FedFin Daily Briefing

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FRB-Cleveland Head Calls for Reg Redesign

The head of the Federal Reserve Bank of Cleveland, Loretta Mester, yesterday argued for higher bank capital requirements, including counter-cyclical imposition of a capital buffer during low-risk periods so it can be released under stress based on credit growth under a formula ensuring that the CCyB in fact moves quickly to ease stress. Although she provides no specifics, Ms. Mester also says that stress tests should also be made less procyclical, noting that current capital levels are too low. Consistent with a recent Fed staff paper, Ms. Mester also calls for basing more bank regulation on market – not book – value, better resolution mechanisms, and mandatory requirements to ensure discount-window readiness instead of current guidance.

Brown, Colleagues Stand Behind GSIB Surcharge

Ahead of next week's hearing with GSIB CEOs, Senate Banking Chairman Brown (D-OH) was joined today by Sens. Warren (D-MA), Fetterman (D-PA), and Reed (D-RI) in a letter to FRB Vice Chair Barr voicing their strong support for the Board's GSIB surcharge proposal (see FSM Report **GSIB22**). They believe that it properly reflects GSIB risk, offsets the likelihood of taxpayer bailouts, and improves surcharge sensitivity and thus deters capital-buffer "gaming." No response is requested doubtless because this letter is meant to position the Fed's defense of the GSIB surcharge proposal following strong criticism from the panel's witnesses and GOP Members.

IMF: Future of AI's Impact on Banking Unpredictable

The IMF today released an article focused on AI, concluding that banking has the potential to be the biggest beneficiaries of AI, but also may have the most to lose. The article considers the unpredictable future of AI technology through optimistic and pessimistic scenarios, concluding that AI could better protect assets and markets, but also could be put to various nefarious uses. In addition, AI could adversely affect financial stability due to its potential to exacerbate financial crises because AI tools are trained using past data that may not reflect an unprecedented situation. The report concludes that regulators should alter the way they frame AI discourse, focusing on productive uses of AI and access to AI rather than whether we need more or less AI.

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.

- **CONSUMER54:** Today's Senate Banking hearing with Director Chopra was even more cordial than yesterday's HFSC session (see *Client Report* **CONSUMER53**) even though Republicans continued to criticize the Bureau's recent rulemakings.

- **GSE-113023:** A new FRB-NY study confirms that 83% of loans from 2000-2022 went to first-time homebuyers, compared to 56% for the GSEs and 57% for private lenders.

- **CONSUMER53:** In sharp contrast to most recent HFSC hearings with CFPB Director Chopra, today's session was relatively calm.

- **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.

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