FedFin Daily Briefing

Monday, August 14, 2023

FDIC Finds Banks Well-Capitalized, Resilient

Today's FDIC 2023 Risk Review concludes that banks were well capitalized as of Q1 2023 and have demonstrated resilience through weaker economic conditions, rising interest rates, high inflation, and this year's financial turmoil even though industry performance moderated from 2022. Key risks on which the FDIC will focus include liquidity risks as well as the effects of bank failures on overall banking conditions and stability. The agency also says it may opine on crypto engagement and provide case-specific supervisory feedback. It will also continue to encourage banks to consider climate-related financial risk.

FDIC Plans Major Resolution, Insurance Rewrite

As anticipated, FDIC Chair Gruenberg's speech today confirms that his agency and the Fed will soon propose a TLAC framework for regional banks akin to the long-term debt TLAC standards imposed on GSIBs (see FSM Report **RESOLVE48**). Mr. Gruenberg also indicated that the FDIC will soon propose a new version of its 2011 IDI resolution rules (see FSM Report **LIVINGWILL8**). The FDIC can issue these on its own, but it seems likely that it and the FRB will also soon move to revise the resolution standards also applicable to parent holding companies (see FSM Report **LIVINGWILL21**) to focus more on severability and thus on resolutions that do not involve wholesale P&A transactions or systemic intervention. The FDIC also plans new supervisory guidance targeting banks with large uninsured-deposit bases and seems likely soon also to propose changes that do the same to the risk-based assessment rules (see FSM Report **DEPOSITINSURANCE96**). Mr. Gruenberg defended the recent systemic designation in part by noting that the majority of regional-bank deposit migration has gone to nonbanks, not GSIBs. He does not think FedNow exacerbates run-risk given how other factors – e.g., social media, uninsured-deposit concentrations – are at least as likely to do so.

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.

- **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.

- **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.

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