FedFin Daily Briefing

Friday, August 4, 2023

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. Looking at the enhanced SLR applicable to U.S. GSIBs and the Treasury market, the study observes – as has the industry – that the eSLR has become an increasingly binding constraint. Still, it finds that dealer-bank Treasury securities are such a small percentage of overall GSIB assets as to make illiquidity in this arena, even under stress, a minimal strain on eSLR adherence. This finding is not attributable to recent declines in GSIB Treasury portfolios, as these have been relatively constant even as eSLRs have dropped. Since it is nonetheless possible that eSLR pressures could undermine dealer-bank willingness to intermediate in Treasury markets under stress, the note also assesses Treasury holdings during the period when Treasury securities were temporarily excluded from the eSLR denominator; it finds no impact on actual holdings. However, we note, however, that the paper's data also demonstrate the very significant (thirteen percent) share repo transactions play in GSIB leverage denominators; even though not all of these are collateralized by Treasury obligations, dealer banks under eSLR stress are, we posit, very likely to reduce repo activities and stress markets – indeed, this is what happened in 2019. The paper's conclusions are based on public Fed eSLR and liquidity data.

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. They ask how much of North Korea's missile program the Administration estimates is funded by crypto and challenges the Administration faces countering crypto theft – a leading question clearly designed to give the Administration a forum for reiterating its backing for the Warren-Marshall bill. August 16 is the deadline for a response.

Warren, Porter Demand Stricter FDIC Crackdown on Uninsured Deposit Underreporting

Following last week's FDIC financial institutions letter highlighting that some banks incorrectly estimated uninsured deposits in their Call Reports, Sen. Warren (D-MA) and Rep. Porter (D-CA) late yesterday sent a letter to FDIC Chairman Gruenberg taking serious issue with the agency's "feeble" response. Specifically calling out Bank of America and Huntington Bank, the letter reminds the Chairman of the agency's authority to penalize banks for known or reckless inaccurate reporting and suggests that it use its "full suite of tools" to ensure compliance. The letter also requests a list of banks that underreported their 4Q 2022 uninsured deposits as well as additional information on the FDIC's enforcement approach. A response is requested by August 17.

Recent Files Available for Downloading

- **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.

- **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.

- **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

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

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