FedFin Weekly Alert

Monday, August 28, 2023

❑ CALM BEFORE THE STORM

And it's not just because the weather around the world is so tumultuous, not to mention dangerous. The last week of August is traditionally the slowest week of the year other than the one between Christmas and New Year's and thus it is in Washington, New York, London, Tokyo, and pretty much everywhere else that is blessed with peace and at least some prosperity. Still, the torpor is temporary. European and Asian markets wake up after September 4 and U.S. ones not too long thereafter. In Washington, Congress comes back after Labor Day and confronts yet another fiscal crisis in the context of still more political acrimony. This makes action on even reasonably consensus bills such as Senate Banking's executive-compensation reform proposal (see FSM Report **COMPENSATION37**) challenging and poses still more roadblocks to possibilities such as Chairman McHenry's stablecoin bill. And, then, there are the busy-bee regulators, busy being regulators, working on:

- parrying all the criticism the raft of capital rules will provoke when Congress reconvenes and banks get re-energized. Our series of in-depth reports on these complex proposals concluded two weeks ago with a summary of its likely impact (see *Client Report* **CAPITAL234**) as well as a list of all the other relevant reports;
- addressing stunned responses to the GSIB surcharge proposal (see FSM Report **GSIB22**). As our analysis details, this proposal does a lot more to a lot more non-GSIBs than most anticipated; and
- issuing the regional-bank resolution proposal set to follow the advance notice of costly new TLAC rules for BHCs with assets over $100 billion (see FSM Report **RESOLVE48**). We will provide clients with an in-depth analysis not only of the FDIC board's action on this controversial NPR after the August 29 meeting, but also with fast analyses of the consequential resolution standards the FDIC is also scheduled to release.

Headlines From the Past Week's Daily Briefings

August 21

- No news of note.

August 22

- **IMF Spots Systemic Macro Risk as Gen-AI Advances -** A new IMF Fintech Note concludes that generative AI (GenAI) may heighten risk, undermine institutional trust, and accelerate procyclicality.

- **Presses GAO to Study AI Mortgage Lending Discrimination -** Reflecting ongoing concerns at the CFPB and the IMF when it comes to generative AI (see earlier), HFSC Ranking Member

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Waters (D-CA) sent a letter requesting that the GAO study the extent to which AI and especially AVMs may lead to housing discrimination.

- **FRB-NY Staff: SEC Proposals May Not Prevent MMF, OEF Run Risk -** A New York Fed blog post concluded that, while the SEC's recent MMF liquidity reforms (see FSM Report **MMF20**) and proposed OEF rules make significant progress ensuring resilience, open- and closed-end funds may nonetheless remain vulnerable.

August 23

- **Waters Blasts ICE/BKI Merger, Rejecting Recent Compromises -** Reiterating her concerns about the ICE/Black Knight merger, HFSC Ranking Member Waters (D-CA) asked FTC Chair Khan not to approve it or, should it do so in light of recent settlements, add strict conditions.

- **Global Regulators Press CCP Resolvability -** Reflecting ongoing FSB concerns about CCP resilience, IOSCO and the BIS Committee on Payments and Market Infrastructures released a joint report on CCP best practices for addressing non default losses (NDLs), stressing that the report does not create new standards or provide new guidance.

August 24

- **Pressley Presses for Audit of Racial Equity Pledges -** Rep. Pressley (D-MA) sent letters to the five largest US banks requesting a comprehensive financial audit of the racial equity pledges made after the George Floyd murder.

August 25

- **CFPB Heightens Attention to Elder Finance -** The CFPB proposed a new National "Age-Friendly" Banking Survey that would examine older adults' banking challenges and give the Bureau greater insight into "age-friendly" account features, informing future policy work.

This Week

Tuesday, August 29

FDIC Open Meeting. [10:00 am, webcast]. Matters to be discussed: NPR on long-term debt requirements for large BHCs, certain IHCs of FBOs, and large IDIs; resolution plans required for IDIs with $100 billion or more in total assets; informational filings required for IDIs with at Least $50 Billion, but less than $100 billion in total assets; publication of proposed guidance for DFA resolution plan submissions of Triennial Full Filers; conditions to certain receivership delegations of authority and procedures; and board approval of midsized and large failed bank sales.

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.

- **GSIB22:** As anticipated in the wake of recent bank failures, the FRB has proposed a significant revision to the current rules calculating systemic-risk scores that lead to GSIB designation.

- **CAPITAL234:** With this report, we conclude our assessment of the regulatory-capital proposal with analysis of what the sum total of the credit (see FSM Report **CAPITAL231**), operational (see FSM Report **OPSRISK22**), and market (see FSM Report **CAPITAL233**) rules could do in the real world of banks, nonbanks, foreign banks, and complex market interconnections.

- **CAPITAL233:** In this analysis, we turn to one of the costliest aspects of the proposed rewrite of U.S. regulatory-capital standards: the market-risk framework.

- **GSE-081423:** As Karen Petrou's memo today suggests, there are many reasons the new operational-risk framework proposed in the capital rewrite will not only be costly for covered banks, but also counterproductive for financial resilience.

- **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 tranched 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.

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- **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.

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