FedFin Daily Briefing

Friday, January 19, 2024

Bipartisan House Letter Slams Basel Proposal's Capital Markets Impact

Following up on our analyses yesterday of Congressional pressure on the banking agencies, we here turn to a bipartisan letter from 15 Members of the House led by Capital Markets Subcommittee Ranking Member Sherman (D-CA) and Subcommittee Chair Wagner (R-MO) warning the agencies of the proposal's adverse capital-markets impact. It warns that the proposal's overhaul of the current risk-based capital framework, $880 billion increase in risk-weighted assets associated with bank trading and capital market activities, and a 67 basis point increase to required capital ratios could have an adverse effect on banks' ability or willingness to participate in capital markets. The letter states that the proposal's treatment of the FRTB and the introduction of capital requirements for fee-based services under the revised operational risk framework will also make securities underwriting much less economically attractive, leading to corporate-debt issuance and IPO challenges. Finally, the letter warns that new CVA requirements and credit, market and operational risk may reduce banks' willingness to facilitate end-user derivative hedging and securitization.

Brown Leads Campaign for Strong End-Game Standards

The first unequivocal expressions of support for the capital rules from key Members we have found came today from Banking Committee Chairman Brown (D-OH) and eleven Senate Democrats. Interestingly, these are a subset of Banking Committee Democrats, suggesting that those not on the letter (Sens. Menendez (D-NJ), Tester (D-MT), Warner (D-VA), Warnock (D-GA), and Butler (D-CA)) are holding back. The Brown letter avoids details, instead stressing the importance of bank capital as a shock-absorber and reiterating assertions that higher capital will support community development. The letter also warns of the consequences of undercapitalized banks such as restricted lending and unaffordable mortgages, indirectly pressing for the risk-weight changes preceded in other letters by noting the need for risk weights that support affordable mortgages and clean energy.

Banking Agencies Seek NBFI Data from FBOs

The OCC, FRB, and FDIC today requested comment on a proposal to gather more granular information on call reports filed by FBOs related to loans and lease receivables. The information would provide the agencies with greater insight into FBO lending across different sectors, with the release highlighting nonbank lending and commercial and industrial loans as risks for which greater clarity is desired. This follows the inter-agency revision to call reports for large domestic banks also focused on NBFI inter-connections. Comments are due by March 19, with the reporting changes going into effect on June 30 if they are approved.

GOP Leadership Reignites "Operation Chokepoint" Concerns

Reigniting GOP concerns about "Operation Chokepoint" political regulation, Senate Banking Ranking Member Scott (R-SC) today sent a letter to Treasury Secretary Yellen and FinCEN Director Gacki raising concerns that Treasury urged banks to surveil customers' transaction-level data using what he calls politically-charged search terms such as "Trump" and "MAGA" as well as merchant category codes to detect activity such as legal firearm purchases. He thus requests information on Treasury and FinCEN's role in soliciting private financial data to aid post-January 6th law-enforcement investigations; an answer as to whether FBI, DOJ, or banking-agency officials directed Treasury to collect such data; and lists of banks asked to meet with Treasury to help filter customer financial data. Highlighting reports that Treasury warned financial institutions that "religious texts" could indicate extremism, Sen. Scott also requests a list of these texts and asks for Treasury's rationale. Responses are requested by February 2. Sen. Scott's letter comes in concert with similar letters from House Judiciary Chairman Jordan (R-OH) to FBI Director Wray and FinCEN Regulatory Policy Director Bishoff requesting transcribed interviews to aid oversight of what Rep. Jordan says was the FBI's collection of American citizens' financial information without legal process. The letter to Director Wray highlights testimony indicating that BoA provided financial data to the Bureau to investigate Washington D.C.-area transactions between January 5th - 7th, 2021, while the letter to Mr. Bishoff echoes concerns raised by Sen. Scott. Responses from both officials are requested by January 31.

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.

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

- **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.