



FedFin Weekly Alert

Monday, April 1, 2024

Federal Financial Analytics' weekly report will be abbreviated this week due to Easter holiday. In-depth analyses of weekly developments and Karen Petrou's memo will resume on Monday, April 8.

Headlines From the Past Week's Daily Briefings

March 25

- **House GOP Resolution Challenges FSOC Designation Guidance** - HFSC Vice-Chairman Hill (R-AR) [introduced](#) H.J. Res 120 to disapprove of FSOC's guidance on nonbank financial company systemic designations ([see FSM Report SIFI36](#)).
- **Hsu, Cook Warn Banks re AI Fair-Lending Risk** - Acting Comptroller Hsu [stressed](#) the importance that banks understand their use cases for AI and utilize it in a controlled manner, reiterating longstanding agency concerns about bad learning models leading to credit discrimination ([see FSM Report AI](#)).

March 26

- **CBO Flags Long-Term Fiscal Risk to Financial Stability** - CBO's latest long-term fiscal forecast now [includes](#) a financial-stability warning absent from the Fed's recent analysis ([see Client Report SYSTEMIC97](#)) and FSOC's annual report ([see Client Report FSOC29](#)): the rising U.S. debt burden.
- **Chopra Expands CFPB Attack to Card Rewards** - Undaunted by a CBA audience suing him on many actions, CFPB Director Chopra gave a rousing defense of his agency's credit-card late fee rule ([see FSM Report CREDITCARD37](#)), making clear he will vigorously defend it in the courts.
- **CFPB/FTC Press for More Tech-Finance Enforcement** - Building on the Bureau's recent efforts to limit AI use in comparison-shopping and other consumer-finance applications ([see FSM Report CONSUMER56](#)), the CFPB [joined](#) the FTC in issuing a statement coordinating federal and state enforcement efforts against generative AI in particular and digital consumer finance products more generally.

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- **HFSC, AG Republicans Press SEC on Crypto-Custody Standards** - HFSC Chair McHenry (R-NC) and House Ag Chair Thompson (R-PA), alongside 46 Republican members sent a [letter](#) to SEC Chair Gensler calling for clarification the position on special purpose broker dealer's (SPBD) ability to custody non-security digital assets, the agency's willingness to address SPBD non-compliance, the regulatory classification of ETH, and the SEC's position regarding Prometheus's custody services announcement.

March 27

- **FRB-Cleveland Study: Banks Beat Capital-Rule Reaper** - One of the major complaints banks have raised with the pending end-game capital rules is that the proposed transition period for final implementation does not soften the blow as the agencies argue.
- **Treasury Points to AI Fraud, Cyber Risk; Presses for New Rules, Best Practices** - Adhering to the President's AI executive order ([see Client Report AI3](#)), Treasury [assessed](#) AI risk in the financial sector, concluding that further work is required to address AI-related fraud and cybersecurity risks.
- **FRB-NY: Mid-Size Regionals Show Deposit/Asset Recovery** - A new [report](#) from Federal Reserve Bank of New York staff finds that the 2023 failures had little lasting impact on bank deposit costs and funding practices save for banks between the \$50 to \$250 billion level the study dubs "super-regionals."
- **KC Fed: Core-System Providers May Have Undue Market Power** - A new [report](#) from Kansas City Fed staff finds that three core-system providers dominate this critical sector, making it difficult for depository institutions and especially smaller banks to obtain better service levels.

March 28

- **House GOP Resolution Challenges CFPB Credit-Card Late-Fee Rule** - As [promised](#), the GOP resolution to overturn the CFPB's credit-card late-fee rule has now been introduced ([see FSM Report CREDITCARD37](#)).
- **FinCEN Advances Limited KYC Reform** - Acting on its longstanding [promise](#), FinCEN in consultation with banking agency and NCUA staff [issued](#) a RFI examining new KYC approaches, including permitting banks to collect partial SSN information directly from the customer backed by third-party sources that provide full SSN prior to account opening.
- **BIS: Statement Revisions Augur Greater Bank Risk** – Doubtless reflecting Credit Suisse's failure, the BIS [released](#) a study on risk information derived from pre-publication revisions to bank financial statements sent to supervisors, finding that the frequency of revisions is highly correlated with a bank's subsequent CAMELS rating downgrade, higher future average probability of borrower default, and greater distance to default score.

March 29

- **Treasury, FinCEN Pulled Into Firearm MCC Fray** - Following her December [letter](#) to major payment networks, Sen. Warren (D-MA) and Rep. Dean (D-PA) lead 31 Democratic lawmakers [urging](#) Treasury, FinCEN, and the banking agencies to issue clear guidance instructing financial institutions and payment-card networks to implement the new Merchant Category Code (MCC) for firearm and ammunition retailers.

This Week

Tuesday, April 2

Karen Petrou will be speaking at the Federal Reserve Bank of Kansas City's Workshop on the Future of Banking at 2:15 EDT. A livestream link will be made available.

Future Events of Note

Wednesday, April 10

HFSC Hearing about the SEC's climate disclosure rule. [TBD].

Wednesday, April 24

FTC Informal Junk Fee Hearing. [10:00 am, webcast]. Witnesses: TBD.

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-032924](#): Following FSOC's fulminations about nonbank mortgage companies, FHFA in 2023 heightened its supervisory standards mandating GSE prudential governance of eligible seller servicers.
- [MERGER15](#): Following its 2022 request for input, the FDIC has released a formal proposal that would redefine the agency's bank-merger policy into one that will make it difficult for all but the smallest and simplest transactions within its jurisdiction to have the clear prospects for approval usually necessary in non-emergency transactions, subjecting other M&A applications to protracted review with a high likelihood of denial.
- [REFORM231](#): HFSC's hearing on global governance featured [expected](#) Republican attacks on what they called the opaque nature of U.S. interactions with international organizations, with

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Chairman McHenry (R-NC) promoting a draft bill requiring regulators to report dealings with global standard-setting groups to Congress.

- [GSIB24](#): Reflecting concerns expressed about banks that window-dress key regulatory data as the post-crisis framework took shape, the Basel Committee has now issued a request for views on how to prevent this when it comes to GSIB calculations related to their surcharge or possible designation.
- [GSE-031524](#): If it wasn't clear before that the CFPB's [blog post](#) targeting "junk" mortgage fees meant business, NEC Director Brainard's [comments](#) endorsing it brought this on home.
- [CREDITCARD37](#): Following a very controversial proposal, the CFPB has finalized credit-card late-fee restrictions in a final rule that does not differ significantly from the proposal on its key point: elimination of the manner in which inflation adjustments are now made by credit-card lenders when it comes to late fees.
- [GSE-031224](#): The President's [FY25 budget](#) picks up FHFA's [recommendations](#), calling for statutory change to double the System's affordable-housing commitment.
- [FEDERALRESERVE75](#): As [expected](#), Republicans took turns grilling Chair Powell on the Basel III endgame proposal and calling for its withdrawal, and were likely pleased with the results.
- [CONSUMER56](#): The CFPB has issued a circular essentially banning digital and perhaps all other consumer-finance comparison-shopping and lead-generation tools for credit cards and other products not covered by prior orders.
- [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](#).