FedFin Daily Briefing

Wednesday, December 13, 2023

HFSC Oversight Subcomm Revisits Iran Sanctions

Today's HFSC Oversight Subcommittee hearing focused on the Biden Administration's recent efforts to limit terrorist funding from Iran. Chairman Huizenga (R-MI) questioned the need for the November 14th renewal of a waiver that allows Iraq to pay Iran for electricity, calling for increased pressure on Iran following Hamas's October 7th attack. The Chairman again criticized the Biden Administration's choice in August to transfer $6 billion of frozen Iranian assets from South Korea to Qatar in exchange for the release of five American hostages, arguing that Iran will find a way to circumvent the funds' humanitarian restrictions for nefarious use. Ranking member Green (D-TX) stated that none of the $6 billion now in Qatar has gone to Iran and went on to request an additional hearing based on a report during the Trump Administration that Qatar gave $15 million in cash to Hamas after negotiations with Israeli Prime Minister Benjamin Netanyahu in what Rep. Green called a plan to create the "perfect enemy." Full Committee Ranking Member Waters (D-CA) stated that any claims arguing that President Biden has weakened sanctions against Iran are "simply false." In testimony, Assistant Secretary for Terrorist Financing and Financial Crimes Elizabeth Rosenberg discussed three tranches of Hamas sanctions since the October 7 attack, including another tranche issued by Treasury this morning. Deputy Special Envoy to Iran Abram Paley stated that no money from the Iraqi electricity waiver has entered Iran and that none of the $6 billion unfrozen following the hostage exchange has been spent.

SEC Sets Out Treasury Central-Clearing Construct

As anticipated, the SEC this morning 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. The rule addresses continuing concerns about Treasury-market fragility, in part by reducing the number of highly-leveraged hedge-fund transactions. It does, however, further concentrate systemic risk in a DTCC, with the CCP key to this sector now likely not only to take on a still more critical global role, but perhaps also additional FMU requirements. The final rule will prohibit margin netting, requiring clearing members – often large banks and prime brokers – to segregate the "house" margin from that of their end-users. However, capital relief may come because the rule also allows margins to be rehypothecated to the CCP. Almost all repo and reverse-repo transactions will now be cleared along with cash transactions cleared by interdealer brokers (IDBs), a smaller portion of these trades than initially proposed. The final rule also requires clearing agencies to facilitate clearing and settlement access for all eligible secondary-market transactions, extending implementation schedules with passed-in requirements coming into effect through 2025 and 2026.

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 today issued a report finding that digital assets pose risk to U.S. sanction implementation and enforcement despite mitigating factors that may reduce certain risks. The analysis identifies international discrepancies in legal and financial reporting as one evasion route, also citing additional anonymity techniques such as VPNs, false identities, and mixer and tumbler services that break transaction trails by mixing several users' virtual currency during transfers. The report is also concerned with cybercrime as a way for sanctioned actors to generate funds. Factors that mitigate digital asset risk include its scant use as a means of payment, asset valuation volatility, and the traceability of transactions on public blockchains. The analysis also emphasizes the importance of strong global standards and international cooperation to prevent sanction evasion, stating that the fast-changing nature of digital assets could affect sanction implementation in the future by making transactions more easily-traceable or, conversely, through increased use of anonymous digital assets.

Brown Presses Bank CEOs on Servicemember Rights

A week after the GSIB CEOs came before the Senate Banking Committee (see *Client Report* **GSIB23**), Banking Committee Chair Brown (D-OH) today 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. The letter complains that banks put the burden on servicemembers to claim their benefits, drawing on statements by CFPB Director Chopra (see *Client Report* **CONSUMER54**). Sen. Brown also asks the CEOs for details about the extent to which they proactively identify and apply necessary benefits to servicemembers; no deadline is set.

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.

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