



Thursday, May 9, 2024

Crypto-Custody Battle Back in Bank Regulators' Laps

The House yesterday voted 228-182 to approve H.J. Res. 109, a GOP motion under the Congressional Review Act to revoke the SEC's Staff Accounting Bulletin 121 requiring additional disclosures and balance-sheet recognition related to cryptoasset custody ([see FSM Report CUSTODY5](#)). Notably, HFSC Ranking Member Waters (D-CA) [said](#) that, while she strongly opposed the resolution as a whole, she had no objection to Congressional action focusing only on balance-sheet treatment related to custody banks. Going beyond this fix also to overturn the SAB as a whole would, she said, block essential disclosures and put end-users at risk when a crypto custodian is not a bank. HFSC Chair McHenry (R-NC) strongly [defended](#) the resolution, which now goes to the Senate. Although 21 Democrats joined Republicans in approving the resolution, passage in the Senate is uncertain. Should it occur, the White House yesterday [made clear](#) that a veto will follow. Regulatory relief for custody banks is possible now that the agencies know that legislation will not permit them to skirt this debate.

GOP Tries to Place Gruenberg Blame on President Biden

Late yesterday, the GOP leadership of the House Oversight Committee sought to escalate the political focus on FDIC Chair Gruenberg, [writing](#) to the White House to demand all communications with Mr. Gruenberg and others related to workplace conduct. The release accompanying the [letter](#) prominently features the President's pledge to root out all federal employees who tolerate or engage in workplace violations, asking how this comports with Mr. Gruenberg's leadership and what the White House knew of it. Answers are due by May 22, although we do not expect a prompt response from the White House. [As before](#), we think Mr. Gruenberg's fate lies in the outcome of next week's hearings.

Brown, Scott Take Usual Stand on "Junk," Credit-Card Fees

Today's Senate Banking Hearing focused on "junk fees." Chair Brown (D-OH) said that junk fees make a "mockery" of free and fair markets; Ranking Member Scott (R-SC) accused Democrats of making junk fees scapegoats instead of inflation and economic harms caused by Bidenomics, which he referred to as "Brokenomics."

Waters Focuses on FDIC Report, Not Gruenberg

Without directly supporting FDIC Chair Gruenberg, HFSC Ranking Member Waters (D-CA) today [pointed](#) to aspects of the Cleary report that focus narrowly on Mr. Gruenberg rather than all recent FDIC Chairs. The Ranking Member highlighted several workplace-related shortcomings that occurred under former Chairs McWilliams and Bair that she claims the report "completely ignores," arguing that their absence does a disservice to FDIC employees and may "impede the public understanding" of the problems at the FDIC. Ms. Waters called the report "troubling" and urged Mr. Gruenberg and the FDIC board to take action to address the report's recommendations and improve its workplace culture.

CFPB Heightens Attack on Credit Card Rewards

At today's CFPB-DoT hearing on credit card rewards, Director Chopra [indicated](#) that the agency will protect points against currency devaluation, stop "bait and switch" scams, examine exclusive deals, and promote interest rate competition. He called rewards such as frequent flyer miles a perk that has become a multi-

billion dollar currency market using miles and points, and said the CFPB and DoT will be “working closely together.” In conjunction with today’s remarks the CFPB [issued](#) a new report on credit card rewards finding that, in addition to point devaluation and “bait and switch,” consumers encounter issues redeeming benefits. The CFPB will continue to monitor these programs and “will take necessary action on these issues as appropriate.”

Climate Scenarios Show Significant Challenges

At close of business, the Federal Reserve [released](#) the results of the climate risk exploratory stress test imposed on six of the largest banks. The scenario analysis has no capital consequences, with the Fed concluding that they show wide variation in methodologies that identified data gaps and modeling deficiencies. The report does not indicate whether the Fed plans another round of exploratory climate stress tests, but it seems likely that that will be the case given these results. Republicans view these climate stress tests as an inappropriate intrusion of political priorities on the supervisory process and are sure to criticize not just these results but also any additional stress testing. Legislation will be taken up next week in HFSC to ban these scenario analyses.

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](#).

- **[MERGER16](#)**: At today’s HFSC Financial Institutions Subcommittee hearing on bank mergers, Democrats said that larger mergers pose numerous risks while Republicans criticized the application-and-approval process as opaque and time-consuming.
- **[GSE-043024](#)**: In conjunction with releasing its new [fair-housing rule](#), FHFA yesterday also [created](#) a new office of “Public Interest Examination.”
- **[ASSETMANAGEMENT8](#)**: As we [noted](#), the FDIC board late last week faced the unusual and perhaps unprecedented situation of a staff resolution supported by its Chair and one Democratic Director that was countered by a different proposal from Republican Directors, with both options finally tabled due to objections from the Acting Comptroller.
- **[SYSTEMIC99](#)**: The latest Federal Reserve financial-stability [assessment](#) continues the Fed’s practice of detailing vulnerabilities without drawing bottom-line conclusions; the Board once did so, but ceased this practice after opining that the financial system’s risk was “moderate” shortly before the 2020 crash.
- **[MORTGAGE122](#)**: Although there was no need for further evidence that campaign season has begun, today’s Senate Banking housing hearing surely confirmed it.
- **[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](#)).

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