



FedFin Weekly Alert

Monday, December 18, 2023

❑ SWITCHING FROM TEA TO GATORADE

[As we noted](#), CFPB Director Chopra has referred to the Financial Stability Oversight Council as a “book-report club.” [We don't disagree](#) – each lengthy annual report has seemed more a compendium of financial-sector facts than a guide to action based on any of them. However, last week's FSOC meeting seemed to move from reading to at least talking about intervening, with the [readout](#) making it clear that hedge funds are first on the systemic chopping block now that the Council has finalized its systemic methodology ([see FSM Report SYSTEMIC98](#)). Mr. Chopra is especially emphatic about the need to use FSOC's newly-revised designation power ([see FSM Report SIFI37](#)) to name names and set standards. His target is big tech and the Council's report this year and its focus on AI may move it slightly in that direction at some future point. However, we think it more likely that the Council will focus on activity-and-practice standards first for hedge funds in the Treasury market by way of all the federal agencies that can address this risk directly and via inter-connections with banks. It is likely then to turn to the nonbank mortgage companies also targeted in the readout via standards demanded of FHFA for GSEs, standards Ginnie Mae is sure to emulate. We'll shortly provide clients with our in-depth analysis of the Council's report along with more details on what's next for these targeted sectors as well as for the climate-risk framework also highlighted in the readout, AI, and anything other activities or sectors FSOC fears.

Headlines From the Past Week's Daily Briefings

[December 11](#)

- **Treasury Broadens Illicit Finance Scope to CRE, Investment Advisors** - In connection with an order sanctioning two Afghans for transnational [corruption](#), Treasury and FinCEN [issued](#) a fact sheet on actions under way to address corruption and other illicit transactions.
- **White House Threatens Veto on Bill Curtailing OCC, Other Agencies** - The House Rules Committee is expected to clear H.R. 357 for floor action, prompting the White House to issue a [veto threat](#).
- **Warren Presses Case for Crypto Standards in NDAA** - Strengthening her [position](#) ahead of a fight with HFSC Chair McHenry (R-NC) over crypto provisions in the NDAA, Sen. Warren (D-MA) [announced](#) that Sens. Hickenlooper (D-CO) and Luján (D-NM) alongside Senate Banking Committee members Warnock (D-GA), Butler (D-CA), and Van Hollen (D-MD) joined Sen. Warren and 14 other Senators as co-sponsors of the Digital Asset Anti-Money Laundering Act.
- **CGFS Wants LTV-Related Capital Rules Adjusted to Reflect House Prices** - Reviewing the link between housing finance and systemic risk, the BIS Committee on the Global Financial System's report [focused](#) on the need for automatic stabilizers that provide macroprudential controls in this high-risk sector.

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

© 2023. Federal Financial Analytics, Inc. All rights reserved.

December 12

- **IMF Calls for Enhanced Climate-Risk Analyses, Stress-Testing** - Calling for implementation of the Basel Committee's climate-related financial risk principles ([see FSM Report CLIMATE14](#)), the IMF's Monetary and Capital Markets Department Director, Tobias Adrian, [pressed](#) central banks to enhance their climate risk analyses and adapt stress-testing frameworks to better reflect climate-financial risk transmission and amplification channels.
- **Agencies Come Under Still More Workplace-Practice Scrutiny, Political Pressure** - As we [noted](#), House Republicans are now using ongoing assertions of FDIC workplace dysfunction to attack the OCC.
- **HFSC Subcomm Considers Sanctions Enforcement** – HFSC's National Security Subcommittee hearing focused primarily on critiques of US energy sanctions enforcement related to Russia, Iran, and Venezuela.
- **House Select Committee Calls on Fed to Stress Test China Risk** - The House Select Committee on the Strategic Competition between the United States and the Chinese Communist Party released a bipartisan [report](#) urging Congress to direct the Fed to stress-test U.S. banks for their ability to withstand Chinese market risk, produce classified reports on these assessments, and consider the financial market impact of potential sanctions on Chinese financial firms.
- **Basel Proposes Modest Fix to IRR Standards, Post-SVB Revisions Await** - [As anticipated](#), the Basel Committee released a [consultation](#) revising global interest-rate risk (IRR), standards updating current banking-book standards ([see FSM Report IRR7](#)) to toughen the IRR-shock calibration.
- **McKernan Extends Capital Olive Branch** - FDIC Director McKernan [offered](#) an end-game compromise that might actually lead to final rules in 2024 that defer some of the proposal's most problematic aspects.
- **House Advances Bipartisan Beneficial-Owner Reform** - Presaging likely Senate action, the House [voted](#) 420-1 to approve H.R. 5119, legislation from Rep. Zach Nunn (R-IA) revising the 2021 AML law ([see FSM Report AML133](#)).

December 13

- **HFSC Oversight Subcomm Revisits Iran Sanctions** – HFSC's Oversight Subcommittee hearing focused on the Biden Administration's recent efforts to limit terrorist funding from Iran.
- **SEC Sets Out Treasury Central-Clearing Construct** - As anticipated, the SEC [voted](#) 4-1 to mandate central clearing for Treasury securities used in many repo and reverse-repo transactions, modifying the [proposal](#) in key respects still unsatisfactory to [Commissioner Peirce](#).
- **GAO Reaches Equivocal Verdict on Digital-Asset Crypto Evasion Risk** - Addressing Congressional concerns such as those in the Warren-Marshall crypto-compliance [bill](#), the GAO issued a [report](#) finding that digital assets pose risk to U.S. sanction implementation and enforcement despite mitigating factors that may reduce certain risks.
- **Brown Presses Bank CEOs on Servicemember Rights** - After the GSIB CEOs came before the Senate Banking Committee ([see Client Report GSIB23](#)), Banking Committee Chair Brown (D-OH) sent a [letter](#) to the CEOs of the four largest consumer banks encouraging them to ensure that active-duty servicemembers obtain all the financial benefits to which they are entitled.

December 14

- **Top Senate Democrats Heighten Payment App Scrutiny** - Continuing to shift their focus from Zelle to payment-service providers, Senate Banking Chairman Brown (D-OH) along with Sens. Reed (D-RI) and Warren (D-MA) sent [letters](#) to Paypal and [CashApp](#) urging them to adopt new scam-reimbursement policies.
- **Treasury Defends Russian Sanctions, Economic-Warfare Clout** - Facing increasing assertions that U.S.-led sanctions are not meaningfully affecting Russia, Treasury [issued](#) a blog stoutly defending sanctions effectiveness.
- **Reed Presses OFR to Subpoena Shadow-Bank Data** - The principal sponsor of the Dodd-Frank provisions creating the Office of Financial Research, Sen. Jack Reed (D-RI), [defended](#) the agency on grounds that it lacks a confirmed director, promising to push the appointment on the floor as quickly as possible.
- **Basel Targets Stablecoin Reserve-Asset Risk** - Moving forward with “targeted” changes to [current standards](#), the Basel Committee [outlined](#) revisions to its crypto standards with significant practical implications.
- **Liang Disputes Over-Archiving Need for New AI Regs** - Treasury Under Secretary Liang argued that AI is not fundamentally different than other financial innovations and is already subject to existing consumer-protection, safety-and-soundness, illicit-finance, and financial-stability guardrails.
- **FRB-NY Official Highlights AI Promise, Problems, Policy Action** - Summarizing a recent Federal Reserve Bank of New York AI conference, the Bank’s chief risk officer, Mihaela Nistor, [concluded](#) that AI can now identify GSIB and GSIFI risk due to its ability to detect tail behavior not now captured by relevant models.
- **Democrats Urge CFPB to Take Second Stand Against Forced Arbitration** - Sens. Warren (D-MA) and Sanders (I-VT) were joined by over 90 other Democratic lawmakers in sending a [letter](#) to CFPB Director Chopra urging the Bureau to issue a new rule to set strict standards for forced arbitration agreements in financial products and services.
- **Waters Tries to Protect Banking Agencies on Workplace Practice** - Responding to her request at a recent hearing ([see Client Report REFORM230](#)), HFSC Ranking Member Waters (D-CA) [indicated](#) that all of the banking agencies have sent her their current policies against sexual harassment.
- **FSOC Tackles AI, Reiterates Prior Climate/Cyber Priorities** - As anticipated, FSOC unanimously approved its annual report; FedFin will shortly provide clients with an in-depth analysis.

December 15

- **Crypto Measures Await Next Session** - As anticipated, HFSC Chair McHenry (R-NC) was able to fend off concerted efforts by Sens. Brown (D-OH) and Warren (D-MA) to add the Warren-Marshall [crypto bill](#) to the National Defense Authorization Act.

- **FSOC to Target Hedge Funds, Nonbank Mortgage Companies** - The readout from Treasury on FSOC's meeting [provides](#) insight into the Council's executive session suggesting significant near-term systemic action regarding hedge funds.
- **FSB Plans Broad Rewrite of Public Backstops, GSIFI Resolvability, Operational Readiness** - The FSB's 2023 Resolution [Report](#) advises banks and public sector authorities to be prepared to access public sector funding in resolution, with the Board planning to review whether existing public sector backstops are adequate to meet potential failure scenarios.
- **Brown Renews Bipartisan Quest to Constrain Nonbank Banks** - Advancing the big-tech concerns he most recently voiced before GSIB CEOs ([see Client Report GSIB23](#)), Senate Banking Chairman Brown (D-OH) has [introduced](#) S. 3538, bipartisan legislation to impose bank regulation on non-bank parent companies of insured depository institutions.
- **DOJ Targets Fraudulent Microtransactions** - Cracking down on unauthorized bank account charges, the DOJ [announced](#) multiple actions against "sham" companies alleged to have used misrepresentations or unauthorized charges to steal money from consumers' financial accounts.
- **CRS Warns Credit Card Act Could Result In Risky Retailer Payment Networks** - The CRS issued a [report](#) analyzing the Durbin-Marshall Credit Card Competition Act, S.1838 ([see FSM Report INTERCHANGE10](#)), projecting that fee caps will have a greater impact on transaction fees than competition, with the bill in fact reducing merchant transaction fees.
- **Progressives Again Push Public Banks** - "Squad" Democrats such as Reps. Tlaib (D-MI) and Ocasio-Cortez (D-NY) have introduced H.R. 6775, the latest version of their efforts to facilitate state and local public banks.
- **Senate Bill Seeks Supervisory Oversight** - The rush of end-session bills also includes one from Sens. Moran (R-KS), Hagerty (R-TN), Tillis (R-NC), and Manchin (D-WV), S. 3541, that would force supervisors more quickly to answer bank queries and create an FFIEC independent review officer from whom banks could seek review of supervisory judgments.

This Week

No meetings of note.

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](#).

- **GSE-121423**: In a blog post [today](#), Fannie quietly renews its quest for alternatives to traditional title insurance.

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

© 2023. Federal Financial Analytics, Inc. All rights reserved.

- **[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.