



FedFin Weekly Alert

Monday, December 11, 2023

❑ ANOTHER BOOK REPORT?

At a recent hearing ([see Client Report CONSUMER54](#)), CFPB Director Chopra wasn't shy in his critique of the Financial Stability Oversight Council. He called it a "book report club," a moniker Karen Petrou last week [suggested](#) was not wholly untrue when it comes to emerging risks such as private credit. FSOC's meeting this [Thursday](#) is likely to show the Council at its bookwormy best given that the agenda consists largely of ritual release of yet another FSOC report. We've dutifully catalogued these year-in, year-out as hundreds of FSOC blessed pages spew forth about what the Council did, how many facts its staff gathered about whom in the past year, and what it thinks might go wrong where in concert with little indication of what the Council might then do to prevent the worst from happening.

This year's report may be even more defensive than usual given high-level controversies over the bank capital rules, the SEC's vast regulatory agenda, and FSOC's final actions on a systemic-risk analytical methodology ([see FSM Report SYSTEMIC98](#)) and new designation framework ([see FSM Report SIFI37](#)). We expect much ink also to be spilled on stablecoins, cryptoassets, Treasury-market fragility, nonbank mortgage companies and NBFIs leverage. Whether any industry blood will follow the ink is at best uncertain, but we'll let you know if this seems more likely than usual once we've FSOC's annual report in hand.

Headlines From the Past Week's Daily Briefings

[December 4](#)

- **HFSC GOP to Press Regulatory-Agency Financial Innovation** – HFSC's Digital Assets Subcommittee hearing will focus on regulatory-agency offices focused on financial innovation, a session sure to give GOP Members an opportunity to closely question the OCC's witnesses about the agency's hiring offer to a person heading this activity who turned out to have a [fraudulent resume](#).
- **HFSC GOP Lays Out "Market-Based" Affordable Housing Approach** - The HFSC majority-staff [memo](#) for the Housing Subcommittee hearing emphasizes GOP goals with regard to "market-based" solutions addressing affordable housing.
- **FSB Toolkit Focuses on Critical Interdependencies** - Following its initial [consultation](#), the FSB published its final [report](#) on enhancing third-party risk management, now laying out a flexible and nonbinding toolkit focused on incident reporting, identification of critical dependencies, interjurisdictional comparability and interoperability, and systemic risk management.

[December 5](#)

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- **Bowman Calls for Bank-Driven Inclusive Finance** - Federal Reserve Gov. Bowman [encouraged](#) banks to offer more inclusive retail-banking products in part by making better use of technology.

December 6

- **OFR Sees Heightened Systemic Risk** - Striking a considerably more somber note than the FRB ([see Client Report SYSTEMIC97](#)), OFR [concluded](#) that systemic risk is elevated due to an upcoming economic slowdown, heightened inflation, and geopolitical risk and global conflict.
- **OCC Cracks Down on BNPL Finance** - Reflecting continuing CFPB concerns about buy-now/pay-later [finance](#), the OCC [sets](#) new risk-management standards for federally-chartered entities in this arena.
- **HFSC Housing Subcommittee Revisits Housing Debate** – HFSC’s Housing Subcommittee hearing largely followed the staff memo’s outlined political [playbook](#), with Chairman Davidson (R-OH) calling for market-based solutions and Ranking Member Presley (D-MA) arguing that expanded subsidies are necessary alongside zoning reform to make housing affordable.
- **Fed Proposes Market-Risk Valuation Reporting** - Readying disclosures for the market-risk capital rewrite ([see FSM Report CAPITAL233](#)), the Federal Reserve has [proposed](#) new reporting standards that would require covered banks to disclose valuations of their covered positions taking into account unearned credit spreads, close-out costs, early termination costs, investing and funding costs, liquidity, and model risk..
- **Fed Proposes New Liquidity Risk Reporting Standards** - Reflecting growing fears that banks could not actually monetize HQLAs under stress as proved the case for [Credit Suisse](#), the FRB is also proposing new reporting [standards](#) requiring covered companies to report on qualifying master netting agreement compliance with current liquidity-risk measurement standards.

December 7

- **BIS: CCP Collateral Holdings Pose Systemic Risk** - A new BIS [study](#) looks at the risk that the transformation of OTC markets to centrally-cleared ones has in turn transformed markets based in part on know-your-counterparty into those dependent principally on collateral backing margin positions – an inherently more fragile market structure.
- **White House Presses FHLB Affordable-Housing Action** - In [remarks](#), National Economic Advisor Lael Brainard not only highlighted the Biden Administration’s actions to address housing affordability, but also mentioned plans for new financing programs.
- **Ambitious CFPB Regulatory Plans Come Into View** - The CFPB’s fall 2023 regulatory [agenda](#) provides status updates for several significant rulemaking items.
- **Basel to Set IRR, Window-Dressing, Crypto Standards** - The Basel Committee’s year-end [meeting](#) advanced plans to address interest-rate risk (IRR) with a concrete agreement to issue a new consultation later this month updating current global IRR standards ([see FSM Report IRR7](#)).
- **BIS Points to MMF Risk When Rates Rise** - Another new BIS [paper](#) concludes that the record size of MMFs poses significant threat to dollar-funding market stability.

- **OCC Warns Banks of AI Risk, Possible Supervisory Action** - Reflecting growing Congressional, regulatory, and industry concerns over AI, OCC's semiannual risk [assessment](#) for federal banks states that national banks should be mindful of AI risks as these fall under current supervisory procedures.
- **Senate GOP Goes for Gruenberg's Jugular** - Despite efforts by the FDIC to reassure critics about its independent [investigation](#), Senate Banking Republicans fired off a ferocious [letter](#) demanding that FDIC Chair Gruenberg immediately resign and, even if he were to do so (which we doubt he will), answer well over a dozen prosecutorial questions.

December 8

- **Basel Study Concludes Banks at Climate Risk Despite Lit-Survey Conclusions** - A new Basel Committee [working paper](#) provides a literature review of recent analyses of climate risk's impact on financial institutions to assess the drivers key to establishing the scenario analyses recently outlined in the Committee's final climate-risk principles ([see FSM Report CLIMATE14](#)) and those recently finalized by U.S. banking agencies ([see FSM Report CLIMATE17](#)).
- **EU Regulators Seek AT1 Certainty** - Treasury and the EU issued a joint [statement](#) summarizing topics discussed at this week's U.S.-EU financial regulatory forum.
- **Senate GOP Tackles U.S. Participation in FSB Entities** - Sens. Braun (R-IN), Hagerty (R-TN), and Marshall (R-KS) have introduced S. 3446, a [bill](#) to require the banking agencies to report on their interactions with nongovernmental international organizations.
- **HFSC Leadership Blast Hsu's Competence, Agency Operations** - HFSC Subcommittee Chairs Barr (R-KY), Huizenga (R-MI) and Hill (R-AR) sent a [letter](#) today to Acting Comptroller Michael Hsu continuing their attacks ([see Client Report FINTECH33](#)) against the OCC for its recently reported [hiring](#) of an individual with falsified credentials to oversee the OCC's Office of Financial Technology.

This Week

Tuesday, December 12

HFSC Subcommittee on National Security, Illicit Finance, and International Financial Institutions Hearing entitled: "Restricting Rogue-State Revenue: Strengthening Energy Sanctions on Russia, Iran, and Venezuela." [10:00 am, 2128 RHOB]. Witnesses: **The Honorable Marshall Billingslea**, Senior Fellow, Hudson Institute; **Dr. Anna Mikulska**, Senior Fellow, Kleiman Center for Energy Policy at University of Pennsylvania; **Dr. Ryan Berg**, Director, Americas Program, Center for Strategic and International Studies; **Ms. Claire Jungman**, Chief of Staff, United Against Nuclear Iran; and **Mr. Adam Smith**, Partner, Gibson, Dunn & Crutcher LLP.

HFSC Subcommittee on Capital Markets Hearing entitled: "Examining the Agenda of Regulators, SROs, and Standards-Setters for Accounting, Auditing." [2:00 pm, 2128 RHOB]. Witnesses: **Erica Williams**, Chair, Public Company Accounting Oversight Board; **Richard Jones**, Chair, Financial Accounting Standards Board; and **Robert Cook**, President and CEO, Financial Industry Regulatory Authority.

Wednesday, December 13

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HFSC Subcommittee on Oversight and Investigations Hearing entitled: "Moving the Money Part 2: Getting Answers from the Biden Administration on the Iranian Regime's Support of Terrorism." [9:00 am, 2128 RHOB]. Witnesses: **Ms. Elizabeth Rosenberg**, Assistant Secretary for Terrorist Financing and Financial Crimes; and **Mr. Abram Paley**, Deputy Special Envoy to Iran.

SEC Open Meeting. [10:00 am, Auditorium LL-002]. Matters to be discussed: Rules to Improve Risk Management in Clearance and Settlement and to Facilitate Additional Central Clearing for the U.S. Treasury Market; and the 2024 Final Budget and Accounting Support Fee for the PCAOB.

Thursday, December 14

FSOC Meeting. [4:15 pm, webcast]. Matters to be discussed: Executive session: an update on the Council's Nonbank Mortgage Servicing Task Force; update on the Council's Hedge Fund Working Group; update on the Council's Climate-related Financial Risk Committee; and an update on cybersecurity developments. Public session: the Council's 2023 annual report

Future Events of Note

No meetings of note.

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](#).

- **[GSIB23](#)**: The agencies' capital proposal ([see FSM Report CAPITAL230](#)) unsurprisingly dominated discussion at today's Senate Banking hearing with big bank CEOs.
- **[FINTECH33](#)**: At today's HFSC Digital Assets Subcommittee hearing on banking agency financial innovation, Republicans raised concerns about the Fed's novel activities guidance ([see FSM Report FINTECH32](#)), interagency guidance on third-party risk management ([see FSM Report VENDOR10](#)), and the SEC's predictive data analytics [proposal](#).
- **[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.