- a detailed assessment of the new credit-risk construct and the complex trade-offs it demands, especially of regional banks. [As we've said before](#), the new, "higher-of" construct balances some important reductions in key risk weightings not just against all the new, higher ones, but also how the credit-risk standards fit into the new market and operational rules along with the new output floor. And, of course, there's still TLAC and many other regulatory rewrites in the works as soon as later this month ([see FSM Report CAPITAL231](#));
- an in-depth assessment of how the new framework and credit-risk charges work for [residential mortgages](#); and
- another [in-depth look](#) at what happens to Fannie, Freddie, the Home Loan Banks, and banks big and small that love them or hate them, but all too often really need them.

Headlines From the Past Week's Daily Briefings

July 31

- No news of note.

[August 1](#)

- **Curtain Falls on Fintech-Charter Hopeful** - In a blow to the waning chartering prospects for fintech and crypto banks, the OCC [announced](#) that Figure – a fintech platform that applied in 2020 for a strikingly-novel national bank charter ([see Client Report CHARTER28](#)) – has officially withdrawn its application.
- **Discount-Window Stigma Persists** - The Fed released the [results](#) of its May 2023 Senior Financial Officer Survey, with most banks continuing to fear public disclosure of discount window advances.

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

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

August 2

- No news of note.

August 3

- No news of note.

August 4

- **Fed Study: GSIB Leverage Ratios No Cause of Treasury-Market Stress** - As regulators prepare to extend the supplementary leverage ratio (SLR) to all large banks ([see FSM Report CAPITAL230](#)), a [new Fed staff research note](#) concludes that the higher leverage ratio did not undermine dealer-bank capacity.
- **Warren, Dems Use North Korea Case to Press Crypto AML/Sanctions Bill** - Ahead of a hard push next month to add crypto AML and sanction standards to the defense authorization, Sens. Warren (D-MA), Van Hollen (D-MD), and Kaine (D-VA) sent a [letter](#) to Treasury Under Secretary for Terrorism and Financial Intelligence Nelson and National Security Advisor Sullivan calling on the Administration to crack down on North Korea's illicit crypto activity.
- **Warren, Porter Demand Stricter FDIC Crackdown on Uninsured Deposit Underreporting** - Following the FDIC's financial institutions [letter](#) highlighting that some banks incorrectly estimated uninsured deposits in their Call Reports, Sen. Warren (D-MA) and Rep. Porter (D-CA) sent a [letter](#) to FDIC Chairman Gruenberg taking serious issue with the agency's "feeble" response.

This Week

No meetings of note.

Future Events of Note

No meetings of note.

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](#).

- **[CAPITAL231](#)**: In this report, we proceed from our assessment of the proposed regulatory capital framework to an analysis of the rules governing credit risk.
- **[GSE-080323](#)**: As we plow on with our in-depth analysis of the new capital proposal, we will continue to advise of key provisions in the massive rewrite with important implications for

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

residential-mortgage finance.

- **[CAPITAL230](#)**: In this in-depth report, we begin our analysis of the 1089-page capital proposal released by the U.S. banking agencies not only to make U.S. standards more consistent with Basel's 2017 "end-game" rules, but also to correct failings in the current capital framework the agencies believed were laid bare by recent bank failures.
- **[GSE-072823](#)**: We've much more to do to determine the strategic and policy impact of the new credit-, market-, and operational-risk capital rules singly and collectively – a complex task given the 1,087-page rulemaking made harder by some extremely-arcane language that may either mask what the agencies mean or differ from what they meant to mean.
- **[CAPITAL229](#)**: [As promised](#), we plan in-depth coverage of the Fed and FDIC meetings tomorrow as well as of the capital rewrites they are set to propose no matter all the warning shots from [Congressional Republicans](#).
- **[MERGER12](#)**: Building on a request for comment, the Department of Justice (DOJ) and Federal Trade Commission (FTC) have now proposed specific revisions to U.S. merger policy that significantly redirect the manner in which M&A transactions – even if only for minority positions – will be considered.
- **[DEPOSITINSURANCE121](#)**: In the wake of today's Senate Banking deposit-insurance reform hearing, it seems certain that there will be no legislation in the near term and most likely in this Congress to increase FDIC-insurance thresholds.
- **[CLIMATE16](#)**: As [anticipated](#), Republicans continued their [campaign](#) against ESG at today's HFSC Financial Institution Subcommittee hearing on climate risks, reiterating arguments that a regulatory focus on climate risk signals financial institutions to cease lending to carbon intensive industries.
- **[MMF20](#)**: The SEC has significantly revised its proposed MMF-reform standards, eliminating a controversial swing-pricing approach to reduce first-mover advantage in favor of new redemption fees at institutional prime and tax-exempt funds.
- **[GSE-071823](#)**: Reuters is reporting [today](#) and other sources are echoing three regulatory sources saying that the impending capital rewrite will propose risk weighted assessments (RWAs) between 40 and 90%, up from the minimum 20 and 70% [Basel standards](#).
- **[GSE-071123](#)**: As we detailed [yesterday](#), FRB Vice Chair Barr laid out what he called a holistic view of bank capital standards that encompasses [end-game rules](#), stress testing, post-SVB lessons, GSIB restrictions, and resolvability.
- **[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.