



FedFin Weekly Alert

Monday, August 14, 2023

❑ THE CAPITAL CONSTRUCT CONTINUED

Even as we stay on watch for new [regional-bank resolution rules](#), and keep you posted on some high-impact events (see below), we've been plowing through hundreds of pages of regulatory-capital rewrites. Last week, we built on our in-depth analyses of the overall capital framework (see [FSM Report CAPITAL230](#)) and the new approach to credit risk (see [FSM Report CAPITAL231](#)) with several new in-depth assessments. These cover:

- the equity-holding and securitization framework (see [FSM Report CAPITAL232](#)). Aspects of the new approach to securitization are less costly when it comes to traditional issuances, but the proposal slams complex structured deals and credit risk transfer. Its approach on equities is even more transformational, especially when it comes to certain types of investment funds and permissible covered funds (see [FSM Report COVEREDFUNDS3](#));
- how the new securitization framework affects [CRT investments](#) and [Fannie and Freddie](#); and
- the U.S. decision to adopt a gold-plated version of Basel's standardized approach to operational risk. Karen Petrou's Monday memo will give her views – strong opposition. Our in-depth analysis (see [FSM Report OPSRISK22](#)) is as objective as we can make it but it still notes significant structural challenges and the potential for perverse results that we conclude would make U.S. banking not just riskier, but still more shadowy.

Headlines From the Past Week's Daily Briefings

[August 7](#)

- **McHenry Highlights New PayPal Stablecoin, Legislative Progress** - In response to PayPal's [announcement](#) of a new payment stablecoin, HFSC Chairman [McHenry](#) championed the new product, emphasizing that there has been bipartisan progress toward legislative action on his [bill](#) and touting strong state regulatory regimes such as New York's.
- **IMF: Fed Should Focus on Corporate-Bond Risk** - A new study from the IMF on corporate bond shocks and commercial bank lending urges the Fed to limit its market maker of last resort function and focus future policy interventions on mitigating corporate-bond dealer vulnerabilities and increasing investment-fund resilience.

[August 8](#)

- **IMF Staff Presents New CCyB Trigger** - A new IMF [paper](#) weighs into an important question inherent in the new construct of U.S. regulatory capital: how to set the counter-cyclical capital buffer (CCyB) to anticipate financial stress.
- **GAO Asks Banking Agencies To Focus On Blockchain, Alternative Data, PCA** - The GAO [issued](#) its annual policy recommendations to the federal banking agencies and the SEC.

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- **Warren Presses Goldman Hard on SVB Conflicts** - Not letting one [letter](#) to Goldman Sachs suffice when it comes to SVB, Sen. Warren (D-MA) sent another [letter](#) to the bank taking serious issue with its response, particularly regarding the steps it took to avoid conflicts of interest.
- **OCC Targets Fintech Partnerships** - Continuing its fintech-partnership crackdown, the OCC [clarified](#) that its legal lending-limit standards apply to purchased loans and particularly to those purchased from nonbanks.
- **IMF Reiterates Need for U.S. Mid-sized Bank Regs, Better Contingency Funding** - Building on its prior assessment of U.S. performance in its most recent financial-stability [review](#), the IMF [cautioned](#) the U.S. to focus more on smaller-bank vulnerabilities and closely monitor asset markets, bank earnings, and run risk interlinkages.
- **Fed Sets New Course on Novel Activities, Tokenization** - Eschewing formal action that might have required publication for comment, the FRB [released](#) “information” on how it supervises “novel” activities at BHCs and state member banks such as complex fintech partnerships, DLT utilization, and cryptoassets along with a new non-objection process for state member banks related to stablecoins and other dollar tokens.

[August 9](#)

- **Brown, Other Senate Dems Demand Fast Action on Fed Merger Policy Rewrite** - Building on Sen. Warren’s (D-MA) longstanding Fed [criticism](#), Chairman Brown (D-OH) along with Sens. Warren, Reed (D-RI), and Fetterman (D-PA) directly [demanded](#) a substantive and speedy rewrite of Fed merger policy to ensure that statutory requirements related to financial-stability impact are met.
- **Waters Doubles Down On Opposition To GOP Stablecoin Bill** - In stark contrast to HFSC Chairman McHenry’s (R-NC) [comments](#) praising PayPal’s new payment stablecoin, Ranking Member Waters (D-CA) sharply [criticized](#) the product and the risks it poses given that the HFSC GOP has advanced a bill she thinks both highly problematic and unlikely to be enacted.

August 10

- No news of note.

[August 11](#)

- **HFSC GOP Presses Later Special-Assessment Start Date** - HFSC Subcommittee on Financial Institutions Chairman Barr (R-KY) and 12 other Republican HFSC members sent a [letter](#) to FDIC Chairman Gruenberg taking serious issue with assessment-base date proposed in the special assessment ([see FSM Report DESPOSITINSURANCE120](#)).

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](#).

- **[CRYPTO45](#)**: In conjunction with issuing a new supervisory policy for “novel” activities, the FRB has instituted a new process requiring non-objection letters before state member banks proceed with stablecoin or dollar-tokenization activities.
- **[GSE-081023](#)**: FHFA [today](#) released the results of the ninth stress test it's run on Fannie and Freddie since Dodd-Frank demanded this in 2010.
- **[OPSRISK22](#)**: Noting that operational risk is present at all banks due to most activities, the U.S. regulatory-capital rewrite would end the current approach to operational risk-based capital (ORBC).
- **[FINTECH32](#)**: FRB Vice Chairman Barr's assessment of SVB's failure included a commitment to pay additional supervisory attention to “novel” activities.
- **[GSE-080823](#)**: Our most recent analysis of the inter-agency capital [proposal](#) focuses on significant changes to the rules for securitization and credit-risk transfer [positions](#).
- **[CAPITAL232](#)**: Based on our analysis of the inter-agency capital proposal's framework and its credit-risk provisions, FedFin turns now to the proposed approach to equities as well as to that for securitization exposures (i.e., those that are tranching rather than simple secondary-market issuances of packages of loans or other assets backed as needed by a single credit enhancement).
- **[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 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](#).