FedFin Daily Briefing

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IMF Staff Contemplate E-Money Risk, Opportunities

In a new IMF paper on digital currency, senior staff conclude that current forms of money (cash, bank deposits) face stiff competition and could even be rapidly overtaken by fiat or stablecoin currencies. The paper is not Libra-focused but its analysis and risk taxonomy are of course extremely timely. Noting that banking "will not disappear," its positive forecast nonetheless describes the power of tech-platform network effects and significant challenges to traditional intermediaries (a point also recently raised by the FSB, see Client Report **FINTECH24**). Given the rapid pace of new forms of money, the paper suggests the need to give providers central-bank access, noting however that this could raise significant challenges along the lines recently voiced by the head of the BIS. Interestingly, the IMF staff consider one benefit of central-bank access to be the possibility that e-money providers would be required to rebate interest on reserves to consumers – a variation of the "narrow-bank" concept under Fed consideration (see FSM Report **CHARTER25**).

Beyond the risk of bank disintermediation and those to central banks, the paper concludes that rapid e-money implementation risk could be handled by designating providers as systemic companies or utilities and by imposing like-kind reregulation related to like-kind risk. This is of course the approach under consideration in the U.S. (see Client Report **VC10**), but enactment of these rules will at the least prove challenging in most regimes. The paper also reiterates longstanding global concerns about new natural monopolies.

Blaming Basel, FSB Delays Haircut Standards for Non-Centrally Cleared SFTs

The FSB today again delayed implementation deadlines for its recommendations on securities financing transactions (SFTs) related to minimum haircut standards for non-centrally cleared SFTs. The SFTs recommendations, first published in 2013 (see FSM report **REPO3**) and updated in 2015, remain unchanged but the FSB argues that Basel's January 2022 implementation date for its minimum haircut standards on bank-to-non-bank SFTs justifies delaying the minimum haircut standards for non-centrally cleared SFTs. Specifically, the recommendation for establishing a numerical haircut floor framework for bank-to-non-bank transactions will be extended to 2022 and the recommendation for establishing a numerical haircut floor framework for non-bank-to-non-bank transactions will be extended to 2024. An initial assessment of the need and implementation approach for introducing the numerical haircut floor framework on non-bank-to-non-bank transactions should now be completed by 2021. This framework should then be implemented by 2024. The FSB will also establish an implementation-monitoring process and publish an initial report in 2022. The review of the overall framework in coordination with other global regulators has been pushed back to 2023.

GOP Credit-Bureau Reforms Take Shape

As we noted, HFSC Ranking Member McHenry (R-NC) strongly objected to much of the credit-reporting agency (CRA) legislation approved at recent mark-ups by party-line votes. He has now introduced H.R. 3821 to outline his preferred approach. Although less prescriptive than pending legislation, Rep. McHenry is no CRA fan, describing the industry as an "oligopoly" that is "ripe for reform." His bill would facilitate changes to a child's credit report, remove information due to a predatory loan from a consumer's report when a court validates consumer abuse, remove all paid and non-collected medical debt from credit reports, and bar CRAs from using SSNs for verification. The CFPB would gain authority over CRA cybersecurity, but not over credit-risk models as proposed in legislation approved during the mark-up from Rep. Lynch (D-MA). The Senate Banking Committee will take up CRA reform in connection with its privacy work, with the McHenry legislation providing insights into reforms panel Republicans are likely to favor.

CFPB Exams Set for Overhaul

In remarks released today, CFPB Director Kraninger provided more details on her plans to overhaul the agency's examination process to foster a "culture of compliance." The Bureau is reviewing its examination procedures to prioritize resources by risk, better use technology, and take advantage of regulatory partnerships to enhance its examinations. The CFPB's new examination approach will encourage firms to maintain compliance management systems that identify issues quickly, to self-report, and to provide restitution to consumers where appropriate.

As a result of its call for evidence, the CFPB will release information about small business representatives (SBREFA) proposals and SBREFA panel reports earlier and make them easier to understand. It will also release more informal guidance on its rules. Director Kraninger also highlighted efforts to alert institutions to elder financial exploitation, noting the CFPB advisory released this week encouraging firms to report elder financial abuse to local, state and federal authorities and file SARs. The CFPB's financial education efforts will focus on promoting emergency savings and it will shortly release a report encouraging use of a savings feature on prepaid cards.

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 requests@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about GSE Activity Reports, click: http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18

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- **GSE-071819a:** In comments to Reuters, FHFA Director Calabria reaffirmed FHFA's statement last week that the GSEs must transition from LIBOR to SOFR for newly-originated hybrid ARMs.

- **GSE-071819:** The FDIC approved a controversial proposal that charts a new course through its "safe harbor" for private placements and other PLS outside the reach of the SEC's Rule AB disclosures.

- **CAPITAL224:** The federal banking agencies have finalized changes to the standardized approach (SA) of the risk-based capital rules that slightly reduce the capital costs of certain assets.

- **VC10:** The HFSC Libra hearing made it very, very clear that Democrats are vigorously opposed to Facebook's venture and Republicans, while warier of suppressing innovation, nonetheless have far-reaching reservations about the new virtual-currency payment/financial construct.

- **VC9:** In this report, we assess the Senate Banking hearing at which Chairman Crapo (R-ID) cited Libra to push data-privacy standards establishing consumer privacy protections similar to those in the EU.

- **GSE-071619:** The Federal Reserve's Alternative Reference Rates Committee (ARRC) tackled one of the greatest challenges confronting the U.S. market as LIBOR's demise nears in 2021, the $1.2 trillion in ARMs set against LIBOR that must transition to the secured overnight financing rate (SOFR).

- **FEDERALRESERVE51:** The Senate Banking session with FRB Chairman Powell included bipartisan concerns about the risks of Facebook's proposed payment system.

- **FEDERALRESERVE50:** In this report, we assess FRB Chairman Powell's appearance before HFSC at which he made clear that the FRB has serious concerns with Facebook's Libra.

- **GSE-071019:** The FRB, OCC, and FDIC released a final rule relaxing – at least a little – the capital rules stifling bank mortgage servicing since the U.S. version of Basel III was finalized in 2013.

- **LEVERAGE20:** Responding to assertions that global banks were "window dressing" their leverage ratios (LRs), the Basel committee has finalized proposed disclosure standards to make this considerably more difficult with regard to securities-financing transactions (SFTs).

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