



## Global Regulators Tackle NBF Margining, Collateral Transformation

As it has long [promised](#), the FSB today [issued](#) a consultation on standards designed to buttress derivatives, commodity, and securities-financing markets under stress through more stringent margining and collateral requirements. We will review the principles in detail and provide clients with an in-depth analysis, focusing in particular on how these standards could reduce the systemic risks evident in 2020, following Archegos, and again in the midst of the Ukraine invasion in 2024. Although the standards focus on end-users such as insurance companies and hedge and pension funds, several requirements also affect financial intermediaries. Comment is due on June 18.

## Basel Head Says Go Slow re AI Risk, Supervisory Models

Basel's Secretary General, Pablo Hernández de Cos, [today](#) focused on AI's risk-reward profile in the banking sector, concluding that it raises a series of profound questions global regulators must work cooperatively to address. He is most concerned with prudential questions, noting that no one has seen how AI performs throughout a full financial cycle and growing reliance on AI underwriting and supervisory models not likely to fare better than ordinary models given known cognitive limits and potential biases. Third-party risks are also considerably higher when banks rely on opaque models AI or other systems, a risk also raised by the [Federal Reserve](#), [OCC](#), and [CFPB](#).

## Lummis, Gillibrand Begin Senate Stablecoin Debate

As long anticipated, Sens. Lummis (R-WY) and Gillibrand (D-NY) today introduced a significantly revised version of their 2022 Bill ([see FSM Report CRYPTO28](#)) laying out U.S. stablecoin standards. Although the senators describe their new approach as a "[landmark](#)" bill, we view it as a set of proposals that will be addressed following HFSC bipartisan agreement on stablecoin legislation (reportedly near) and Banking Committee Chair Brown's (D-OH) views on what he wants in a Senate measure. He will surely agree with the bill's generic prohibition on algorithmic stablecoins, but likely balk at expanding FHC powers in the crypto arena or repealing the SEC's custody accounting bulletin ([see FSM Report CUSTODY5](#)). Like Ranking Member Waters (D-CA), Sen. Brown may also oppose provisions allowing for state stablecoin legislation – key to Wyoming – on grounds that it permits regulatory arbitrage despite changes in this bill meant to limit this risk. The idea of FDIC receiverships for stablecoin issuers raises thorny issues about threats to the DIF if these entities do not pay premiums and if the reserve-asset provisions in the bill are less demanding than the FDIC would find necessary for no-cost resolution. Sen. Brown has also already [signaled](#) that he wants tougher provisions addressing illicit finance and Sen. Warren (D-MA) [opposes](#) any form of stablecoin legislation on grounds that it puts banks at undue risk.

## FIO Subpoena Power Faces Rollback

At HFSC's mark-up today, the committee began with Rep. Fitzgerald's (R-WI) Insurance Data Protection Act, H.R. 5335, which would repeal the Federal Insurance Office's authority to subpoena insurance companies for data collection. Rep. Fitzgerald introduced a manager's amendment which was largely unchanged from the bill as introduced. Ranking Member Waters (D-CA) opposed, calling it a "regressive step" that would increase blindspots in the insurance industry, while Rep. Casten (D-IL) warned of the potential knock-down effect when insurance companies exit certain markets due to climate change. Rep.

Beatty (D-OH) introduced an amendment to allow the FIO to subpoena insurance information if the Treasury Secretary deems it necessary for national security voted down in a voice vote but held over for a recorded vote. The bill looks likely to pass by a narrow margin along party lines.

## HFSC Likely to Pass RegTech Bill

At HFSC's extended mark-up today, the committee turned to H.R. 7437, a bipartisan bill that would require federal banking regulators to regularly review and report to Congress on their use of technology to ensure they're equipped to address threats to the financial system. Rep. Houchin (R-IN) introduced a manager's amendment largely unchanged from the bill as introduced. Although Democrats generally supported the bill and Ranking Member Waters (D-CA) called it a step in the right direction, the Ranking Member also stated that changes to the bill were required related to DEI considerations and introduced an amendment to collect data and incorporate language related to DEI and assess the risk of new technology systems. This sparked extended debate and a tense exchange between the Ranking Member, Rep. Beatty (D-OH), and Chairman McHenry (R-NC), but the amendment failed in a voice vote and was held over for a recorded vote. The bill is expected to pass.

## HFSC Set to Pass AOCI Recognition, Systemic-Risk Designation Study Measures

Continuing our coverage of today's mark-up, HFSC was generally supportive of the two bills on the agenda from Democrats, H.R. 4206 from Rep. Sherman (D-CA) requiring large banks with available for sale securities to mark to market their real value, and H.R. 4116 from Rep. Green (D-TX) requiring the GAO and the relevant regulatory agencies to issue reports after invoking a systemic risk exception. Both Members introduced manager's amendments largely unchanged. Financial Institutions Subcommittee Chair Barr (R-KY) commended Rep. Sherman's bill for being responsive to lessons learned from SVB and Signature Bank's failures, a sentiment echoed by Chair McHenry (R-NC); the bill passed in a voice vote but was held over for a recorded vote. Chair McHenry praised Rep. Green's bill, encouraging members to support it and advocating for more transparency from regulators; the bill also passed by a voice vote but was also held over for a recorded vote.

## HFSC Partisan Fight Continues Over Earned Wage Access Bill

HFSC today also turned to H.R. 7428, Rep. Steil's (R-WI) controversial earned-wage access bill. Rep. Green (D-TX) stated that Rep. Steil's manager's amendment had "unintentional mistakes" and was unenforceable, resulting in the substitute being treated as a first-degree amendment. Democrats strongly opposed the bill, stating that it carves a loophole for predatory payday loan-like products and avoids TILA consumer protections; Rep. Steil countered that workers already earned the money advanced to them and there are free EWA options. Rep. Green nonetheless introduced an amendment to strike the bill text and direct the CFPB to clarify EWA's product status and apply consumer protection laws, a recorded vote on the amendment was requested. The bill itself is also subject to a recorded vote, with party-line passage likely and a rocky road ahead for enactment.

## McHenry Sandbox Bill Faces Anticipated Democratic Attack

As the mark-up continued, HFSC turned to Chairman McHenry's Financial Services Innovation Act, H.R. 7440, allowing "sandboxes" for "innovative" financial products. The Chairman offered a manager's amendment that became a first-degree amendment following a procedural objection from Ranking Member Waters (D-CA). The bill also drew strong substantive opposition from Democrats, with Rep. Lynch (D-MA)

questioning its constitutionality, calling it one of the worst pieces of legislation he's ever seen, and referring to it as an industry bill. Rep. Lynch also offered multiple amendments; the first, which was approved by voice vote but held over for a recorded vote, strikes a provision that would prevent enforcement actions from agencies that are not parties to the enforceable compliance agreements created following an agency's approval of a petition. The second would prohibit the approval of a petition that uses non-explainable data or tools but was voted down in a voice vote and held over for a recorded vote. Rep. Beatty (D-OH) proposed to strike the bill text and replace it with text requiring regulatory agencies to prepare an assessment regarding the process and resources required to create financial services innovation offices as also outlined in Mr. McHenry's bill, defeated in a voice vote but held over. Rep. Casten (D-IL) proposed an amendment to ensure the bill adheres to the Bank Secrecy Act, which Chairman McHenry praised; it and passed in a voice vote. The bill is unlikely to receive bipartisan support, but will likely be reported.

## **GOP Resolution Advances to Reject Card-Fee Reg**

As anticipated, HFSC has now turned to H.J. 122, the CRA resolution repealing the CFPB's credit-card fee standards ([see FSM Report CREDITCARD37](#)). Republicans led by Financial Institutions Subcommittee Chair Barr (R-KY) supported the resolution, renewing many past critiques of the rule; Democrats including Ranking Member Waters (D-CA) opposed the resolution on grounds often frequently mentioned in both the CFPB's and rule's defense as anti-consumer and praised the CFPB's regulations, sparking debate between the Ranking Member, Rep. Sherman (D-CA), and Rep. Barr. The resolution ultimately passed by a voice vote but was held over for a recorded vote, following which Rep. Sherman withdrew his request for a recorded vote for H.R. 4206, his bill to require large banks with available for sale securities to mark to market their real value.

## **HFSC Advances GOP Efforts to Repeal SEC, Banking Climate Standards**

The HFSC mark-up today also focused on GOP efforts to overturn climate standards from the SEC and banking agencies. H.J. Res. 127 from Rep. Huizenga (R-MI) targets the SEC climate disclosure rule, with Senate Banking Republicans today introducing a like-kind [resolution](#). Arguments predominantly concerned the SEC rule's materiality standards, although Ranking Member Waters (D-CA) used the opportunity to criticize Mr. Trump's presumed plans to redesign the EPA. The mark-up also voted on resolutions from Rep. Fitzgerald (R-WI), Houchin (R-IN), and Donalds (R-FL) overturning interagency guidance for large bank climate-risk principles, which were considered en bloc. Republicans criticized the agencies for regulatory overreach; the Ranking Member once again defended the rule. All of the resolutions were sent for a recorded vote after having passed by voice vote. None of these resolutions are likely to advance in the Senate and will be vetoed should they do so.

## **HFSC Expected to Advance Resolution Overturning FSOC's SIFI Designation Guidance**

Continuing HFSC's marathon mark-up, the committee now turned to H.J. Res. 120, the CRA resolution to overturn FSOC's guidance on nonbank financial company designation ([see FSM Report SIFI36](#)). Republicans unsurprisingly supported Rep. Hill's (R-AR) resolution, with Mr. Hill taking issue with FSOC's approach to addressing systemic risk. Democrats predictably opposed the resolution, with Ranking Member Waters (D-CA) noting that the guidance replaces Trump-era, harmful standards. The resolution passed by voice vote but was held over for a recorded vote. It should narrowly pass but fail to advance in the Senate.

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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](#).

- **GSE-041724:** Just as the CFPB readies its assault on [cashout-refi discount fees](#) comes FHFA's [request](#) for views on a new Freddie Mac product that would give borrowers access to their locked-up equity without a new first lien at a higher rate or a traditional home-equity second riding piggyback atop the first lien.
- **RESOLVE51:** In its first public statement since 2013 about how it would execute an SPOE resolution ([see FSM Report RESOLVE23](#)), the FDIC yesterday released a [report](#) Chair Gruenberg [described](#) as demonstrating the FDIC's readiness to resolve a U.S. GSIB and the process it has developed for doing so under the orderly liquidation authority (OLA) provided in the Dodd-Frank Act ([see FSM Report SYSTEMIC30](#)).
- **GSE-041024:** *Bloomberg today* reports that the CFPB may simply ban consumer payment for lender title insurance.
- **AML137:** Senate Banking Committee's Hearing with Deputy Secretary Adeyemo reviewed the Administration's request for additional digital asset AML/CFT authority.
- **GSE-040824:** It wasn't hard for us to forecast that, after NEC Director Brainard [endorsed](#) CFPB Director Chopra's jihad against mortgage "junk fees," that the discount points that received particular opprobrium would be moved up the priority ladder for federal restriction.
- **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:** Today's HFSC hearing on global governance featured [expected](#) Republican attacks on what they called the opaque nature of U.S. interactions with international organizations, with 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.

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