FedFin Daily Briefing

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GHOS Presses Basel Action on Lessons Learned

Basel's group of Governors and Heads of Supervision (GHOS) met yesterday, listing strong bank risk management and governance arrangements, effective supervision, and the need for a robust regulatory framework as the primary lessons it learned from this year's banking turmoil. GHOS also pressed its members to finalize their Basel III reforms, noting that most plan to implement them by the end of 2024. After discussing the implications of the recent turmoil on the Committee's work programme, GHOS also pledged to prioritize work strengthening supervisory effectiveness, identify issues warranting global attention, and assess whether features of the Basel Framework – including liquidity risk and interest rate risk in the banking book – performed as intended during the crisis.

Gensler Takes Swing-Pricing, AI Fire

At today's Senate Banking hearing with SEC Chairman Gensler, Democrats largely defended the pace and scope of recent SEC work while Republicans criticized the agency for rulemakings they said were ideologically driven and inadequately analyzed. Chairman Brown (D-OH) applauded the SEC's crypto enforcement actions and encouraged it to examine broker and investment adviser use of AI. Ranking Member Scott (R-SC) and several other Republicans sharply criticized Mr. Gensler for what they said was his lack of transparency and responsiveness to congressional inquiries. Chairman Gensler staunchly defended SEC rulemakings as well as his responsiveness. Sen. Daines (R-MT) argued that the SEC should not advance swing-pricing requirements in light of what he said was strong bipartisan opposition; Chairman Gensler said the SEC is looking hard at comments. Sen. Menendez (D-NJ) also raised concerns about the economic impact of the proposal; Chairman Gensler said the SEC performed an economic analysis and would carefully consider comments. Sen. Rounds (R-SD), Lummis (R-WY), and Tillis (R-NC) questioned the agency's custody proposal (see FSM Report **CUSTODY5**), raising concerns over its impact on banks overstepping the agency's jurisdiction; Mr. Gensler maintained that the proposal is in line with congressional intent. Sen. Menendez urged the SEC to pursue predictive analytics, while Sens. Rounds, Lummis, and Hagerty (R-TN) argued the proposal demonstrates agency "hostility" to technology; Mr. Gensler emphasized that the SEC is tech-neutral and said the proposal is principally concerned with mitigating conflicts of interest. Sen. Warner (D-VA) said that AI poses a serious threat to public trust in financial markets; Chairman Gensler acknowledged that "deep fakes" could pose market risk and new technologies could challenge existing laws.

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.

- **LIVINGWILL22:** In conjunction with proposing a new long-term debt (LTD) requirement for categories II, III, and IV banks, the Fed and FDIC are pursuing other ways to enhance resolvability.
- **TLAC9:** Building on an advance notice of proposed rulemaking, the banking agencies have issued several proposals to enhance the resolvability of large banking organizations not covered by stringent GSIB standards.
- **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.

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