FedFin Daily Briefing

Monday, November 27, 2023

Global Regulators Unveil 2023 GSIB List Methodology

Following publication of the FSB's updated 2023 GSIB list, the BCBS today published additional details of the assessment including denominators of the high-level indicators used to calculate bank scores, high-level indicators for each bank in the sample, cut-off scores, and thresholds used to allocate GSIBs to buckets for calculating higher loss-absorbency requirements. JP Morgan, the only bank in Bucket 4 and with $4.53 trillion in total exposures, ranks first overall and in terms of interconnectedness and complexity. However, ICBN (Bucket 2) along with three other Chinese banks are larger in size while HSBC (Bucket 3) has the highest cross-jurisdictional footprint. The assessment uses data from year-end 2022 and includes 39 banks across five buckets, with four being the largest category and zero being the smallest.

Carstens Presses for Unified Ledger, CBDC

Pointing to the speed of AI adoption in sharp contrast to financial-system innovation, BIS General Manager Agustín Carstens has reiterated his call for central bank "unified ledgers." These would serve as a "network of networks" digital infrastructure, with Mr. Carstens indicating that the result would enable instantaneous payment and settlement of any transaction, use of smart contracts and composability, and seamless integration and automation of digital asset payments. The BIS General Manager also renewed his call for wholesale CBDC along with tokenized commercial bank deposits, both of which he said would preserve existing customer benefits and expand bank account functionality. However, he also notes that retail CBDC could expand payment options with resulting public-good consequences.

SEC Finalizes Massive, Controversial ABS-Conflict Standards

Thirteen years after the Dodd-Frank Act demanded it (see FSM Report **ABS17**), the SEC today voted 4-1 to approve controversial conflict-of-interest standards for asset-backed securities (ABS). The final rule is significantly amended from the proposal, so much so that SEC Commissioner Peirce said that a new proposal was required prior to final adoption. She also took strong issue with the SEC's APA analysis, opposing what she describes as the Commission's practice of issuing massive rules with many questions that are then answered only by the final rule where they are answered at all. The extent to which changes mollify issuers will drive pending decisions about contesting litigation. Congress mandated these standards after it became known that several large issuers took positions against subprime mortgage ABS, actions that led first to billions of investor losses and then billions of issuer penalties.

As required by law, permitted behavior not deemed to create a conflict includes risk mitigation, bona fide market-making, and certain liquidity facilities. Conflict standards in the final rule are refined from the proposal, for example by prohibiting direct short-selling and more precise definitions for prohibited CDS. Generalized hedging is now also clearly allowed. Private MIs also won an exemption for MI-linked notes. It seems unlikely that like-kind credit-linked notes from bank issuers recently granted favorable capital treatment will receive like-kind treatment; judging this will require careful assessment of the complex final rule. It will apply to ABS with first closings eighteen months after publication in the *Federal Register*. Conflict standards apply for the first year after issuance.

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-112723**: The most significant thing in FHFA's final capital rule is not what is to be done, but what FHFA left out: ending the GSEs' advanced-approach requirement.

- **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 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.

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