



FedFin Weekly Alert

Monday, September 9, 2024

❑ COULD IT BE? YES, IT COULD

With apologies to Stephen Sondheim, that's the outlook for an end – or, more likely, half time – for the U.S. version of the Basel end-game capital rules ([see FSM Report CAPITAL230](#)). On Tuesday, Fed Vice Chair Barr will speak at a [Brookings event](#) detailing a “revised proposal,” taking questions thereon. Brookings is a preferred venue for Democratic officeholders making announcements or explaining policy that is not so strictly official as to warrant a formal release – i.e., a plan of action on which regulators have either agreed or one the person doing the talking wants to press. We shall see which it is when Mr. Barr steps up to the mic, advising clients ASAP as to what's next from which of the banking agencies.

Will it be an entirely new proposal? A slimmed-down final rule of uncontroversial changes the agencies think have some urgency (e.g., recognizing AOCI) and changes (e.g., raising the floor of covered banks to \$250 billion) they hope will allay opposition to the rest? A combination of QIS and a new proposal for major changes? For all the industry wants a brand-new new proposal, we think the next steps will be compromises advancing a few key proposals into a final rule and re-proposing the rest with, agency advocates hope, more persuasive rationales. We shall see and, of course, report ASAP.

Headlines From the Past Week's Daily Briefings

September 2

- No news of note.

[September 3](#)

- **FRB Staff: Branch Closing Hurt Small Businesses, But We Wonder** - A new FRB-staff [working paper](#) assesses the impact of branch closures on small-business lending as an indicator of the importance of bank branches to economic activity.
- **GOP Repeal Resolution Targets CFPB Nonbank Enforcement Registry** - Following his Congressional Review Act [resolution](#) attacking the CFPB's credit card late fee rule, Rep. Ogles (R-TN) introduced another resolution (H.J. Res. 201) taking aim at the CFPB, this time targeting the nonbank “repeat-offender” registry ([see FSM Report CONSUMER47](#)).

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- **Hsu Challenges “Asymmetric” Supervision** - Acting Comptroller Hsu’s most recent [speech](#) assesses bank supervision, calling it “largely invisible” to the public and thus subject to acute asymmetries that lead to lax supervision in good times and over-reaction after significant supervisory incidents such as the 2023 failures.
- **FRB-KC: Despite Sharp Growth, Community-Bank Brokered/Reciprocal Deposit Totals are Low** - In a new [study](#), staff at the Federal Reserve Bank of Kansas City find a sharp increase in community-bank brokered deposits since 2022 despite 2020 FDIC changes that significantly reduced the percentage of third-party funds deemed to be brokered.
- **Hsu Also Ponders DSIB Designation** - In our daily earlier re Michael Hsu’s supervision [speech](#), we omitted mention of Mr. Hsu’s suggestion also that the U.S. may now need to consider a clear framework for designating domestic-SIBs – i.e., regional banks that may pose systemic risk.

September 4

- **Treasury Takes Official Action vs. New Russian Bank Branches** - [As anticipated](#) by Treasury Deputy Secretary Adeyemo, OFAC issued an [alert](#) on the risks posed by new Russian overseas bank branches and subsidiaries.

September 5

- **2Q Bank Earnings Show Strain** - Although [media reports](#) trumpet an eleven percent gain in bank earnings from the first to the second quarter, the FDIC’s [report](#) shows that this is largely comprised of one-time events, most notably the absence of the \$4 billion reserve IDIs established in the first quarter to address the FDIC’s special-assessment [miscalculation](#).
- **Fed Fires Starting Gun on Discount-Window Reform** - As it has long promised and Sen. Mark Warner (D-VA) demands ([see FSM Report PAYMENT32](#)), the Federal Reserve [requested public input](#) on ways to operationalize changes to the discount window that would improve its ability to function in a crisis.
- **Backed by the CFPB, DOT Launches Broad Reward-Point Inquiry** - With strong [backing](#) from the CFPB, the Department of Transportation launched a [review](#) of review programs at the four largest U.S. airlines. This follows a joint DOT/CFPB hearing and a CFPB [report](#) that was sharply critical of credit-card company practices in conjunction with these reward programs.

September 6

- No news of note.

This Week

Tuesday, September 10

HFSC Subcommittee on Digital Assets, Financial Technology and Inclusion Hearing entitled: “Decoding DeFi: Breaking Down the Future for Decentralized Finance.” [10:00 am, 2128 RHOB]. Witnesses: **Brian Avello**, Chief Legal Officer, UDHC; **Rebecca Rettig**, Chief Legal and Policy Officer, Polygon Labs; **Amanda Tuminelli**, Chief Legal Officer, DeFi Education Fund; and **Peter Van Valkenburgh**, Director of Research, Coin Center.

House Oversight Hearing entitled: “Where Do We Go From Here? Examining a Path Forward to Assess Agencies’ Efforts to Prevent Improper Payments and Fraud.” [10:00 am, 2154 RHOB]. Witnesses: **Orice Williams Brown**, Chief Operating Officer, U.S. Government Accountability Office; **The Honorable Michael E. Horowitz**, Chair, Pandemic Response Accountability Committee; and **Linda Miller**, Co-Founder and Chair, Audient Group LLC.

HFSC Subcommittee on Oversight and Investigations Hearing entitled: “The Fall of ESG: Scrutinizing the Failed Use of Environmental, Social, & Governance Standards and the Influence of Proxy Advisors.” [2:00 pm, 2128 RHOB]. Witnesses: **Charles Crain**, Vice President of Domestic Policy, National Association of Manufacturers; **Tim Doyle**, Founder and Principal, Doyle Strategies; and **Michael Frerichs**, Treasurer, State of Illinois.

Wednesday, September 11

HFSC Subcommittee on Financial Institutions and Monetary Policy Hearing entitled: “Transparency in Global Governance.” [10:00 am, 2128 RHOB]. Witnesses: TBD.

Thursday, September 12

Senate Banking Hearing entitled: “Protecting Americans’ Money: Combatting Scams and Frauds Against Seniors and Savers.” [10:00 am, Dirksen Senate Office Building 538]. Witnesses: **Ms. Amy Nofziger**, Director of Fraud Victim Support, AARP Fraud Watch Network; **Ms. Carri Grube Lybarker**, Administrator and Consumer Advocate, South Carolina Department of Consumer Affairs; and **Ms. Sheryl Harris**, Director of Consumer Affairs, Cuyahoga County, Ohio

Future Events of Note

Thursday, September 26

Treasury FACI Open Meeting. [1:30 pm, Cash Room, Department of the Treasury, 1500 Pennsylvania Ave.] Matters to be discussed: climate-related financial risk and the insurance sector, cyber insurance developments, and international insurance issues.

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-090424](#)**: Now that summer is almost over, several of you have asked us if U.S. banking agencies will finally get around to finalizing all the massive proposals they have wrought since August of 2023.
- **[PAYMENT33](#)**: Senior House and Senate Democrats have introduced legislation to hold financial institutions accountable when consumers are fraudulently-induced to allow a transfer of their funds, a shift that could lead to significant payment-service provider costs both directly to payor and payee entities and, based on CFPB rules, entities that facilitate payments.
- **[GSE-082224](#)**: In their new FHFA-blessed PMIERS [updates](#), Fannie and Freddie have added a liquidity requirement atop the asset-quality standards designed to ensure not only that MIs have assets to liquidate for claims payment under stress, but also that these assets are actually highly liquid assets that can be sold without liquidity or capital destruction under stress.
- **[ILC18](#)**: A divided FDIC board has approved a proposal retracting key sections of the agency's 2020 rule meant to open the way to new ILC charters.
- **[LIVINGWILL25](#)**: The Fed and FDIC have now finalized their joint proposal governing resolution plan submissions for 2025 and beyond by Category II and III domestic companies and FBOs.
- **[DEPOSITINSURANCE125](#)**: In conjunction with its proposal to take a far tougher stand on brokered deposits, the FDIC is seeking information on the configuration of U.S. bank deposits that cannot be discerned from current call report data.
- **[PAYMENT32](#)**: After promising almost since the 2023 crisis to do so, Sen. Mark Warner (D-VA) has introduced legislation designed to force the Federal Reserve's hand to quickly implement discount-window improvements discussed since it became clear in post-failure analyses that operational challenges accelerated bank failures.
- **[TAKEOVER11](#)**: Noting it is committed to developing an inter-agency approach to the issues it addresses in this NPR, the FDIC is seeking to take greater control over holdings in the state non-member banks under its jurisdiction when these come under the Change-in-Bank Control Act (CIBCA), especially when this involves an entity with a passivity exemption from "control" under applicable FRB rules.