FedFin Daily Briefing

Friday, December 1, 2023

Barr Outlines Rationale for LCR, NSFR Rewrite

FRB Vice Chair Barr today 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. Although he notes that the Fed is studying the implications of varying discount-window preparedness on individual bank and financial system stability, he does not directly state that the Fed is considering more specific pre-pledging requirements. However, the LCR and NSFR may be insufficient to stem rapid runs, with Mr. Barr noting that liquidity is now often needed in hours rather than days. He also states that VC, high-net-worth, and crypto firm deposits are more prone to faster runs than previously assumed, with all this suggesting structural changes to current liquidity rules down the road. The speech also includes an extensive discussion of the extent to which FBOs draw on the discount window in recent crises, but there is no suggestion in the talk that the Fed plans to revisit the controversial decision in 2019 to exempt FBO branches and agencies from U.S. liquidity standards (see *Client Report* **SIFI33**).

Reed Presses Synthetic-Securitization Controls

Following his comments at recent hearings (see *Client Report* **REFORM229**), Sen. Reed (D-RI) late yesterday 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. This inquiry follows a decision by the FRB to liberalize the treatment of certain credit-linked notes by allowing BHCs and state member banks to use them as a means of capital relief. This ruling is expected to ramp up synthetic securitizations, leading Sen. Reed to question its effects on safety and soundness. As a result, the agencies are asked for data on the volume of bank synthetic transactions over the past ten years, the amount of capital reduction for all such transactions, and an assessment of individual bank and systemic risk. He also requests the agencies' views on the hazards of transferring risk to shadow-bank counterparties and the need for limits on how much capital could be reduced for different classes of assets. No timeline is provided for response. Although we expect Wednesday's hearings with GSIB CEOs to focus on pending capital rules, Sen. Reed is likely to ask each bank about its synthetic-securitization activities now and to come.

Pending Veto, House Votes Against CFPB

As anticipated (see *Client Report* **CONSUMER53**), the House today voted 221 to 202 to authorize Congressional Review Act withdrawal of the CFPB's small business reporting rule. This follows passage in the Senate with a 53 to 44 vote in October. President Biden has made clear that he intends to veto the resolution, ensuring that the rule will stand unless the Bureau decides to revise it at some future point under a new director.

OCC Readies Research for Liquidity-Reg Rewrite

Likely readying itself for the raft of new liquidity proposals presaged in Michael Barr's talk earlier today, the OCC today issued a call for papers on depositor behavior, bank liquidity, and run risk. Key topics of concern include deposit insurance pricing; quantification and determinants of franchise value; depositor behavior;

financial innovation; regulatory and supervisory impact on deposit markets; networked, brokered, uninsured, and institutional deposits; repo and reverse repo agreements and liquidity management; asset sales; and the relationship between funding risk and asset holdings. The submission deadline is January 15.

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.

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