



Tuesday, February 20, 2024

Waters Fails to Muster Meaningful Democratic Capital-Proposal Protest

Late Friday, HFSC Ranking Member Waters (D-CA) [released](#) another letter from Democrats protecting the pending capital proposals. Notably, the letter from 41 Democrats includes only seven HFSC Members, making clear that most of Ms. Waters' colleagues on the committee prefer to stick with the more targeted letters they sent as formal responses to the [proposal](#). This latest letter reflects these other concerns by noting that the agencies have committed to make changes in areas such as LMI mortgages and clean-energy bonds, focusing principally on the need to toughen bank standards for the largest institutions and tighten the GSIB surcharge. That the Ranking Member was able to get so few Members in general and even fewer from her committee to support this short, general protest makes it [still more clear](#) that the agencies will need to make significant revisions at least along lines already [underway](#) to finalize these standards in anything close to proposed form.

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. [As noted](#), FRB Gov. Waller does not believe a U.S. CBDC is essential to protect the dollar or ensure payment-system development, a view clearly shared by Chair Powell and Gov. Bowman as well as Congressional Republicans. This paper supports these views, although it finds that the dollar would gain still more strength were the U.S. to allow nonbanks and/or foreign persons to access the U.S. payment system via CBDC, a move the paper rightly points out would require a change in U.S. law. In contrast, inter-operability decisions that facilitate interaction with foreign or nonbank payment systems are said to be principally a technical – not legal – challenge. However, this too would strengthen the dollar's dominance. A U.S. CBDC that meets the Fed's goals of protecting privacy and preventing AML/CFT violations adds friction that might reduce CBDC uptake. Account balances would also have a significant impact on the international appeal of a U.S. CBDC, with positive interest payments also likely to increase CBDC's appeal as a store of value. Other decision points affecting a U.S. CBDC's impact include whether other major nations with trusted rule of law adopt CBDCs, progress on the G20 cross-border payment initiative, and whether growing interest in stablecoins leads to widespread adoption.

Sanders Targets BlackRock's Market Power

We will shortly provide clients with an update on Congressional reaction to the C1/Discover merger earlier today, 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. In a [letter](#) to Attorney General Garland and Assistant AG Kanter along with FTC Chair Khan, Sen. Sanders takes on BlackRock's proposed acquisition of General Infrastructure Partners (GIP) on grounds that it would give BlackRock undue power over infrastructure asset management. Focusing on a sector of the financial industry almost ignored in all the fervor against larger-bank deals, Sen. Sanders cites communications from BlackRock suggesting to Sen. Sanders that the firm fully intends to control this sector, noting that the transaction would violate the new DOJ/FTC guidelines ([see FSM Report MERGER13](#)) but allow BlackRock still greater overall dominance in asset management and risk management via BlackRock's ALADDIN platform. Although Sen. Sanders likely does not intend to do so, his letter also buttresses [GOP claims](#) that the three largest asset managers exercise de facto control over

many of the companies in which they invest. Republicans have pressed the FRB to assess the extent to which this power requires these asset managers to be rechartered as BHCs due to ownership stakes in banks, but Sen. Sanders focuses only on provisions in the new FTC/DOJ guidelines considering even minority stakes as potential antitrust violations.

Brown Presses Powell for Enforceable Ethics Standards

Senate Banking Chair Brown today [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. He thus urges the Board quickly to set penalties for transgressions, but Sen. Brown's tone towards Mr. Powell is now more conciliatory, also thanking him for his efforts so far. No deadline is set for a response, but the letter clearly lays a platform for questioning when the Fed Chair appears before Congress early next month.

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). She [opposes](#) the merger based not only on fears of an adverse impact on competition and credit-card costs, but also on its threat to financial stability. In contrast, Senate Banking Chair Brown (D-OH) takes no stand on the merger even though he goes on to [state](#) that the banking agencies should not "rubber-stamp" it as he says that they all too often do. Rep. Katie Porter (D-CA) also [opposes](#) the deal with the same vigor as Sen. Warren, saying it would be "disastrous." All of this is predictable and will have only minimal influence on initial banking-agency and DOJ consideration even though it will also give CFPB Director Chopra still more wind at his back to oppose the transaction. We expect that the Bureau's decision [last week](#) to release a high-profile report slamming big-bank credit-card costs was done in anticipation of this announcement.

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-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.
- **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.