



Thursday, March 7, 2024

## **HFSC GOP Press Discount-Window Reform, Slow-Go on Liquidity Risk**

Building on questioning at a recent HFSC hearing ([see Client Report LIQUIDITY34](#)), Financial Institutions Subcommittee Chair Barr (R-KY) led all Republican members of his subcommittee in a [letter](#) to Chair Powell, Chair Gruenberg, and Acting Comptroller Hsu urging them to address stigma and operational issues associated with the discount window. Although the letter thus far could have been signed by most, if not all, subcommittee Democrats, it goes on to say that any [changes](#) to liquidity risk management should be done transparently and collaboratively with detailed qualitative and quantitative analysis. Any such rule should also consider the interplay with proposed changes to the regulatory capital framework. No response is requested.

## **Powell Reiterates: Capital Rules Will Change**

Today's Senate Banking hearing with Chair Powell covered much of the same ground as the Chair's appearance before HFSC ([see Client Report FEDERALRESERVE75](#)) with Democrats focusing on housing affordability and Republicans expressing their satisfaction with Mr. Powell's statement that the Basel III proposal may have to be withdrawn and re-proposed. In opening statements, Chairman Brown (D-OH) continued his [call](#) for the Fed to lower interest rates to address housing and warned against the risks of keeping rates too high for too long. Sen. Brown also attacked corporations for what he called "price gouging" and urged regulators to "remain committed" and finalize the Basel III endgame proposal. Ranking Member Scott (R-SC) blamed Bidenomics for inflation and said he was "pleasantly surprised" by Chair Powell's comments on the Basel III proposal yesterday, a sentiment echoed by many of his Republican colleagues. In Q&A, Sen. Warren (D-MA) was most direct in her attacks against Chair Powell, calling him "weak-kneed" for backtracking on the capital proposal. Sen. Vance (R-OH) asked if the agencies would consider increasing the capital threshold in the Basel proposal from \$100 billion to \$700 billion; Mr. Powell would not commit to any specific changes, again reiterating that the Federal Reserve Board is beginning to discuss changes. When asked about the state of housing affordability, Mr. Powell reiterated that, while the housing market would likely see some relief from interest rate cuts, the underlying national housing supply shortage remains. When asked about plans for a CBDC by Sens. Cramer (R-ND) and Lummis (R-WY), Mr. Powell stated that there are no plans to introduce a CBDC any time soon and reiterated that the Fed would not introduce CBDC without congressional authorization. Chairman Brown asked Mr. Powell if trading rules for Fed board members would be finalized within the next six months; Mr. Powell said he expects them to be completed by then. Chairman Brown also asked about the steps taken by the Fed to address its supervision shortcomings since SVB; Mr. Powell stated the Fed is "working hard to develop a new rule book and practices." When asked by Sens. Warner (D-VA) and Lummis about shadow bank migration, Mr. Powell stated that NBFIs do not carry bank-like run risks, but emphasized the need for monitoring. The rest of the hearing covered topics well-worn in yesterday's HFSC hearing, including CRE risk which Mr. Powell again called manageable despite potential bank failures, the need to modernize the discount window and reduce stigma, the pending LTD proposal, and the Fed's role in climate risk.

## **House Judiciary Now Says 12 Large Banks Colluded with FinCEN**

Prior to the House Judiciary's Select Subcommittee on the Weaponization of the Federal Government hearing today on large bank "collusion," the subcommittee yesterday [published](#) a report finding that FinCEN and the FBI engaged in backchannel discussions with large financial institutions to gather private financial data. The report expands upon previous [allegations](#) by the committee that Bank of America voluntarily

provided sensitive transaction information related to the January 6<sup>th</sup> protests without legal process, now also accusing other large banks and financial institutions naming USB, Schwab, HSBC, Chase, PayPal, MUFG, Citi, Wells Fargo, Barclays, KeyBank, Standard Chartered, Western Union, and Santander. The report also states that FinCEN provided “politicized materials” that cast conservative perspectives and lawful purchases as suspicious and encouraged surveillance through measures such as providing suggested search terms such as “MAGA” and “Trump.” The committee also states that larger questions remain on how the information shared was acted upon and the ongoing extent of surveillance.

## BCBS Proposes GSIB Window-Dressing Revisions

As anticipated, the Basel Committee on Banking Supervision today [released](#) a consultation on revisions to the GSIB assessment framework concerning window dressing. We will shortly provide clients with an in-depth analysis of the report. The proposed revisions have an implementation date of January 1, 2027 with a transitional period starting on January 1, 2026; comment is due by June 7.

## House Republican Targets Interest on Reserves

Following up on yesterday’s HFSC hearing ([see Client Report FEDERALRESERVE75](#)), Rep. Davidson (R-OH) has introduced legislation (H.R. 7562) to prevent Federal Reserve Banks from paying interest on excess reserves. The bill is unlikely to advance.

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### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [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](#).
- [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.