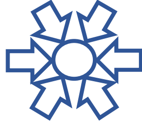

FedFin Daily Briefing

Tuesday, September 5, 2023

FSB Considers Resolution Construct Revamp

In addition to calling for full and consistent implementation of the Basel III framework, the FSB head's letter to the G20 today stresses that this year's bank failures challenge long-held views about deposit stickiness and the speed of bank runs, leading international standard-setters now to consider unspecified policy changes to the resolution construct. Despite Credit Suisse's failure and Switzerland's subsequent recommendation, the FSB Chair calls the post-GFC international resolution framework fit for purpose although implementation challenges remain; the FSB will thus issue a report addressing resolution lessons and future policy priorities "soon." Today's letter also reiterates other recent priorities such as hidden leverage in the NBFI sector well as the need for climate-risk policy coordination. It also emphasizes ongoing work to implement the FSB's "same-activity, same risk, same regulation" cryptoasset recommendations (see FSM Report **CRYPTO34**), noting a forthcoming FSB-IMF Synthesis paper with a roadmap for future work on policy implementation.

BIS Study: Fed, FDIC Reassurances Offset Bank Run Risk

Contributing to analysis of viral runs and how to stop them, a new paper from BIS staff concludes that public communication from the Fed on banking system stability and from the FDIC on deposit insurance during crises can mitigate systemwide run risk, while similar statements from political figures such as President Biden are less effective. Based on YouGov survey data of over six thousand retail depositors questioned a month after SVB's collapse, the study shows that FDIC communication reduced expectations of deposit losses while those from the Fed reduced fears that a respondent's bank would fail. The study also finds that those newly informed about SVB's failure were more likely to view their deposits as unsafe and initiate withdrawals, with this knowledge creating contagion risk. The study – which notes that more than half of survey respondents were unaware of SVB – also shows that depositors learning of its failure would primarily reallocate their deposits to other banks and increase cash holdings but would neither significantly alter spending decisions nor increase their holdings of cryptocurrencies.

IMF: Money Laundering Undermines Financial Stability

The IMF yesterday published a blog post on money laundering's financial-stability impact, concluding that cross-border illicit payments result in equity-price declines, higher CDS costs, elevated perceived credit risk, and declines in deposits for the individual banks involved. The blog also states that there is a contagion dynamic as a result of spillover effects between targeted banks and other banks within the region. The authors also describe a parallel trend in crypto assets due to the speed of global transfers. The post calls on regulators to vigilantly monitor new entrants to international finance and increase international collaboration, noting that combating money laundering goes beyond the capacity of any single nation. It also calls for greater cross-border data collection and the use of multi-country technical initiatives.

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-083123:** As we noted yesterday, the global banking, securities, and insurance regulators who

comprise the Financial Stability Board (FSB) are heading back to look again at securitization to see if the post-08 framework it crafted still works.

- **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).

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