



Monday, March 4, 2024

BIS Targets Prime-Broker Risk

The BIS quarterly [review](#) contains an assessment of the risk prime brokers may pose both to GSIBs and financial stability. This sector has long been a concern of central bankers and risk [managers](#), but the BIS analysis is the first in recent years to quantify it and decompose key risk drivers (e.g., wrong-way risk) to conclude that the inter-connections between hedge funds and prime brokers are a source of systemic instability and potential hazard to banks as evidenced all too clearly last year at Credit Suisse. These risks are of course also a key part of the Fed's new exploratory stress-test related to hedge funds ([see Client Report STRESS32](#)). Wrong-way risk arises from the confluence of higher credit-risk exposures as hedge-fund counterparty position deteriorates, opacity (38 percent of hedge-fund assets are not valued), and the ability of banks to cover risk-management concerns to keep major customers. The paper thus calls for a tougher risk-management stand at prime-broker banks and heightened international supervisory cooperation.

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.