FedFin Daily Briefing

Thursday, January 25, 2024

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 last night unanimously announced it will shutter the Bank Term Funding Program as scheduled on March 11. As discussed in Karen Petrou's recent *Financial Times* op-ed on the BTFP, this is no surprise; what is striking is not only the timing, but also that the Board decided yesterday to end the rate arbitrage also detailed and criticized in Karen's opinion and that of other Fed-backstop critics. The new rate for draws until March 11 is pegged to IOR, thus preventing large draws ahead of the window's termination that could have given BTFP-users a considerable funding edge. The jump in GDP this morning may have also spurred Fed action in this exigent fashion as it is likely that banks seeing this news will expect the FOMC will at the least continue higher rates for what the Fed would call "a considerable period." Jumps in FHLB borrowing and heightened strains on regional-bank earnings are the likely result of this BTFP decision, on which we will continue to assess and advise.

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 today, arguing that there is little evidence that Basel III implementation will have a detrimental effect on banking and economic growth. He substantiated this assertion by pointing to reduced RWAs since 2011 and sustained CET1 levels as the end-game was implemented, points we would note may suggest a smaller and altered role for global banks. Despite the U.S. delay, Mr. Esho stated that all BCBS member jurisdictions are on track to implement the end-game by 2025, with more complex elements such as the market-risk framework taking slightly longer. The Committee will now work on bank/NBFI interconnections, also moving forward on the previously-announced agenda of finalizing its core supervisory principles in April and addressing digitalization of finance, climate-related financial risks, operational resilience, and risk assessment.

FTC Tackles AI Inter-Connections, Concentration

Following remarks today 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. The companies are required to submit a Special Report to the Commission within 45 days detailing the strategic rationale for and extent of investments or partnerships, strategic decision-making, internal impact analyses, and any exclusivity agreements or reports provided to domestic or foreign government entities since January 2022. The inquiry reflects Ms. Khan's conclusions that AI's rapid growth poses concentration risk, noting in her remarks that AI falls squarely within current law. The Commission will also look at key AI uses such as screen-scraping and facial recognition.

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. The agency issued a request for comment (equivalent to an RFI) for views on AI risks and benefits in the derivatives markets it governs and the financial system as a whole. Chair Rostin Behnam stated that the request executes the President's recent order related to AI (see *Client Report* **AI3**), noting that the request thus also seeks views on how the CFTC might use AI in its analytical, monitoring, and enforcement efforts. More broadly, views are sought on key AI characteristics such as explicability, data quality, bias, and concentration – as noted, the FTC earlier today launched its own investigation of AI-market concentration risk with inquiries to leading tech-platform companies. We will shortly provide clients with an analysis of the request; comments on it are due by April 24.

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.

- **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.

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- **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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