



Wednesday, February 14, 2024

## Global Regulators Propose Ways to Limit Variation-Margining Stress

As [promised](#), CPMI and IOSCO [have issued](#) a discussion paper on CCP and clearing-member variation-margin practices. The global agencies propose eight principles to enhance the likelihood that margins will be covered in stress situations, a continuing challenge based on a recent IMF [paper](#) finding that up to a third of EU active-derivatives users would not be able to meet variation-margin calls under stress and would thus turn to liquidating MMF shares or other assets in a manner likely to amplify market stress. The examples of ways to meet broader global margin standards include options for scheduling VM calls, excess-collateral use, the manner in which CCPs pass claims through clearing members, and enhanced transparency. Comments are due by April 14.

## HFSC Deploys Power of the Purse to Pressure FinCEN

As [anticipated](#), today's HFSC hearing with Treasury and FinCEN was highly partisan, with Republicans continuing to blast FinCEN for what they call SAR surveillance and now threatening to block any increased funding for FinCEN until it also improves beneficial-ownership reporting to the GOP's liking. Rep. Loudermilk (R-GA) also criticized FinCEN for failing to release the statutorily-mandated BSA review and the \$10,000 threshold review. Democrats generally defended both FinCEN and Treasury's AML and CFT regimes, although Rep. Presley (D-MA) pressed for enforcement actions related to environmental crimes such as Amazon deforestation. FinCEN Director Gacki defended the agency's work including with regard to improving BSA examination and enforcement practices, with the agency hoping to issue a rule redefining the foundations of this framework sometime this year. FinCEN also plans to revise its customer due-diligence rules later this year to take beneficial-ownership reporting into account and plans to address illicit-finance risks associated with CRE.

## Barr Sees Banking System as Strong, Liquid

In remarks [today](#), FRB Vice Chair Barr emphasized that, despite pockets of risk and CRE worries, the banking system is sound and he sees no liquidity-risk concerns across the financial system. Still, March 2023 taught hard lessons, he said, with banks since taking significant steps to reduce HTM holdings and enhance liquidity resilience. Mr. Barr also reiterated that banks need to be prepositioned for discount-window readiness, noting the need also to be prepared to use the Standing Repo Facility given possible market pressures as banks generally drain reserves in response to Fed tightening. It is interesting to note that Mr. Barr otherwise makes no reference to the more sweeping rewrite of liquidity-risk standards recently outlined by Acting Comptroller [Hsu](#). We expect this is due to his focus in the speech also on monetary policy, but it does suggest that what seemed to be an inter-agency initiative ready for action may be on a slower course or even subject to continuing agency disagreement. Asked about NBF risk specific to nonbank mortgage companies, Mr. Barr said the FRB looks generally at risks outside its perimeter, noting also hedge funds and insurance companies.

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### 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](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](#).

- **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.
- **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.