FedFin Daily Briefing

Monday, January 22, 2024

FRB Reconsiders Interchange-Fee Cuts

Bowing to critics in the banking industry and on the Board, the Federal Reserve today extended the comment period on its debit-card interchange fee proposal (see FSM report **INTERCHANGE12**) by a surprisingly-long ninety days to May 12. The extension is in part due to the Board's decision to publish additional interchange fee cap data which may have persuaded the Board that the initial data analysis supporting a mandatory pricing reduction was incorrect. If comments reinforce this concern, the proposal would likely not be finalized, dealing merchants a major loss.

OIG Finds Reserve-Bank Trades Legal, But Problematic

The Federal Reserve's Office of the Inspector General (OIG) today released long-awaited reviews of personal trades by former Dallas and Boston Reserve Bank Presidents two years ago that raised numerous and often vociferous assertions of conflicts of interest. Indeed, Sen. Warren (D-MA) stated that she believed these epitomized a "culture of corruption" at the Fed, introducing bipartisan legislation to force considerably more transparency at the Reserve Banks. The OIG's findings absolve Messrs. Kaplan and Rosengren because the trades then violated no law or rule, a conclusion sure to lead Sen. Warren and others to claim that the Fed's standards – since tightened – were and remain far too lenient and opaque. The OIG did criticize the former Reserve Bank presidents for the "appearance of impropriety," going on to cite Mr. Kaplan for failure to disclose his transactions as undermining the "impartiality and integrity," carrying out the Fed's policy obligations at a particularly critical time. The OIG fully cleared Chair Powell and former Vice Chair Clarida of less-controversial assertions of conflicts of interest related to their personal trading.

FSB Plans Global Run-Risk Buffers

The head of the Financial Stability Board, Secretary General John Schindler, today 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. Mr. Schindler said little about what the FSB is likely to propose although the Basel Committee is now considering rewrites to global LCR and NSFR standards likely to be reflected in the FSB's recommendations. As noted last week, the U.S. is moving more quickly on run-risk, with Acting Comptroller Hsu laying out a new set of standards addressing uninsured-deposit risk along with a new five-day liquidity test. The U.S. is also planning rules going beyond recent inter-agency guidance now to demand stress-testing and regular discount-window draws to ensure readiness in emergencies and reduce discount-window stigma. Mr. Schindler also defended the FSB's resolution standards even though Swiss regulators said that they did not suffice for Credit Suisse. The need for a UBS takeover is said by the FSB head to have been the choice of Swiss regulators, not due to global-resolution standard that would have worked had there been no takeover prospect.

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-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.

- **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.

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