



FedFin Weekly Alert

Monday, January 29, 2024

❑ HERE WE GO AGAIN

Late last week, *Bloomberg* [reported](#) that the same kind of interest-bearing stablecoin products that wreaked havoc in 2023 and even some that purport to offer checking accounts are proliferating again with kudzu's tenacity. Offshore trading volumes for stablecoins grew 28 percent to almost touch \$1 trillion at the end of last year, a move said to be bolstered by larger reserve assets at the largest stablecoin issuers. The problem is that other than the case-by-case enforcement actions that drove this market offshore, there is still no U.S. law or rule to protect investors and, as stablecoins head over the \$1 trillion hump, also the financial system. Will that change this year?

Probably not. Senate Banking Chair Brown (D-OH) is struggling to get the most popular and bipartisan of crypto bills – one subjecting them to AML and sanctions [law](#) – onto the Senate floor. Even if this succeeds, it faces a tough slog in the House, where Republicans dispute the extent to which digital assets pose more of a [threat](#) than conventional ones.

Conversely, HFSC Chair McHenry (R-NC) along with Ag Committee Chair Thompson (R-PA) very much want to rewrite crypto-asset jurisdictions so the SEC has a lot less of one. This is anathema to committee Democrats and, even should the bill pass the House, it stands little to no chance in the Senate.

A possible – but not yet probable – bill would regulate stablecoins. Here, HFSC Ranking Member Waters (D-CA) is willing to work with Mr. McHenry and compromise seems within reach. Still, it's been elusive since the 117th Congress and didn't make much progress beyond promises to talk all through the first session of the 118th. Will the end of Mr. McHenry's tenure in Congress lead to more concessions? Probably. Will these spur Sen. Brown to take up a bill given his singularly small record of legislative successes and his tight election? We are at best unsure.

So, it's back to the banking agencies. Following the lead of a President's Working Group report in 2021 ([see Client Report CRYPTO21](#)), they have for years waited for federal law to define the scope of their stablecoin authority. How long will they wait? It's hard to tell, but the agencies are busy and have yet even to begin to implement Basel capital standards for cryptoassets ([see FSM Report CRYPTO37](#)), let alone broader stablecoin standards.

Headlines From the Past Week's Daily Briefings

January 22

- **FRB Reconsiders Interchange-Fee Cuts** - Bowing to critics in the banking industry and on the [Board](#), the Federal Reserve [extended](#) the comment period on its debit-card interchange fee proposal ([see FSM report INTERCHANGE12](#)) by a surprisingly-long ninety days.
- **OIG Finds Reserve-Bank Trades Legal, But Problematic** - The Federal Reserve's Office of the Inspector General ([OIG](#)) [released](#) long-awaited reviews of personal trades by former Dallas and Boston Reserve Bank Presidents that raised numerous and often vociferous assertions of conflicts of interest.
- **FSB Plans Global Run-Risk Buffers** - The head of the Financial Stability Board, Secretary General John Schindler, briefed [media](#) on the global regulator's plans to brief the G20 in October about viral-run risk and the standards needed to avert it.

January 23

- **Waters Tries to Block Libra Redux** - Reflecting long-held Democratic [concerns](#) over Big Tech's crypto plans, HFSC Ranking Member Waters (D-CA) sent a [letter](#) to Meta Platforms CEO Mark Zuckerberg and COO Javier Olivan once again raising strong objections to Meta's potential expansion into digital assets.

January 24

- **FSB Plans Resolution Refinement, New Repo Standards** - Renewing much of what it has said in the [past](#), the FSB released its 2024 official [work program](#).
- **CFPB Goes After Fees Banks Have Yet to Charge** - Tackling fees it acknowledges banks have yet even to charge, the CFPB [proposed](#) banning NSF fees for real-time non-processed transaction declines such as those at ATMs.
- **Senate Advances "Nuclear" Asset-Seizure Option** - Following a 40-0 vote in the House Foreign Affairs [Committee](#), the Senate Foreign Relations Committee voted 20-1 (Paul, R-KY) for S.2003, legislation giving the White House clear authority to seize frozen Russian assets to assist Ukraine.

January 25

- **Fed Surprisingly Slams the BTFP's Doors** - At an unusual time and on a day that does not comport with the usual timelines for Fed action, [the Board](#) unanimously announced it will shutter the Bank Term Funding Program as scheduled.
- **Basel Head Backs U.S. Regulators** - In response to [waves](#) of recent [letters](#) pushing back on the Basel III capital rules, Basel Committee Secretary General Esho [defended](#) Basel III, arguing that there is little evidence that Basel III implementation will have a detrimental effect on banking and economic growth.

- **FTC Tackles AI Inter-Connections, Concentration** - Following remarks by FTC Chair Khan making clear that there is no “AI exception” to lawful behavior, the FTC [announced](#) that it has issued [orders](#) to Alphabet, Amazon, Anthropic, Microsoft, and OpenAI requiring them to provide their recent investment and partnership information involving gen-AI companies and major CSPs.
- **CFTC Kicks Off Financial-Agency AI Assessment** - Just as it did years ago with climate risk ([see Client Report GREEN4](#)), the CFTC [took](#) the lead among U.S. financial regulators with respect to AI.

January 26

- **Agencies Rewrite Call Reports Ahead of Final Capital Regs** - Despite growing [bipartisan](#) concern over a capital proposal likely to be significantly [revised](#), the Fed, OCC, and FDIC requested comment on [proposed](#) changes to call reporting requirements as well as regulatory capital and market risk capital reporting requirements to ensure that these conform with the agencies’ proposal.

This Week

Tuesday, January 30

HFSC Subcommittee on National Security, Illicit Finance, and International Financial Institutions Hearing entitled: “Hearing Entitled: Better Investment Barriers: Strengthening CCP Sanctions and Exploring Alternatives to Bureaucratic Regimes.” [10:00 am, 2128 RHOB]. Witnesses: **The Honorable Thomas Feddo**, Founder/Principal, The Rubicon Advisors LLC; **The Honorable Richard Ashooh**, Vice President of Global Trade and Government Affairs for Lam Research Corporation; and **The Honorable Clayton Lowery**, Executive Vice President, Institute of International Finance.

Wednesday, January 31

Senate Banking Subcommittee on Housing, Transportation, and Community Development Hearing entitled: “Artificial Intelligence and Housing: Exploring Promise and Peril.” [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **Ms. Lisa Rice**, President and Chief Executive Officer, National Fair Housing Alliance; **Dr. Vanessa Perry**, Interim Dean and Professor, George Washington University School of Business, and non-resident Fellow, Housing Finance Policy Center, Urban Institute; and **Mr. Nicholas Schmidt**, Partner and Artificial Intelligence Practice Leader, BLDS, and Founder and CTO, SolasAI.

HFSC Subcommittee on Financial Institutions and Monetary Policy Hearing entitled: “Rules Without Analysis: Federal Banking Proposals Under the Biden Administration.” [10:00 am, 2128 RHOB]. Witnesses TBD.

Thursday, February 1

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Senate Banking Hearing entitled: “Examining Scams and Fraud in the Banking System and Their Impact on Consumers.” [10:00, Dirksen Senate Office Building 538]. Witnesses: **Ms. Carla Sanchez-Adams**, Senior Attorney, National Consumer Law Center; and **Mr. John Breyault**, Vice President of Public Policy, Telecommunications, and Fraud, National Consumers League.

Future Events of Note

Tuesday, February 6

HFSC Hearing entitled: “The Annual Report of the Financial Stability Oversight Council.” [TBD]. Witnesses: **The Honorable Janet L. Yellen**, Secretary, Department of the Treasury.

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-012424](#)**: In this report, we build on our previous analyses of the [mortgage implications of the pending capital rules](#), forecasting what’s next for mortgage assets as the FRB, FDIC, and OCC wrestle with the mess Karen Petrou has elsewhere [argued](#) they brought upon themselves by careless analytics and political misjudgment.
- **[OVERDRAFT12](#)**: Building on a bulletin and circular from late 2022 warning banks about certain overdraft practices, the CFPB has now proposed a rule that would sharply and expressly limit fees for extensions of credit related to overdrawn transaction accounts unless the account comes under an array of consumer-protection requirements.
- **[GSE-012224](#)**: A new Fed [staff study](#) uses models to conclude that government-backed mortgage securitization exacerbates financial crises, contradicting conventional wisdom that – GSE blow-ups notwithstanding – properly-regulated GSEs create a liquid, diversified asset pool for an otherwise illiquid, risky asset class.
- **[GSE-011224](#)**: A new [staff paper](#) from the Federal Reserve Bank of New York assesses the tender topic of bank mortgage lending to minority borrowers.
- **[GSE-010924](#)**: Based on recent dialogue with institutional investors and regulators, a new FRB-NY Teller Window [article](#) concludes that robust data collection, loan standardization, and higher volume could improve CDFI secondary market sales.

- [**GSE-010824**](#): It's not news to observe that things that change at the GSEs then change a lot of other things.
- [**INCLUSION3**](#): As required by law, the U.S. Treasury is working to set policy enhancing financial inclusion. While it seeks recommendations for new policies in areas ranging from predatory lending to technological innovation and new federal programs, it is unclear how actionable its findings will prove and if federal policymakers then implement those possible under current law.
- [**NBFI3**](#): The banking agencies have proposed significant changes to call-reporting data illuminating how banking organizations are inter-connected with nonbank financial intermediaries and to implement pending requirements for long-term debt (LTD) issuance.
- [**DEPOSITINSURANCE123**](#): In the wake of increasing instances in which customers are confused and even misled about the extent to which fintech and cryptoasset holdings are insured deposits, the FDIC has finalized its proposal setting disclosure standards as well as modernizing IDI representations of their own FDIC-insured offerings in branches and through the fast-changing array of retail banking delivery channels.
- [**GSE-010224**](#): Shortly before the new year, the banking agencies proposed new call-report [requirements](#) that would force banks with over \$10 billion in assets to report new data on nonbank mortgage intermediaries and structured GSE-guaranteed positions.
- [**AI4**](#): Bipartisan Senate legislation has been introduced to press FSOC to do more than highlight artificial intelligence (AI) as a potential threat to financial stability.