FedFin Daily Briefing

Friday, January 12, 2024

Emmer, HFSC GOP Reintroduce FSOC Oversight Measure

Following a hearing earlier this week at which GOP Members reiterated longstanding FSOC criticism, House Majority Whip Emmer (R-MN) has reintroduced legislation along with ten other HFSC Republicans to bring FSOC under congressional appropriations. The bill would require FSOC to submit quarterly reports to HFSC, Senate Banking, and the House and Senate Appropriations Committees, which would also be granted authority to request official testimony from FSOC officials on the reports' contents. The Council would also be required to provide ninety-day notice and comment periods before issuing any report, rule, or regulation. In addition, the Director would be required to submit a work plan to Congress including a detailed description of any guidance, RFI, or data collection planned for the Council's upcoming fiscal year. The bill is cosponsored by Reps. Hill (R-AR), Kim (R-CA), Posey (R-FL), Sessions (R-TX), Luetkemeyer (R-MO), Fitzgerald (R-WI), Loudermilk (R-GA), Donalds (R-FL), Barr (R-KY) and Rose (R-TN) but will not advance in the Senate.

HFSC Bipartisan AI Task Force Already Divided on Key Priorities

Reflecting growing concern about AI's risks (see *Client Report* **FSOC29**), HFSC Chairman McHenry (R-NC) and Ranking Member Waters (D-CA) yesterday announced the creation of a bipartisan AI Working Group to be led by Digital Assets Subcommittee Chairman Hill (R-AR) and Ranking Member Lynch (D-MA). The Working Group will focus on AI use in financial-company decision-making, fraud, and compliance along with agency regulation and supervision. Chairman McHenry's statement in the release emphasized AI's potential benefits, especially with regard to inclusion. In sharp contrast, Ranking Member Waters emphasized AI's potential to further credit discrimination and otherwise put consumers at risk. As previously noted (see FSM Report **AI4**), bipartisan legislation is pending in the Senate to force FSOC to take action addressing AI risk. As we suggested in our analysis, this measure might well advance in this Congress, although HFSC will need first to allow this task force to hold hearings and otherwise address AI.

House Passes Measures to Check Chinese Economic Power

The House today passed several bills addressing the role of China in IMF and World Bank policy and a renewed attempt to limit what many Members of Congress consider Chinese currency manipulation (H. R. 839). The package did not include action on more controversial bills proposed recently by the House Select Committee on Strategic Competition between the United States and the Chinese Communist Party. These would 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. The measures approved also include H.R. 6370, which would require Treasury to develop a pilot program within the Office of Terrorism and Financial Intelligence to allow private-sector firms to conduct nominal financial transactions with sanctioned entities to facilitate investigations.

The Fed Becomes a Big Loser

The Federal Reserve System today released its preliminary FY23 financial results, the first look into the System's operating condition above and beyond its significant mark-to-market losses. The System lost $114.3 billion last year compared to a gain of $58.8 billion in FY22, a sharp jump due to continuing rate rises that led the central bank to incur higher interest expenses. Of the increase in interest expenses from 2022, $116.3 billion pertained to interest on reserves paid to banks and $62.4 billion related to interest expense on securities sold under agreements to repurchase. As with mark-to-market losses, these operating losses are recognized only as a deferred asset to the Treasury the Fed plans to work down as rates drop. But the loss not only means that the Fed will make no remittance to Treasury for FY23, exacerbating the deficit, but also that interest payments to financial entities will again be on the table as spending offsets if Congress ever returns to regular order.

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-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.
- **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.
- **MERGER13:** Building on a request for comment and a formal draft, the Department of Justice (DOJ) and Federal Trade Commission (FTC) have finalized specific revisions to U.S. merger policy that significantly redesign the manner in which M&A transactions will be considered.
- **SANCTION21:** As promised, this report provides an in-depth assessment of President Biden's Friday executive order expanding anti-Russia sanctions via secondary ones on financial institutions that – knowingly or not – facilitate or conduct newly-identified transactions related to sanctioned persons, services, or goods.
- **ILC17:** Senate Banking Committee Chairman Brown (D-OH) is now leading a renewed bipartisan charge to limit the ability of nonbanks to use industrial loan companies (ILCs) to gain access to bank privileges without the parent-company supervision required of all other domestic IDI parents.

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- **GSE-121923:** The CFPB yesterday released a fascinating research blog looking at cash-out refis.

- **FSOC29:** This year's FSOC report trods much old ground with two exceptions. The first pertains to a new focus on artificial intelligence, machine learning, and new, generative technologies.

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

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