FedFin Daily Briefing

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Tailoring, Living Will Rules Effective at Year-End

The *Federal Register* today includes the FRB and interagency final tailoring rules (see FSM Report **SIFI34**) and the FRB and FDIC final resolution-planning rule (see FSM Report **LIVINGWILL21**), setting December 31 as their effective dates. As noted in our in-depth reports, the final tailoring rules combine and adopt the domestic and FBO tailoring proposals largely as proposed, granting significant relief to non-GSIB banks over $100 billion. Similarly, the final resolution planning rule was also adopted largely as proposed but the procedures for requesting waivers from certain full plan requirements have been tightened by requiring approval from both the FRB and FDIC and barring GSIBs from making requests.

Citing Hong Kong, Senate GOP Demands China Sanctions

In an early warning of GOP efforts to pressure the Trump Administration to respond forcefully to China's Hong Kong policies, Sens. Hawley (R-MO), Scott (R-SC), and Cornyn (R-TX) yesterday introduced legislation (S. 2758) that would impose sanctions on Hong Kong and Chinese government officials that have facilitated the suppression of Hongkongers' freedoms. Specifically, the bill finds that China has violated international agreements and Hong Kong law, directing the president to freeze the assets of Chinese nationals and state-owned enterprises that have contributed to the suppression of Hongkongers' freedoms of speech, association, assembly, procession, and demonstration. The effort is sure to be supported by Democrats and will put the Administration in a tough spot as it tries to ease trade tensions.

Atlanta Fed: CECL's Procyclicality Depends on Bank Planning, Supervisory Judgement

Ahead of FSOC closed-door CECL deliberations, a new blog post by FRB-Atlanta staff examining the potential procyclicality of CECL (see FSM Report **ALLL5**) finds that the switch from incurred-loss to expected-loss accounting may increase procyclicality given certain circumstances but reduce it under others. However, the options assessed that resolve CECL procyclicality concerns in favor of CECL implementation raise a number of market and policy challenges, detailed below.

Surveying several papers that conclude CECL would result in higher loan loss provisions in a recession and several finding the opposite, the post argues that the most consistent finding across the literature is that the extent to which CECL would be procyclical depends on the extent to which bank managers accurately forecast the economy and, to a lesser extent, on modelling assumptions. The post also argues that supervisory judgement will be a critical factor determining CECL's procyclicality impact. For the largest banks already subject to supervisory stress testing, CECL's impact on increases in the loss allowance should be mitigated as they are already required to demonstrate sufficient loan loss reserves and capital to absorb estimated accounting losses and continue lending over nine quarters. Discounting the profitability impact of doing so, the post also notes that banks could also voluntarily maintain additional capital beyond regulatory minimums so that reported loan loss provisions are unlikely to cause regulatory capital requirements to become binding.

The post additionally notes that regulators could also adopt countercyclical capital requirements. If banks do not voluntarily hold sufficient capital and supervisors do not require them to do so, then procyclical lending could still be avoided if supervisors forebear, allowing banks with insufficient loss-absorbing ability to continue lending. As the analysis makes clear, the FDIC would then absorb additional losses in bank failures – a policy and ultimately a taxpayer risk likely to make it more than challenging for U.S. regulators to accept this approach to ensuring CECL counter-cyclicality.

Big-Bank Tax Back on Political Agenda

As part of her presidential campaign's proposal to pay for "Medicare for All," Sen Warren (D-MA) today resurrected a fee on banks over $50 billion. The large bank fee of 0.15 percent of covered liabilities was first supported by the Obama Administration in the wake of the crisis (see Client Report **CRISISFEE**). It did not end up in the Dodd-Frank Act due to GOP opposition, but it has resurfaced from time to time. Most interestingly, this includes in 2014, when House Ways and Means Chairman David Camp (R-MI) supported a tax on banks over $500 billion.

Sen. Warren, who today also pushed the financial-transaction tax figuring in other Democratic platforms, says that the 0.15 percent fee will reduce systemic risk and raise $100 billion by 2029. Her financial transaction tax would impose a 0.1 percent tax on the sale of bonds, stocks, and derivatives, raising an estimated $800 billion by 2029. She argues that the tax could lower investment fees and reduce the size of "relatively unproductive parts" of the financial sector. Although for now the large bank fee is limited to the Warren proposal, it may well gain progressive Democratic support, possibly figuring in fiscal-policy proposals Democrats advance in 2020 ahead of the election to press the Trump Administration on fiscal policy by offsetting spending with a new revenue source.

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

- **GSE-102919:** Although the current FHFA strategic plan is set to run through 2022, FHFA has set out a new conservatorship plan making it clear that change is coming far more quickly than the prior, *status quo* plan suggested.

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- **CAMELS:** The FRB and FDIC are seeking information on CAMELS ratings in response to years of complaints about CAMELS-rating consistency across and within the banking agencies, transparency, and use.

- **GSE-102819:** The BIS has issued a more than timely study by two Fed economists of what political risk does to jumbo mortgage origination. In short, nothing good.

- **CRYPTO12:** As anticipated, this HFSC hearing saw Facebook CEO Mark Zuckerberg taking strong fire not only on Libra but also on broader Facebook practices.

- **SIFI34:** All of the U.S. banking agencies have adopted final versions of the "tailoring" standards proposed for domestic banking organizations with assets over $50 billion and for foreign banking organizations (FBOs) in 2018 without substantive change.

- **GSE-102319:** Much in the HFSC hearing was predictable in terms not only of partisan bickering, but also Administration and FHFA thinking on conservatorship regulation, the receivership option, and FHA risk-based pricing.

- **GSE146:** Although HFSC Chairwoman Waters (D-CA) described the Administration housing-finance reform plan (see Client Report **GSE143**) as "disastrous," Members on both sides of the aisle at the hearing were open to changes beyond the affordable-housing ones that normally divide Democrats from Republicans.

- **GSE-102219:** As promised, we here go into depth on the mortgage-market implications of the final "tailoring" rules finalized by the FRB for large holding companies and foreign banking organizations (FBOs) and by all three banking agencies (for their banks and FBO branches/agencies).

- **LIVINGWILL21:** The FDIC and FRB – which share authority in this area – have finalized proposed changes to their resolution-planning rules following EGRRCPA enactment and their own conclusions about beneficial revisions.

- **CONSUMER32:** In this report, we assess CFPB Director Kraninger's appearance today before a partisan and rancorous HFSC.

- **SIFI33:** In this report, we assess the Federal Reserve Board meeting approving final versions of the FRB's tailoring standards (see FSM Report **SIFI31**), inter-agency tailoring standards (see FSM Report **SIFI30**), the parallel framework for foreign banking organizations (see FSM Reports **FBO8** and **FBO9**), and FRB/FDIC resolution-plan requirements (see FSM Report **LIVINGWILL19**).

- **GSE-101019:** In our most recent in-depth analysis of the challenges confronting FHFA's capital rewrite, we assessed the complexities inherent in meeting the Administration's equivalence objective.

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