



Thursday, August 17, 2023

## Fed Finally Deploys Source-of-Strength Authority

In its first action imposing source-of-strength requirements in recent high-risk [situations](#), the Federal Reserve today issued an [enforcement action](#) against FTX-connected Farmington State Bank and its holdco, FBH Corp. The action cites improper changes to the bank's business plan without notifying or receiving prior supervisory approval and prohibits capital distributions as well as engaging in share repurchases, dissipating cash assets, or acquiring additional brokered deposits without prior supervisory approval. It also stipulates that Farmington and FBH preserve records and submit compliance progress reports. Formerly one of the nation's smallest banks, an \$11.5 million investment into FBH from FTX-connected Alameda Research last spring was more than double the bank's net worth; according to the order, the bank ceased digital asset activities and submitted an amended business plan in January.

## 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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [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 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](#).