



# FedFin Weekly Alert

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Monday, December 4, 2023

## ❑ CAPITAL CONUNDRUM

Early [signals](#) indicate that GSIB CEOs summoned this week before Senate Banking will do their best to use the session to solidify Congressional calls for substantive changes in pending capital rules based on a far more transparent, systematic CB analysis. Signals such as the Brown/Reed letter last [week](#) also make it clear that Democrats will push hard for tougher GSIB-specific standards to offset increasingly-likely changes to the capital rules. Democratic advocates of specific changes – i.e., with regard to LMI mortgages and small-business credit – will also use the session to navigate a path between helping regional banks on key points while looking tough on the overall question of big-bank capital. Again, sticking it to GSIBs may be their tactic. Republicans won't let up against the capital rules, but we suspect they'll also focus on borrowers and regional banks, side-stepping GSIB surcharges and other top-tier questions wherever possible. All of this comes in the broader context of big-bank advocacy against the capital rules leading to many cracks in the mighty edifice of the 1,087-page proposal. FedFin clients will shortly receive our in-depth analysis of where the proposals stand and what changes to expect based on advocacy to date. And, as always, we'll get you an in-depth analysis of the GSIB hearing ASAP after its conclusion. In addition to capital, conversation will surely turn to Wells Fargo's longstanding enforcement woes, Hamas and crypto financing, climate-risk standards, and the idiosyncratic issues each senator brings to these sessions. For example, we won't be surprised to hear Democrats ask Jamie Dimon about his public support for Nikki Haley or, for that matter, a raft of fiscal-policy questions focusing on the need for deficit reduction.

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## Headlines From the Past Week's Daily Briefings

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### [November 27](#)

- **Global Regulators Unveil 2023 GSIB List Methodology** - Following publication of the FSB's updated 2023 GSIB [list](#), the BCBS [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.
- **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."
- **SEC Finalizes Massive, Controversial ABS-Conflict Standards** - Thirteen years after the Dodd-Frank Act demanded it ([see FSM Report ABS17](#)), the SEC voted 4-1 to approve controversial conflict-of-interest standards for asset-backed securities (ABS).

### [November 28](#)

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Federal Financial Analytics, Inc.  
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037  
Phone (202) 589-0880  
E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

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- **FRB-Dallas: Reciprocal Deposits Require Policy Attention** - The Federal Reserve Bank of Dallas [released](#) a staff study reevaluating reciprocal deposits in the wake of SVB's failure, concluding that policy-makers should reconsider concentration limits imposed in 2018 in conjunction with brokered-deposit constraints ([see FSM Report DEPOSITINSURANCE108](#)).
- **FRB-NY: OEFs Create Run-Run Risk** - The Federal Reserve Bank of New York [released](#) a staff study concluding that open-end funds (OEFs) experienced acute outflows after SVB failed, bank deposits received de facto unlimited insurance, and the FRB established the TBFP.
- **Chopra Testimony Ducks Tough Questions Ahead of Hearings** - CFPB Director Chopra's [testimony](#) for forthcoming hearings with HFSC and Senate Banking this largely recaps Bureau action since his last appearance before Congress, with Mr. Chopra focusing on consumer debt issues highlighted in the CFPB's recent consumer credit card market [report](#).
- **FSB Wants Action on Crypto Vertical Integration** - The FSB [released](#) a report concluding that, while multifunction crypto-asset intermediaries (MCIs) currently pose limited financial-stability threat, cryptoasset stress events such as those that occurred over the past year present spillover risks to banks with concentrated deposit exposures to firms reliant on cryptoassets.
- **Basel Presses Supervisors to Enforce GSIB Data-Aggregation Standards** - The Basel Committee [released](#) a report finding that only two of the 31 GSIBs are fully compliant with its Principles for effective risk data aggregation and risk reporting ([see FSM Report RISKMANAGEMENT7](#)).

### November 29

- **FDIC's OIG Presses for Non-Capital PCA Triggers, Additional Supervisory Reform** - The FDIC's OIG report on First Republic's [failure](#) is at least as scathing as its SBNY [post-mortem](#).
- **Treasury Launches Anti-Crypto Enforcement Campaign** - In remarks from Deputy Secretary Wally Adeyemo, Treasury officially launched its anti-crypto sanctions and AML campaign.
- **Basel Proposes Sweeping Climate-Risk Disclosure Standards** - Following the FSB's finding that most banks were failing to provide meaningful climate [disclosures](#), the Basel Committee [issued](#) proposed climate-risk disclosure standards.
- **3Q Report Highlights AOCI Risk** - The FDIC's 3Q banking-condition [report](#) includes a stunning 22.5 percent rise in the total of HTM and AFS unrealized losses, which now stand at \$683.9 billion.
- **Senate Banking Opens Private-Credit Inquiry** - Senate Banking Chair Brown (D-OH) and Sen. Reed (D-RI) [asked](#) FRB Vice Chair Barr, Acting Comptroller Hsu, and FDIC Chair Gruenberg to look into the risks private credit poses to the banking system.

### November 30

- **FRB-Cleveland Head Calls for Reg Redesign** - The head of the Federal Reserve Bank of Cleveland, Loretta Mester, [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.
- **Brown, Colleagues Stand Behind GSIB Surcharge** - Ahead of the hearing with GSIB CEOs, Senate Banking Chairman Brown (D-OH) was joined 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](#)).

- **IMF: Future of AI's Impact on Banking Unpredictable** - The IMF 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.

## [December 1](#)

- **Barr Outlines Rationale for LCR, NSFR Rewrite** - FRB Vice Chair Barr [reiterated](#) his views that banks must be much better prepared to use the Fed discount-window, this time emphasizing that operational readiness entails regular testing of actual transactions at regular intervals as well as robust collateral pre-positioning.
- **Reed Presses Synthetic-Securitization Controls** - Following his comments at recent hearings ([see Client Report REFORM229](#)), Sen. Reed (D-RI) sent a [letter](#) to FRB Vice Chair Barr, FDIC Chair Gruenberg, and Acting Comptroller Hsu urging them to evaluate CRT transaction risk on financial stability grounds and, should they find an uptick in synthetic securitizations, request public comment on possible remedies to the risks Sen. Reed identifies.
- **Pending Veto, House Votes Against CFPB** - As anticipated ([see Client Report CONSUMER53](#)), the House voted 221 to 202 to authorize Congressional Review Act withdrawal of the CFPB's small business reporting rule.
- **OCC Readies Research for Liquidity-Reg Rewrite** - Likely readying itself for the raft of new liquidity proposals presaged in Michael Barr's talk, the OCC issued a [call for papers](#) on depositor behavior, bank liquidity, and run risk.

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## This Week

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### Tuesday, December 5

HFSC Subcommittee on Digital Assets, Financial Technology and Inclusion Hearing entitled: "Fostering Financial Innovation: How Agencies Can Leverage Technology to Shape the Future of Financial Services." [10:00 am, 2128 RHOB]. Witnesses: **Ms. Valerie A. Szczepanik**, Director of the Strategic Hub for Innovation and Financial Technology (FinHub), Securities and Exchange Commission; **Ms. Donna Murphy**, Acting Deputy Comptroller for the Office of Financial Technology and Deputy Comptroller for Compliance Risk Policy, Office of the Comptroller of the Currency; **Mr. Mark Mulholland**, Deputy Chief Information Officer for Management, FDIC; **Ms. Ann Epstein**, Assistant Director of the Office of Competition and Innovation, Consumer Financial Protection Bureau; **Mr. Charles Vice**, Director of Financial Technology and Access, National Credit Union Administration; **Mr. Michael S. Gibson**, Director of Division of Supervision and Regulation, Federal Reserve.

### Wednesday, December 6

Senate Banking Hearing entitled: "Annual Oversight of Wall Street Firms." [9:30 am, Hart Senate Office Building 216]. Witnesses: **Mr. Charles W. Scharf**, CEO and President of Wells Fargo & Company; **Mr. Brian Thomas Moynihan**, Chairman and CEO of Bank of America; **Mr. Jamie Dimon**, Chairman and CEO of JPMorgan Chase & Co.; **Ms. Jane Fraser**, CEO of Citigroup; **Mr.**

**Ronald O’Hanley**, CEO of State Street; **Mr. Robin Vince**, CEO of BNY Mellon; **Mr. David Solomon**, CEO of Goldman Sachs; and **Mr. James P. Gorman**, CEO of Morgan Stanley.

HFSC Subcommittee on Housing and Insurance Hearing entitled: “Housing Affordability: Governmental Barriers and Market-Based Solutions” [10:00 am, 2128 RHOB]. Witnesses: **Mr. Seth Appleton**, President, U.S. Mortgage Insurers (USMI); **Mr. Norbert Michel**, Vice President and Director, Center for Monetary and Financial Alternatives, CATO Institute; **Dr. Emily Hamilton**, Senior Research Fellow and Director of the Urbanity Project, the Mercatus Center at George Mason University; **Ms. Arianna Royster**, President, Borger Residential, on behalf of the National Apartment Association (NAA); and **Ms. Diane Yentel**, President and CEO, National Low Income Housing Coalition.

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## Future Events of Note

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No meetings of note.

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## Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto: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.
- **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.

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Federal Financial Analytics, Inc.  
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037  
Phone (202) 589-0880  
E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

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- **[REFORM230](#)**: Following the Senate's Banking hearing, HFSC's session with top bank regulators again highlighted growing bipartisan consternation over the unintended consequences of the agencies' capital proposal.
- **[REFORM229](#)**: Today's Senate Banking hearing with top bank regulators showcased broad bipartisan concern over the interagency capital proposal ([see FSM Report CAPITAL230](#)).
- **[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.