FedFin Daily Briefing

Wednesday, November 20, 2019

Federal Reserve Experimenting with a U.S. CBDC

In a letter to Congress released today, FRB Chairman Powell is now more open to central bank digital currency (CBDC) than prior Federal Reserve statements would have suggested. Noting that the U.S. need not move as quickly as other countries on CBDC, Mr. Powell also cited U.S.-specific impediments. These include several legal questions, but the letter does not make it clear if the Fed views these as a limit on Fed authority to proceed, should it decide to do so. Indeed, the Fed is carefully weighing the costs and benefits of a U.S. Dollar general-purpose CBDC that would be a Fed liability held by households and businesses. Notably, the Fed has already begun small-scale technology experiments to gain “hands-on experience.” However, the letter notes numerous policy questions the Fed will need to resolve, including monetary-policy and financial-stability impact, anonymity, legal-tender status, and potential disintermediation effects.

FRB Advances SCCL Framework

The FRB today finalized its information collection for monitoring compliance with the single-counterparty credit limits (SCCL) rule (see FSM Report **CONCENTRATION11**). As finalized, the standards generally track the proposal and apply to Category I, II, and III banks. While commenters had pushed for lowering the required number of reported counterparties to the top 20 and any other significant counterparties, the FRB still requires that banks report their top 50 counterparties. In a change from the proposal, the FRB now permits either the executive officer responsible for SCCL compliance or the Chief Financial Officer to certify compliance. The first data collection for U.S. and foreign GSIBs will occur at the end of the first quarter of 2020 and the first collection for all other respondents will occur at the end of the third quarter of 2020. The previously proposed grace period for FBO compliance with the SCCL rule was also published today; the comment deadline is December 20.

Complex Mortgage Disclosures Reopened for Possible Revision

As required by Dodd-Frank, the CFPB today requested comment on ways to revise the TRID mortgage disclosure standards. The CFPB notes that its five-year assessments are not part of a rulemaking process and that it does not anticipate that the TRID report will include specific proposals. However, it does say that the report will inform future rulemakings. The CFPB will examine whether the standards facilitate TILA-RESPA compliance and increase borrower understanding. Using cost-benefit analysis, the CFPB will also examine the impact on consumers, creditors, settlement service providers, mortgage brokers, and mortgage originators. While 2017 and 2018 revisions are not the focus of the assessment, the CFPB may consider them if data are available.

The CFPB specifically seeks comment on the feasibility its assessment plan, the objectives of the TRID standards, and the methods for assessing effectiveness. It also asks for data on the standards, recommendations for improving the assessment plan, and proposals to modify or eliminate the rule. The assessment will be published no later than October 3. Comment is due January 21.

Pressure Grows for Climate Stress Testing

Reflecting comments made at a recent Fed climate risk conference, Sen. Schatz (D-HI) and Rep. Casten (D-IL) today introduced the Climate Change Financial Risk Act, which would require the Federal Reserve to stress test large banks' resilience to climate-related financial risks. The Fed already has this authority but has yet to indicate any intention to use it along the lines pioneered by the Bank of England. The bill would force the Fed to create various climate stress test scenarios, running them like CCAR at banking organizations over $250 billion every two years. The Fed would also be required to establish an advisory group of climate scientists and economists. Large banks would need qualitative climate-risk mitigation plans subject to Fed approval. If the Fed objects to a plan, the bank would face capital distribution restrictions.

This legislation may well pass the House. Although it faces dubious prospects in the Senate, growing political pressure due to this bill and on the campaign trail may well lead the Fed to develop policies that respond to at least some of these climate-change objectives.

Basel: Beware of Open Banking's Risks

The Basel Committee's report yesterday on open banking warns banks and bank supervisors to consider accompanying competitive, cybersecurity, and reputational risks. While acknowledging payment, transparency, marketing, and account service benefits, Basel warns that increased competition from fintech firms may lead to decreased bank revenue and deposits. Stressing the need for effective data management, Basel also notes that increased data sharing raises the possibility of data breaches. Open banking is also said to make it harder to assign liability when consumers experience financial loss or unauthorized sharing of sensitive data because of the increased number of intermediaries. However, even if jurisdictions have clearly defined liability and a third party is responsible for unauthorized transactions, Basel warns that banks may still face reputational risk.

With specific regard to application programming interfaces (APIs), Basel warns of high-cost and the lack of common standards. Challenges for jurisdictions that lack direct oversight of bank third party vendors are also noted. Despite all these concerns, Basel's recommendations focus on national action on customer-redress rights and greater supervisory coordination. Basel also describes a variety of data privacy laws without making any recommendations.

Federal Financial Analytics, Inc.
1255 23rd Street, N.W. – Suite 500, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

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-112019:** In this report, we assess what these may be, noting the interplay between the higher risk books and the transformation of GSE counterparty exposures.
- **PE8:** The full HFSC hearing on private equity (PE) business practices laid bare the demands progressive Democrats will make of the sector during the election.
- **PREEMPT30:** As expected, the FDIC approved on 3-1 votes an NPR codifying the "valid-when-made" doctrine for loans originated by state banks and a final rule on the standardized approach for calculating the exposure amount of derivatives contracts (SA-CCR).
- **GSE-111819:** With the release of its first advisory bulletin on CRT, FHFA is targeting key counterparty and pricing risks that, as the GSEs impose new controls, may structurally alter forthcoming CRTs.
- **FINTECH28:** The FDIC is seeking views outside of the usual rulemaking process on how best to structure pilot programs for innovative fintech activities.
- **FEDERALRESERVE52:** In this report, we assess the Joint Economic Committee hearing at which FRB Chairman Powell was asked to describe any FRB economic equality, climate change, or negative interest rate plans.
- **GSE-111319:** FHFA's new annual housing report reinforces aspects of the Administration plan that redefine the GSEs' affordable-housing mission.
- **GSE-110619:** Reflecting Administration-plan objectives, FHFA has now begun the process of redesigning the UMBS to free it to advance the new GSE vision. In a request for information (RFI), the agency proposes a radical redesign of GSE securitization that gives uniform a whole new style.
- **LEVERAGE21:** As required by new law, federal banking agencies have finalized their proposal creating a community bank leverage ratio (CBLR) to replace the current risk-based ratios applicable to qualifying banking organizations with assets of less than $10 billion.

Federal Financial Analytics, Inc.
1255 23rd Street, N.W. – Suite 500, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com