



FedFin Weekly Alert

Monday, March 4, 2024

❑ A CENTRAL BANK VERY MUCH IN THE MIDDLE

As always, we will provide clients with in-depth analyses after Chair Powell comes before Congress later this week to face the usual fusillade of political inquiry along with policy questions. As [before](#) (see [Client Report FEDERALRESERVE74](#)), Mr. Powell will face hard questioning from Republicans on the pending capital rules, with many now trying to pin him down on likely changes and the extent to which Mr. Powell's promise of consensus before a final [rule](#) still holds. A lot of questions will also come from both sides of the aisle on bank mergers, with House Democrats demanding a new merger [policy](#), Sen. Warren (D-MA) trying to get Mr. Powell to signal disapproval of the CapOne/Discover [deal](#) – he won't, and Republicans trying to get Mr. Powell to say that deals such as this one must get done to ensure regional-bank survival – again, he won't. We also expect a new grilling from the GOP on Fed [emergency-liquidity powers](#), along with continuing questions on climate risk, [CBDC](#), and the quality of bank supervision. The fate of NYCB by the time of the hearing will also be a major preoccupation on both sides of the aisle even if bad doesn't immediately go to worse. Democrats will try to shore up CBDC but many are also troubled by emergency-liquidity [powers](#). All sides will of course take much of the hearing's bandwidth by pushing Mr. Powell to go one way or the other on fiscal policy, interest rates, inflation, the Fed's portfolio, and its relations with other global central banks. At the end of two wearying days, we'll not sure what any of us will have learned, but we'll be sure to highlight what we glean in our reports.

Headlines From the Past Week's Daily Briefings

[February 26](#)

- **BIS: More Bank Competition Leads to Increased Credit Risk** - A new BIS [paper](#) looks at a question critical to the debate over bank-merger policy: the extent to which competition drives bank risk-based pricing decisions in corporate lending and, by extension, other credit markets.
- **OCC Proposes Changes to FOIA Procedures** - The OCC proposed several [changes](#) to its FOIA procedures, including allowing expedited processing requests and appeals of denials of these requests and those for fee waivers.
- **Warren, Progressives Expand Blast on CapOne/Discover Deal to Encompass OCC Merger Proposal** - Following other Democratic [attacks](#) on the CapOne/Discover merger and her [own](#), Sen. Warren (D-MA) continued her challenge in a [letter](#) also signed by twelve House Democrats.

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- **CFPB Takes Precedent-Setting Step Bringing Nonbanks Under Supervision** - The CFPB [released](#) its first contested finding that a nonbank is subject to its supervision following the establishment in 2022 of a process for bringing nonbanks under its supervisory wings ([see FSM Report CONSUMER44](#)).
- **Senate Republicans Introduce Anti-CBDC Bill** - Sen. Cruz (R-TX) alongside Sens. Hagerty (R-TN), Scott (R-FL), Budd (R-NC) and Braun (R-IN) [introduced](#) a bill to prohibit the Fed from directly or indirectly issuing a CBDC or even using CBDC as a monetary-policy tool.

February 27

- **Barr Presses for Counterparty-Risk Management** - FRB Vice Chair Barr [called](#) for large banks to ensure that counterparty exposures are well managed according to actions he describes, announcing no new Fed initiatives in this arena.
- **FSB Cites SEC MMF Global Leadership** - The FSB [released](#) its thematic peer review report on MMF reforms, generally finding that global progress on its 2021 MMF rule ([see FSM Report MMF18](#)) has been inconsistent across jurisdictions.
- **Fed Staff: Private Credit Poses Banking, Insurance, Systemic Risk** - Reflecting concerns most recently expressed by [Acting Comptroller Hsu](#) and FSOC ([see Client Report FSOC29](#)), the Fed's new staff paper on [private credit](#) contains not only a taxonomy about this fast-growing sector, but also a warning of emerging systemic risk.
- **HFSC Mark-Up Includes Partisan Measures and Crypto, Capital, Systemic Proposals** - The [agenda](#) released for HFSC's mark-up includes numerous bills designed to achieve GOP objectives with agencies such as the CFPB, FinCEN, and HUD.
- **Bowman Also Worries About New Liquidity Regs** - Expanding her focus now to liquidity regulation, FRB Gov. Bowman [pushed back](#) against the revisions outlined by Acting Comptroller [Hsu](#) and perhaps even the more modest agenda outlined by Vice Chair [Barr](#).
- **GOP Tries a New Tack to Quell Asset-Manager ESG Voting** - Continuing the GOP campaign to curb asset-management [ESG activities](#), House Oversight Committee Chair James Comer (R-KY) [attempted](#) to force the Fed's hand in making a decision about whether asset managers are no longer passive investors and thus could be considered BHCs or trigger changes in control for their influence voting bank stock.

February 28

- **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) led a [letter](#) instead focusing on the need for the banking agencies and DOJ to quickly issue updated merger policies.

- **US Standards Complicate Transborder Personal-Financial Data Flows** - The President plans to [issue](#) an executive order banning the transfer of sensitive data to “countries of concern” and certain persons subject to their jurisdiction.
- **Fed Worries About Regional-Bank Risk** - Anna Kovner, Director of Financial Stability Policy Research at the New York Fed, [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](#)).

[February 29](#)

- **FSB Says Swiss Standards, Not Its Own, Led to CS Chaos** - The FSB [released](#) the review of Swiss GSIB regulation announced after Credit Suisse’s failure.
- **Basel Tackles Private Credit, GSIB Window-Dressing** - The [Basel Committee](#) again pressed nations – clearly here focusing on the U.S. – to finalize the end-game rules as quickly as possible.
- **FinCEN Releases New AML/CFT Hit List** - FinCEN [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.
- **CFPB Targets Bank Comparison-Shopping Posts** - The CFPB [loosed](#) another attack on bank marketing practices, arguing that key facts are omitted from credit-card and financial-product descriptions obscuring back-end fees.
- **Bipartisan HFSC Votes to Repeal SAB 121** - At the 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](#)).
- **HFSC Approves Secret Service Cybercrime Bill** - As HFSC’s markup continued, the committee turned to Rep. Fitzgerald’s (R-WI) bipartisan H.R. 7156 expanding Secret Service investigative authorities over cybercrime.
- **FSB Head Ratchets Up Stablecoin Systemic Worries** - In [remarks](#), 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.

[March 1](#)

- **Fed Emergency Powers Back on Senate Docket** - Just before the Senate passed the stopgap bill to avert a shutdown, Sen. Paul (R-KY) forced a vote on an amendment to prevent the Fed from buying debt from states and municipalities.

- **DOJ Goes After “Gate-Keepers”** - In [remarks](#), Assistant AG Jonathan Kanter highlighted the impact of new DOJ/FTC guidelines ([see FSM Report MERGER13](#)) and enforcement efforts with regard to “gate-keepers” – i.e., “monopoly chokepoints” so powerful that they control entry and pricing in a key sector in which they also often compete.
- **Fed Seems a Bit Warier of Banking-System Stress** - The Fed monetary-policy [report](#) submitted ahead of Chair Powell’s testimony includes a financial-stability analysis largely derived from the FRB’s most recent financial-stability report ([see Client Report SYSTEMIC97](#)) and the update provided by a key FRB-NY [official](#).
- **White House Steps in to Comfort NYCB Worries** - At close of business, NYCB shares had sunk to levels not seen since 1997 following the release of still more bad news.

This Week

Wednesday, March 6

SEC Open Meeting. [9:45 am, webcast]. Matters to be discussed: disclosure of order execution information for national market system stocks; and the enhancement and standardization of climate-related disclosures for investors.

HFSC Hearing entitled: “The Federal Reserve’s Semi-Annual Monetary Policy Report.” [10:00 am, 2128 RHOB]. Witness: **The Honorable Jerome H. Powell**, Chairman, Board of Governors of the Federal Reserve System.

Thursday, March 7

Senate Banking Executive Session. [9:40 am, Dirksen Senate Office Building 538]. Nominee: **Dr. Ron Borzekowski**, of Maryland, to be Director, Office of Financial Research, Department of the Treasury.

Senate Banking Hearing entitled: “The Semiannual Monetary Policy Report to the Congress.” [9:40 am, Dirksen Senate Office Building 538]. Witness: **The Honorable Jerome H. Powell**, Chairman, Board of Governors of the Federal Reserve System.

HFSC Subcommittee on Financial Institutions and Monetary Policy Hearing entitled: “Politicized Financial Regulation and its Impact on Consumer Credit and Community Development.” [10:00 am, 2128 RHOB]. Witnesses: TBD.

Future Events of Note

Wednesday, March 20

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Treasury's Federal Advisory Committee on Insurance Open Meeting. [1:30, webcast]. Matters to be discussed: climate-related financial risk and the insurance sector; cyber insurance developments and international insurance issues. The FACI will also receive status updates from each of its subcommittees and from FIO.

Tuesday, April 9

Senate Judiciary Hearing on credit card fees. [10:00 am, Dirksen Senate Office Building room G50].

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.