FedFin Daily Briefing

Friday, September 29, 2023

FSB Head Signals Limits on – Not Just Look at – NBFI Leverage

As the FSOC finalizes a new U.S. systemic framework, FSB chair Klaas Knot today told the FT that the Board along with international standard-setters is conducting a review of nonbank leverage in an effort to improve bank-NBFI interconnections and ultimately limit nonbank borrowing. The express focus on specific leverage constraints goes beyond the FSB's more general statements to date. Mr. Knot also highlighted imposing tougher collateral requirements for investment fund borrowing against higher-risk securities. This reflects the broader FSB agenda, which in early September included monitoring margining practices and pension fund leverage as well as closing NBFI data-gaps and even considering risk-based capital standards for some NBFIs.

OIG: FDIC Inability to Deploy OLA Acute, Could Hike Systemic Risk

The FDIC's OIG today released a polite, but still withering criticism of the FDIC's inability to use OLA over a decade after Dodd-Frank gave it sweeping powers to address systemic-risk resolutions without resorting to bailouts. Specifically, the OIG found that, while the FDIC has made some progress readying OLA-readiness since 2010, it failed to establish key elements needed to use this authority under stress, especially if this stress occurred in an entity other than a U.S. GSIB holding company. However, the FDIC is not operationally ready to resolve a GSIB HC under OLA, nor does it have policies, procedures, or the operational capacity to do so for other entities or in scenarios where multiple systemic-risk failures are possible. With the OIG noting also that the FDIC's inability to deploy OLA could on its own exacerbates systemic risk, the report includes seventeen recommendations for rapid repair and crisis readiness. Our read of this report suggests – the report does not clearly state – that the FDIC's proposed resolution rules for large BHCs and IDIs are insufficient to ensure OLA readiness (see FSM Report **LIVINGWILL23**). Further, the FDIC may well need to issue new guidance or even rules to ensure OLA readiness, making clear which entities might come under OLA and ensuring FDIC readiness via an array of governance and metrics requirements and operational improvements detailed by the OIG. The FDIC agreed with all seventeen recommendations and announced plans to remedy its lapses by December 31, 2025.

Karen Petrou has been among those questioning the SVB/SBNY systemic designation and subsequent uninsured-deposit coverage, noting at the time that the only likely reason the FDIC failed to use this power was likely that it lacked the capabilities needed to do so. This is affirmed in the OIG report, one sure to be cited by Republicans as they continue to criticize pending bank regulatory proposals as unnecessary a least in part were the agencies to improve supervision and resolution.

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