



# FedFin Weekly Alert

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Monday, February 26, 2024

## ❑ ANNIVERSARY PARTY

March 10 is the one-year anniversary of Silicon Valley Bank's costly failure, although one might better date the beginning of the end of regional-bank regulation as we knew it to March 8, the date Silvergate bit the digital dust. Congress has talked much of these failures ever since, but actually done nothing but chide the banking agencies from different sides of the political spectrum based on what Members think of the massive regulatory rewrite proposed in SVB's wake and ongoing internal work at the banking agencies to improve woefully-inadequate supervision. We would add the value also of focusing on the FDIC's inability to resolve troubled [banks](#) to the urgent to-do list, but Congress has yet to turn to it and so [neither does the FDIC](#). Still, lack of action does not mean lack of talk. There will in fact be much, much talk about recent failures when Chair Powell comes to Congress next week and even, we expect, a bit of legislative action that just might change a little bit of banking law.

One of the most obvious early-warning signals of imminent legislation is when public talk returns to a topic. So it was last week when an op-ed [surfaced](#) pressing Congress to tackle executive-comp reform. There was so much bipartisan agreement to do this in the immediate aftermath that Senate Banking was able to advance Chair Brown's (D-OH) very first bill ever out of mark-up by a 21-2 [vote](#). The bill ([see FSM Report COMPENSATION37](#)) gives the FDIC the right to block post-failure or even post-near-failure comp for senior executives and other insiders, including several revisions designed to limit the unintended consequences we noted when the bill was first introduced. Nonetheless, the bill has attracted unflattering attention, especially from Sen. [Tuberville](#) (R-AL), but it seems likely that Sen. Brown can muster the needed votes to move the bill given all the attention the media will also devote to failing banks as SVB's anniversary approaches.

What else might come to the Senate floor? Given the paucity of bills to which anything bank-regulatory can be attached, we expect a few low-profile measures to come along for the exec-comp bill's ride. Most likely here are measures to give the FHFA and NCUA third-party vendor authority akin to that of the banking agencies ([see FSM Report VENDOR10](#)) and perhaps a few otherwise-unexceptional bills clarifying the corners of small-investor regulation and – a stretch – the Warner/Kennedy AI bill ([see FSM Report AI4](#)). Sen. Warren (D-MA) will surely use the occasion to as much effect as possible, perhaps even resurrecting legislation to clip the Fed's emergency-liquidity wings ([see FSM Report FEDERALRESERVE21](#)), but that is far too controversial to advance even though it's got bipartisan support even from very conservative Republicans in the House ([see Client Report LIQUIDITY34](#)).

Whatever happens, we'll be watching and alerting you as quickly as possible to what's to come.

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## Headlines From the Past Week's Daily Briefings

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### February 19

- No news of note.

### February 20

- **Waters Fails to Muster Meaningful Democratic Capital-Proposal Protest** - HFSC Ranking Member Waters (D-CA) [released](#) another letter from Democrats protecting the pending capital proposals.
- **Fed Study: CBDC Impact on Dollar Dominance, Payment System Depends on Many Decisions** - A new Fed [staff study](#) finds that a U.S. CBDC would have only a marginal impact on the dollar's role as the reserve currency and within the payment system, although this conclusion depends on a raft of decisions now being made about other CBDCs and the cross-border payment system.
- **Sanders Targets BlackRock's Market Power** - We will shortly provide clients with an update on Congressional reaction to the C1/Discover merger, but here draw client attention to a new letter from Sen. Bernie Sanders (I-VT), sure also to be among the credit-card consolidation's fiercest critics.
- **Brown Presses Powell for Enforceable Ethics Standards** - Senate Banking Chair Brown [renewed](#) his campaign against Fed conflict-of-interest policies, sending another letter to Chair Powell arguing that the Fed's recent internal-investment and [ethics standards](#) are unenforceable.
- **Initial Response to C1/Discover Merger Starts M&A Debate** - With Congress in recess, political response to the Capital One/Discover merger has been muted in terms of sparse comments, but fiery when it comes to Sen. Warren (D-MA).

### February 21

- **Hsu Identifies Near-Term Microprudential Options to Curtail Systemic Risk via Bank Inter-Connections** - Acting Comptroller Hsu [warned](#) that the risks of blurred lines between commerce and banking pose financial-stability risks, especially when it comes to payment systems and private equity.
- **Waters Adds to Democratic CapOne/Discover Merger Opposition** - Building on Democratic [opposition](#), HFSC Ranking Member Waters (D-CA) made it [clear](#) that she vigorously opposes Capital One's acquisition of Discover, arguing that it not only validates her view that tough new capital rules are [essential](#), but also the significant risks large regional banks continue to pose.

## February 22

- **CapOne Deal Draws GOP Fire** - [Sen. Josh Hawley](#) (R-MO) joined [Democrats](#) in strongly opposing the CapOne/Discover merger, doing so not only via a short statement, but also a [letter](#) to Assistant AG Kanter
- **CFPB Buttresses Calls to Block CapOne Deal** - Adding still more heat to the fire it [built](#) on credit-card industry practices, the CFPB [reported](#) that the average APR margin for credit-cards has reached an all-time high.
- **Hsu Presses Cross-Border Cryptoasset-Platform Regulation** - Speaking before the FSB's Crypto Working Group, Acting Comptroller Hsu made it [clear](#) that multifunction cryptoasset intermediaries require a home/host-country regulatory construct akin to that adopted in the U.S. and around the world after BCCI's money-laundering scandal and failure in 1991.

## February 23

- **FDIC's OIG: Agency Faces Severe Staffing, Resolution Challenges** - The FDIC's Office of the Inspector General (OIG) [issued](#) an assessment of ongoing FDIC challenges.
- **Progressive Dems Argue That De-Risking is Discriminatory** - Sens. Warren (D-MA) and Sanders (D-VT) alongside Reps. Omar (D-MN), Tlaib (D-MI), and Pressley (D-MA) sent [letters](#) to the heads of JP Morgan Chase, Wells Fargo, Bank of America, and Citibank criticizing the banks for what they describe as shutting down consumer accounts as part of AML de-risking practices.
- **Basel Head Continues Capital-Reg Defense, Work on NBFI Standards** - The head of the Basel Committee, Pablo Hernández de Cos, [reiterated](#) his defense of the global capital rules, spending much of the talk arguing against those seeking to roll them back and those who consider bank capital "idle money."

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## **This Week**

No meetings of note.

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## **Future Events of Note**

### **Wednesday, March 6**

HFSC Hearing entitled: "The Federal Reserve's Semi-Annual Monetary Policy Report." [TBD]. **The Honorable Jerome H. Powell**, Chairman, Board of Governors of the Federal Reserve System.

### **Thursday, March 7**

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Senate Banking Hearing entitled: "The Semiannual Monetary Policy Report to the Congress." [TBD]. **The Honorable Jerome H. Powell**, Chairman, Board of Governors of the Federal Reserve System.

## Tuesday, April 9

Senate Judiciary Hearing on credit card fees. [10:00 am, Dirksen Senate Office Building room G50].

## Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-021624](#): In this report, we build on our in-depth analysis yesterday of the Fed's new stress-test scenarios to focus on their mortgage-market impact.
- [STRESS32](#): In this report, we assess the strategic and policy implications of the Fed's new [stress-test regime](#).
- [LIQUIDITY34](#): Today's HFSC Financial Institutions hearing on emergency liquidity featured much discussion of reform, but few indications of any action Congress will take to advance it apart from support for pending agency efforts to enhance discount-window [readiness](#).
- [FSOC31](#): Treasury Secretary Yellen's hearing today before Senate Banking followed the path set in Tuesday's HFSC session ([see Client Report FSOC30](#)), with Ms. Yellen refusing to take a stand on matters such as the capital rules and banking-agency supervisory effectiveness.
- [FSOC30](#): As [anticipated](#), today's HFSC hearing with Treasury Secretary and FSOC Chair Yellen showcased sharp Republican criticism of the Council's nonbank designation authority ([see FSM Report SIFI36](#)), with Chairman McHenry (R-NC) and Financial Institutions Subcommittee Chairman Barr (R-KY) citing the guidance as yet another example of regulatory politicization, calling FSOC a "rogue" and "roving" regulator.
- [MERGER14](#): Although all of the banking agencies have for years promised a new bank-merger policy, none has proposed one until this OCC rulemaking.
- [PAYMENT28](#): Today's Senate Banking Committee hearing on scams and fraud in the banking system focused on the rise of P2P payment app scams, the growing popularity of traditional methods of fraud executed via wire transfer and check fraud, and emerging crypto and AI risks.
- [AI5](#): Although FSOC's latest annual report highlights AI risk, it does not request any express agency action, a hands-off approach that led to bipartisan legislation demanding a more forceful approach.
- [GSE-013124a](#): Common-stock investors clearly [think so](#), but they're a notably speculative lot and more than likely wrong.

- [GSE-013124](#): We have reviewed the 2024 scorecards FHFA [released](#) for Fannie and Freddie.
- [CONSUMER55](#): The CFPB has followed up a controversial proposal to set prices for larger-bank overdrafts exempt from certain consumer standards with a proposal to simply ban certain non-sufficient fund (NSF) fees when banks decide in real time to decline a consumer-payment request.