



Wednesday, February 21, 2024

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. Solutions are partly microprudential, with Mr. Hsu again firmly rebutting actions by his Trump administration predecessors to fashion special national charters to promote fintech and digital finance. Any national charter will, he said, be founded on its merits, not any goals to enhance the national charter or achieve policy ends. Mr. Hsu also warned bank regulators to be mindful of inter-connection risk, here picking up a theme we noted was likely to be a near-term banking-agency consideration when we assess FSOC's new systemic-analytical framework ([see FSM Report SYSTEMIC98](#)). Macroprudential standards can and should come via FSOC activity/practice or firm designation, using the new protocol ([see FSM Report SIFI37](#)) to do so far more quickly than has been the case. To accelerate "thought exercises," the Acting Comptroller recommended seeking public comment and then developing systemic-risk triggers in these sectors such as the amount of cash management done by nonbanks and the scale of PE affiliated insurance activities. Under questioning, the Acting Comptroller said that hedge funds are indeed on FSOC's "radar," with Mr. Hsu saying that the Council has identified key data gaps but not going on to indicate if this is another "thought" exercise or if FSOC has any near-term plans. Mr. Hsu also reiterated his fears that cryptoassets have few legitimate purposes.

Waters Adds to Democratic CapOne/Discover Merger Opposition

Building on Democratic opposition [yesterday](#), HFSC Ranking Member Waters (D-CA) made it [clear](#) today 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. She thus called on DoJ and the banking agencies to block the acquisition, noting also that she fears that approval of this deal would sharply increase the odds of a banking system depending on only a few "megabanks."

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 SIF136](#)), 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.