



Monday, November 20, 2023

Thompson: No Regulatory "Silos" in a Crisis

Reiterating much in FHFA's sweeping FHLB [report](#), FHFA Director Thompson today reinforced suggestions that FHLBs can avoid acting as lenders of last resort because there are no regulatory "silos" in a crisis. This builds on the FHFA report's recommendation that Home Loan Banks check with primary regulators before providing advances to troubled members, but may not fully reflect the view or law governing the banking agencies. Ms. Thompson also stressed that rules governing FHLB board structure and composition may need changes to prevent regional imbalances and allow for greater expertise on emerging issues such as AI, climate risk, and cybersecurity. Repeatedly stressing the FHLBs' mission, Director Thompson also argued that banks can easily afford to designate at least twenty percent of profits to affordable housing, also noting that affordable housing programs are a near-term FHFA regulatory focus.

IMF Reconsiders CBDC

On Friday, the IMF updated its CBDC work, [concluding](#) that it is prudent for most countries to consider CBDC implementation even though nations are increasingly hesitant to do so. A new CBDC volume also looks at many issues, including likely monetary-policy impact (finding minimal transmission effect under normal circumstances but potentially problematic ones when interests are low or markets are stressed). Financial inclusion is also likely to benefit from good CBDC design, with the IMF pledging to continue to assist nations to do so. The Fund also released a new [study](#) assessing CBDC's likely impact on financial intermediation. Rich households are likely to increase bank deposits because rates will rise if banks are to remain competitive with central banks, while poorer households will lose, perhaps a lot. This will adversely affect financial intermediation, but only minimally where banks have access to non-deposit funding. We note that this study assumes direct central-bank consumer interfaces, which many CBDCs – and especially any in the U.S. – would not involve.

IMF: Nations Should Block Fintech Reg Arbitrage

A new IMF [study](#) finds that Fintechs adversely affect bank profitability, concluding that "well-designed" fintech regulations are necessary to foster a level bank-fintech playing field. The study also shows that community banks suffer greater profit loss from fintechs' P2P and balance sheet lending models compared to larger and more complex commercial banks, which it finds perform better due to higher non-interest income flows. The authors highlight that fintech activity gravitates to more competitive and developed financial systems, arguing that banks benefit from fintech competition in countries with strong regulatory standards that prevent regulatory arbitrage. The authors recommend that regulators redesign licensing regimes to encompass new types of service providers within the regulatory framework, implement like-kind capital, liquidity, and risk management requirements for fintechs, and strengthen fintech supervision. The study uses a comprehensive cross-country database on digital finance activities across 57 nations, using country-level macroeconomic data for information on regulatory quality and government effectiveness, and deploying balance sheet income for over ten thousand financial institutions.

House Opens New Front vs. FDIC

Following an official HFSC [investigation](#) and a [raft](#) of letters from Democrats and Republicans, House Oversight Subcommittee on Health and Financial Services Chairwoman McClain (R-MI) along with Rep.

Biggs (R-AZ) today sent a letter to Chairman Gruenberg [requesting](#) briefings, documents, and communications regarding harassment and workplace practices. Clearly looking into assertions that the agency's own inquiry is insufficiently independent or thorough, the letter also requests documents provided to the law firm hired by the agency to conduct a review as well as communications to the Chairman's office and HR department pertaining to sexual harassment allegations since January 1, 2021, a list of employees reassigned due to sexual misconduct allegations, and the FDIC's harassment procedures. A briefing is requested by November 27 and documents are requested by December 4.

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](#)**: As the law requires and the FDIC Chairman promised after SVB and Signature Bank were declared systemic, the FDIC has finalized its proposed approach to imposing a systemic assessment to reimburse the Deposit Insurance Fund (DIF) for the resolution costs related to uninsured deposits following a systemic designation.
- **[GSE-111623](#)**: As our reports on the [Senate](#) and [House](#) hearings with bank regulators made clear, [our prediction](#) that the agencies would compromise on mortgage risk-based capital requirements will prove itself in the final standards.
- **[REFORM230](#)**: Following yesterday's Senate Banking hearing ([see Client Report REFORM229](#)), today's HFSC session with top bank regulators again highlighted growing bipartisan consternation over the unintended consequences of the agencies' capital proposal ([see FSM Report CAPITAL230](#)).
- **[PAYMENT27](#)**: Building on its director's longstanding focus on fintech and tech-platform companies, the CFPB has proposed to extend its supervisory reach to nonbank providers of general-use digital payments services.
- **[REFORM229](#)**: Today's Senate Banking hearing with top bank regulators showcased broad bipartisan concern over the interagency capital proposal ([see FSM Report CAPITAL230](#)).
- **[SIFI37](#)**: In concert with finalizing a new systemic-risk methodology, the Financial Stability Oversight Council issued guidance that significantly rewrites the manner in which nonbanks are designated as systemically important financial institutions (SIFIs), largely retaining its initial proposal.
- **[SYSTEMIC98](#)**: Rejecting the Trump Administration's hands-off approach to designating systemically-important nonbank financial institutions or activities and practices, the Biden Administration's FSOC has finalized its bifurcated proposals to designate systemic entities and another laying out an analytical approach to identifying systemic risk that would then guide firm and activity designation as well as Council staff coordination with primary federal regulators.
- **[GSE-110823](#)**: Although FHFA calls its [FHLB report](#) a centenary event ahead of the System's 2032 birthday, the agency clearly plans structural substantive reform well before that milestone.
- **[CLIMATE17](#)**: The banking agencies have joined together to issue inter-agency climate-risk guidance

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based on proposed standards from the FDIC, OCC and FRB.

- **[INTERCHANGE12](#)**: As suggested when the Fed last year finalized controversial new debit-card routing requirements, the central bank is now proposing a sharp reduction in the cap mandated on debit-card interchange fees under the Dodd-Frank Act's Durbin Amendment for debit-card issuers with over \$10 billion in assets.
- **[AI3](#)**: In this report, we assess the detailed [executive order](#) (EO) issued late Monday afternoon after days of private showings of selected versions.
- **[DATA4](#)**: Following a request for information that was a de facto advance notice of proposed rulemaking, the CFPB has now proposed a preliminary, but binding framework for consumer data rights covering consumer "transaction" accounts offered by banks, credit unions, and – a departure from the initial outline – nonbanks/fintechs.
- **[GSE-102323](#)**: As noted in our report [earlier today](#), the Federal Reserve's latest financial-stability [report](#) expresses deep misgivings about complex securitizations.
- **[SYSTEMIC97](#)**: As [promised](#), this in-depth report assesses Friday's semiannual financial-stability report from the Federal Reserve.