



Wednesday, February 28, 2024

HFSC Dems Press for New Bank-Merger Policy

Although she issued a statement strongly opposed to the CapOne/Discover merger after it was [announced](#), HFSC Ranking Member Waters (D-CA) today led a [letter](#) instead focusing on the need for the banking agencies and DOJ to quickly issue updated merger policies. Joined by fifteen Democrats – i.e., not all HFSC minority Members – Rep. Waters does cite the pending merger as potentially problematic, but focuses on issues such as the agencies’ failure to establish financial-stability tests even though these were required by the Dodd-Frank Act ([see FSM Report FHC19](#)). The OCC’s pending merger proposal does so ([see FSM Report MERGER14](#)), but the letter sides with consumer advocates and [Sen. Warren](#) in calling the proposal unduly generous to large banks. The letter also urges the agencies to consult with the CFPB before approving any merger. It asks for timelines and other indicators of how the agencies will update policy, saying only that Democrats would like this promptly.

US Standards Complicate Transborder Personal-Financial Data Flows

The President plans later today to [issue](#) an executive order banning the transfer of sensitive data to “countries of concern” and certain persons subject to their jurisdiction. Although the White House makes clear that these standards are not to block transborder financial dataflows, it is clear from the approach [outlined](#) by the Department of Justice that certain activities – e.g., bulk transfers of personal financial data – would be blocked. However, data transfers in a manner incidental to payment processing or regulatory compliance are exempt. How this works out in practice and the extent to which stiff restrictions related to new cyber-security requirements or on genomic-data transfer via the use of cloud services or other techniques are applied to other data, including personal financial data, could significantly complicate the manner in which financial data are in fact transferred. Certain investments might also be granted overall exemption should the final rule do so. Justice’s pending ANPR will “contemplate” designating Iran, Russia, China (including Hong Kong), North Korea, Cuba, and Venezuela; clearly, commercial consequences will be most acute, especially for financial services, with regard to China.

Fed Worries About Regional-Bank Risk

Anna Kovner, Director of Financial Stability Policy Research at the New York Fed, today [outlined](#) four sources of systemic risk that worry the central bank even though the Fed still sees risks as manageable according to the analyses released last October ([see Client Report SYSTEMIC97](#)). Overall measures of liquidity stress have risen somewhat, but Ms. Kovner is most concerned about vulnerabilities at smaller banks due to lower capital resilience, large CRE exposures, and the diminished value of their deposit franchises. Although Fed and FSOC statements generally discount near-term stability worries about stablecoins, Ms. Kovner lumps them together with prime MMFs and OEFs as emerging sources of potential liquidity shocks, noting that stablecoins may be particularly problematic since they are outside the scope of the SEC’s new liquidity rules. She also cites SEC standards when it comes to Treasury-market risk, noting that new rules will have stabilizing effects but risks remain elevated due to liquidity reductions. Cybersecurity also remains a major worry, with the Fed also continuing to monitor how its balance-sheet adjustments may affect overall market function.

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.