FedFin Daily Briefing

Thursday, September 28, 2023

White House Resilience Plan Focuses on Physical Infrastructure, Not Finance

The White House today released a National Climate Framework focused principally on promoting climate resilience in non-financial sectors such as building and energy use, improving federal agency climate preparedness, ensuring land and water resilience, and increasing climate-related community benefits and job opportunities. The new framework arrives shortly after Treasury's announcement of new climate-risk principles encouraging financial institutions to implement robust transition plans for net-zero financing and investment goals. Sen. Warren (D-MA) and other senate Democrats have also recently called for much stronger climate action from Treasury and FSOC, particularly to curb climate-related financial risk from nonbank SIFIs and to develop more stringent bank climate scenario analyses.

BIS Conducts Successful Wholesale CBDC FX Pilot

Looking at the wholesale CBDCs of most interest in the U.S., the BIS today announced the conclusion of Project Marina, a wholesale CBDC FX pilot with DeFi elements among the central banks of France, Switzerland, and Singapore. The project successfully conducted instant FX transactions using automated market-makers while also allowing the three central banks to manage their CBDCs without controlling the underlying infrastructure. In this system, commercial banks can also use CBDCs, avoiding credit and settlement risk. BIS envisions broadening Project Marina by exploring the commercial viability of automated market-makers, its effect on monetary policy implementation, and the role of wholesale CBDCs in a tokenized financial system.

OCC Moves Interest-Rate Risk to Supervisory Priority List

The OCC today released its 2024 bank supervision operating plan announcing that there will be heightened supervision focus on interest-rate risk, AML/CFT, payments, DLT, and CRA. Additional areas of focus include credit underwriting and loan loss reserves, cybersecurity, operations, change management, consumer compliance, fair lending, and climate-related risks. Examiners will continue to differentiate bank size, complexity, and risk profile when developing individual bank supervisory strategies. The OCC will adjust this plan including with regard to geopolitical events that may have adverse financial or compliance implications.

All But The Smallest, Simplest Regional Banks Face Tougher Supervision

Signaling tougher supervisory standards for most regional banks, the long-anticipated Federal Reserve OIG report on SVB's failure largely reiterates findings in Vice Chair Barr's SVB report (see *Client Report* **REFORM221**) on failures by Board and FRB-SF supervisory staff quickly to adapt to SVB's rapidly-changing risk profile. As with the Barr report, SVB's own management is castigated, but supervisory staff apparently knew towards the end how bad this was at least with regard to the CEO but nonetheless failed to act. The OIG also concludes that the Board and Reserve Bank fell short in part because they failed to understand that strong earnings do not ensure low risk. Recommendations generally align with Mr. Barr's report, calling for reevaluating the regional-bank supervisory model to ensure entities that warrant more intensive scrutiny receive it based on factors such as concentrated business models or rapid growth. New supervisory guidelines are also proposed to ensure better alignment of supervisory attention with changing risk; the Board's response promises to complete these along with numerous other internal improvements by the end of 2024. However, Board and Reserve Bank staff will meet by year-end 2023 to target higher-risk regional banks. The OIG also urges the Board to ensure that regional-bank supervision is appropriately tailored and graduated, tacit acknowledgement in our view that statutory changes are unnecessary for the Board to achieve Mr. Barr's objectives. We expect Sen. Warren (D-MA), perhaps joined by other Democrats and Republicans such as Rick Scott (R-FL) to lambaste the OIG report for its lack of independence, doing so as part of a broader campaign to criticize Chairman Powell's management of the Federal Reserve system. Republicans will point to it as further evidence that heightened capital and resolution standards need not be as sweeping as proposed if supervision is structurally and significantly improved.

Gruenberg Again Calls for Targeted Deposit Insurance Reform

In remarks today, FDIC Chair Gruenberg said that cross-border cooperation enhanced resolution of SVB's international subsidiaries, using a talk to global deposit insurers also to reiterate prior recommendations on deposit-insurance reform (see *Client Report* **DEPOSITINSURANCE119**). As before, Mr. Gruenberg recommends targeting coverage to noninterest-bearing business accounts, noting again that this would require legislation. He also lists higher capital levels and long-term debt requirements as essential complements to deposit insurance reform, urging the global deposit-insurance organization to include new guidance on uninsured deposits in its core principle rewrite.

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-092523:** In her Congressional testimony last week, FedFin managing partner Karen Petrou focused on the unintended consequences wrought by new banking proposal based on their cumulative impact.
- **GSE-092023:** Or maybe it is, but not everyone has heard.
- **LIVINGWILL23:** Although a pending FDIC/FRB proposal imposes a raft of new requirements for resolution plans from IDIs with over $100 billion in assets, the FDIC has also issued a freestanding proposal doing the same, also setting information-filing standards for IDIs below $100 billion but above $50 billion.
- **CAPITAL235:** With HFSC Chairman McHenry (R-NC) leading the way, GOP Members of the panel's Financial Institutions Subcommittee today blasted the banking agencies' end-game proposal (see *Client Report* **CAPITAL234**).
- **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.

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