



Thursday, February 29, 2024

FSB Says Swiss Standards, Not Its Own, Led to CS Chaos

The FSB today [released](#) the review of Swiss GSIB regulation announced after Credit Suisse's failure. Although [Swiss regulators at the time](#) indicated that CS's failure pointed to holes in the global resolution framework, the FSB reiterates its conclusion that Swiss regulation and supervision were largely at fault even though Switzerland has since decided on more stringent capital and liquidity standards than required under global minimums. While Switzerland is said to have made good progress since last March, the FSB urges still more stringent standards given UBS's new, dominant position. These include better-funded supervision, improve recovery-and-resolution protocols, and continuing reform of the Swiss deposit-insurance system. The FSB statement does not elaborate on what these changes should be and thus by inference whether resolution standards and deposit insurance in other nations might also not be ready for GSIB resolution.

Basel Tackles Private Credit, GSIB Window-Dressing

The [Basel Committee today](#) again pressed nations – clearly here focusing on the U.S. – to finalize the end-game rules as quickly as possible. The committee also for the first time targeted private credit, urging banks and supervisors to be vigilant regarding emerging risks; [as noted](#), a Fed staff report recently outlined significant bank inter-connections and systemic concerns. Basel also plans to consult on the extent to which GSIBs are window-dressing data at reporting dates to reduce surcharges, an accusation levelled in the U.S., with Basel now planning a consultation on curbing this practice along with an empirical analysis of its extent in March. Final [supervisory principles](#) will be issued following a meeting of global supervisors in late April. A discussion paper on climate-risk scenario analysis will be released in “coming months.”

FinCEN Releases New AML/CFT Hit List

FinCEN today [emphasized](#) that the new FATF [report](#) has revised countries where strategic AML and CFT measures are deficient, warning U.S. banks to take this into account – i.e., to ensure appropriate de-risking. Nations new to the list are Kenya and Namibia; nations now removed are Barbados, Gibraltar, Uganda, and the United Arab Emirates. FinCEN also emphasizes FATF's statements regarding the risk of any form of direct or indirect financing backing Russia's war in Ukraine.

CFPB Targets Bank Comparison-Shopping Posts

The CFPB today [loosed](#) another attack on bank marketing practices, arguing that key facts are omitted from credit-card and financial-product descriptions obscuring back-end fees. The new circular continues the Bureau's practice of establishing standards without a rulemaking by urging other federal and state agencies to sanction the practices it identifies. The action builds on the Bureau's digital-marketing standards ([see FSM Report FINTECH30](#)) and follows like-kind [action](#) for mortgage and real-estate transactions. Doubtless due to the CapOne/Discover merger, the Bureau also states in connection with this circular that it has found evidence of anti-competitive practices in credit-card lending, citing its recent report on higher card costs at larger [issuers](#). The Bureau says it is also developing a “consumer-facing” tool expressly for credit-card comparison shopping in addition to this new circular. We will shortly provide clients with an in-depth analysis of the circular.

Bipartisan HFSC Votes to Repeal SAB 121

At today's abbreviated [markup](#), HFSC took up H.J. Res. 109, which would repeal the SEC's Staff Accounting Bulletin 121 requiring banks to keep custody cryptoassets on balance sheet ([see FSM Report CUSTODY5](#)). Republicans generally supported the resolution, arguing that the SAB locks banks out of crypto assets, also citing GAO's [report](#) finding that SAB 121 is a rule subject to Congressional review. Democratic sponsor Rep. Nickel (D-NC) was also supportive, but other Democrats including Ranking Member Waters (D-CA) criticized the use of a CRA resolution she said would impact the SEC's ability to issue staff-level guidance in the future. Rep. Sherman (D-CA) stated that the bank regulators could disregard the SAB if they wanted to do so, warning against risks of dollar devaluation if cryptocurrencies advance. The resolution was approved by a 31-20 vote. It is likely to pass the House but faces long odds in the Senate.

HFSC Approves Secret Service Cybercrime Bill

As HFSC's markup continued today, the committee turned to Rep. Fitzgerald's (R-WI) bipartisan H.R. 7156 expanding Secret Service investigative authorities over cybercrime. Rep. Fitzgerald introduced a manager's amendment which was largely unchanged from the bill as introduced. Democrats, including co-sponsors Rep. Meeks (D-NY) and Ranking Member Waters (D-CA), of course supported the bill, which was ultimately approved by vote of 49-0.

FSB Head Ratchets Up Stablecoin Systemic Worries

In [remarks](#) today, FSB Chair Klaas Knot discussed market developments in cryptoassets, suggesting that renewed market interest in stablecoins by bigtechs and financial institutions could have systemic implications. Echoing recent comments by [Acting Comptroller Hsu](#), he also said that multifunction crypto-asset intermediaries (MCIs) lack proper governance, amplifying financial system vulnerabilities. Mr. Knot calls FSB's regulatory framework ([see FSM Report CRYPTO34](#)) a global baseline requiring consistent global implementation; the FSB is working with other standard-setting bodies such as IOSCO, the IMF, and FATF to promote implementation beyond FSB membership. He also notes FSB's ongoing work in addressing cross-border regulatory challenges with EMDEs and states that FSB is in the early stages of assessing the financial stability implications of tokenization.

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.