FedFin Daily Briefing

Wednesday, September 13, 2023

GOP Plans Still More Nails in CBDC Congressional Coffin

The memo for tomorrow's HFSC CBDC hearing leaves no doubt as to continuing staunch GOP opposition, with Majority Whip Emmer (R-MN) reintroducing legislation barring the Fed from issuing a CBDC to individuals or using it to implement monetary policy. Other anti-CBDC measures cited for the record include H.R. 3712 introduced by Rep. Mooney (R-WV) that requires the Fed to obtain Congressional authorization for programs testing a CBDC's feasibility and the bipartisan H.R. 3402 introduced by Reps. Hill (R-AR) and Auchincloss (D-MA) that prohibits the issuance of a CBDC without Congressional authorization. As noted, Vice Chair Barr recently promised that the Fed would not proceed with a retail CBDC without express Congressional approval.

FSI: Contingent Capital Fails as TLAC

Reinforcing the decision by U.S. agencies not to allow CoCo to serve as TLAC (see FSM Report **TLAC9**), a new BIS staff brief concludes that the current regulatory framework for Additional Tier 1 (AT1) bonds may not be fit for purpose, encouraging regulators to rethink CoCo as well as to consider heightening disclosure standards. Highlighting legal and market uncertainty resulting from Swiss regulators' decision to write down Credit Suisse AT1 ahead of CET1 in the resolution of the bank, the study analyzes a sample of AT1 instruments issued in Canada, China, the EU, U.K., Japan, and Switzerland. While the authors find that isolated AT1 write-downs are possible in the EU, Japan, Switzerland and the U.K. outside of resolution, it notes that authorities' aversion to transferring value from bondholders to shareholders as well as their inability to impose shareholder losses outside resolution would make this unlikely.

Gensler Emphasizes Prime Broker, Crypto, AI Risks

SEC Chairman Gensler today highlighted his ongoing worries about prime brokers, reiterating leverage and systemic-risk concerns. Although he acknowledged that the crypto industry remains relatively small, the SEC chair nonetheless argued that it could adversely affect financial markets by eroding public trust, noting how many recent bank failures had crypto connections. Despite a bipartisan drubbing yesterday, the Chairman stood by his pending AI rulemaking, pointing again to what he believes are monocultures and network interconnectedness.

Chopra Suggests Bank Merger Rewrite in Works

CFPB Director Chopra today reiterated the Bureau's priorities, stating that the current bank merger review process lacks analytical rigor which will soon be addressed in ways he did not specify. He also noted that all "too big to fail" shadow banks do not currently face enhanced safeguards, stressing the importance of FSOC's recent nonbank designation proposal (see FSM Report **SIFI35**). The remaining points of emphasis include addressing uninsured short-term funding instruments outside the banking system, ensuring the feasibility of living wills, and moving forward on open banking and financial data rights.

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.

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