FedFin Daily Briefing

Friday, October 20, 2023

Senate AI Measure Tackles Financial Services

The text of the key Senate AI bill, S. 3050, has now become available. Introduced on October 17 by Sen. Mike Rounds (R-SD), Majority Leader Schumer (D-NY), Sens. Young (R-IN) and Heinrich (D-NM), the bill addresses a wide range of AI concerns with an initial focus on reporting from government agencies about emerging concerns. Reflecting this, the bill was referred to Armed Services. However, the measure also requires the FRB, OCC, FDIC, NCUA, and CFPB each to provide Congress with a report on financial-sector AI use, relevant rules, regulatory gaps, jurisdictional overlaps with problematic results, agency AI use, and any needed additional resources. These reports would be due ninety days after enactment.

Banking Agencies Offer Olive Branch

Reflecting strong pressure and recent FRB Chair Powell statements, the FRB today announced the launch of an open data collection assessing the rule's effects – an issue on which many bank comment letters and Congressional Republicans have been scathing. Data submissions are due by January 16. The banking agencies also extended the comment deadline for their large bank capital proposal and the Fed has done the same for its GSIB surcharge proposal (see FSM Report **GSIB22**), until the same January 16 deadline. The agencies did not do the same for the LTD proposal (see FSM Report **TLAC9**), leaving that comment deadline as November 30 despite many comments – see for example Petrou testimony – that the LTD rule's impact is interwoven with that of the capital standards.

GOP Renew Funding Campaign vs. CFPB via Fed Losses

HFSC Vice Chairman Hill (R-AR) yesterday reintroduced legislation pressuring both the Fed and CFPB by prohibiting the Fed from transferring its earnings to the Bureau if the Fed incurs an operating loss. The bill would also require the Fed to calculate its net earnings and total capital in accordance with GAAP, forcing the central bank to reckon with its balance-sheet losses and moving them more into the fiscal-policy spotlight. Senate Banking Members Hagerty (R-TN) and Britt (AL) have also reintroduced companion legislation (S. 3095), but this will not advance even if the Hill bill makes it through the House. The President will also veto it should the measure emerge due to the attack on the CFPB; were the bill limited only to Fed accounting, it might actually advance to enactment.

FinCEN Highlights Hamas Sanction Red Flags

Reflecting ongoing Congressional pressure and recent Treasury sanctions, FinCEN today issued an alert reminding financial institutions to remain vigilant for suspicious activity related to Hamas funding sources. The alert highlights several red flags, including customers who regularly conduct transactions with OFAC-designed entities, customers who conduct transactions with money services businesses that have weak due diligence, and nonprofits that receive large donations from unknown sources or solicit donations over social media. The alert also urges banks to report suspicious virtual currency use.

Fed Stays Stoic on Financial-Stability Outlook

The FRB today released is semiannual financial-stability report differing little from the relatively-sanguine outlook in its May report (see *Client Report* **SYSTEMIC94**). Banks are found "sound" due to risk-based capital ratios at about average over prior years despite significant HTM exposures. A bank "subset" is also under funding pressure due to uninsured deposits and other challenges. Consistent with FSOC's concerns (see FSM Report **SIFI35**), the Fed finds problematic leverage at the largest hedge funds and funding vulnerabilities at MMFs, "some" other mutual funds, and stablecoins. We will shortly provide clients with an in-depth analysis of the report and possible policy consequences.

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.

- **DEPOSITINSURANCE122:** Bipartisan senators have introduced legislation to provide FDIC coverage for certain noninterest-bearing transaction accounts, a move designed to prevent the stress and potential systemic risk evident when Silicon Valley and Signature Banks failed in March.
- **GSE-101723:** As we noted earlier this month, the Federal Reserve inserted a significant capital provision for credit-linked notes in an otherwise-obscure FAQ.
- **GSE-101623:** The White House today rolled out a new housing plan that smacks mightily of many old housing plans.
- **GSE-101323a:** With smaller lenders today joining MBA, NAR, and HomeBuilders' campaign to squeeze the 30-10 spread, we take a look at the odds the White House, Fed, or Treasury will do as hoped.
- **GSE-101323:** As we noted yesterday, OMB's Office of Information and Regulatory Affairs (OIRA) has pronounced a new pro-competition standard for all existing and prospective federal regulations.
- **CONSUMER52:** Using its advisory process to issue guidance that may lead to enforcement actions, the Bureau has for the first time set standards for the obligations of large banks and credit unions to respond to certain consumer inquiries.
- **REFORM228:** As we noted yesterday, the Basel Committee's October meeting concluded not only with plans for new disclosure consultations, but also a report on lessons learned from the 2023 crisis.
- **GSE-100223:** As we noted earlier today, the FRB has issued a seemingly technical FAQ liberalizing the treatment of certain credit-linked notes.
- **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.

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