FedFin Daily Briefing

Tuesday, April 14, 2020

SLR Relief Officially Begins

Our report (see FSM Report **LEVERAGE22**) made clear that the FRB's SLR interim final rule applies to the second quarter and today's *Federal Register* publication makes it official, setting today as the effective date. The rule temporarily removes Treasury obligations and central-bank deposits from the SLR at the BHC, not IDI, level. While relief only lasts until March 31, the FRB appears open to permanent SLR changes, seeking comment on other assets that should be removed from the denominator. Comment is now due May 29.

Global Effort to Corral Libra Continues

Reflecting pre-COVID concerns and honoring its commitments at the fall IMF/Bank meeting, the FSB today issued a consultation on stablecoin's regulatory, supervisory, and oversight challenges, proposing ten high-level recommendations to advance consistent and effective regulation and supervision. While these are implemented, near-term stablecoin arrangements are expected to adhere to all applicable regulatory standards and address risks to financial stability prior to operation, with systems and products constructed to adapt to new regulatory requirements. Recommendations focus exclusively on financial regulatory and supervisory issues relating to privately-issued global stablecoins intended for retail use, with monetary policy and data privacy left for later. Recommendations are geared towards ensuring two principles: that similar businesses with similar risks come under similar rules and supervision and oversight should be proportionate to risk. Comment is due July 15. We will shortly provide clients with an in-depth analysis of the consultation.

FSB Will Advance Asset Management Recommendations, Revamp Nonbank Work

Reiterating much of the FSB's prior COVID-focused work plan, FSB Chair Quarles's letter to the G20 finance ministers and central bank governors today said that the FSB will advance its asset-management recommendations (see FSM Report **ASSETMANAGEMENT6**) in light of COVID-stress on credit markets and investment funds. The FSB has also formed a group of senior market regulators and macroprudential policymakers to develop a proposal on organizing its nonbank financial intermediation work going forward. The letter also outlines the FSB's pandemic monitoring of immediate financial system vulnerabilities, focusing on real-economy finance, U.S. dollar funding access, forced asset sales, and counterparty risks. The FSB is preserving support for international standards by telling authorities to make use of existing "flexibility" to keep markets functioning, assessing down the road when to return to normal financial-sector operations. Finally, FSB reports on regtech and bigtech finance in emerging markets have been delayed, but, as we noted earlier today, the FSB did advance significant work on stablecoins. We will shortly provide clients with an in-depth analysis of this critical development.

House Dems: FDIC Needs to Step Up its Crisis Readiness Planning

HFSC Chairwoman Waters (D-CA), House Oversight Chairwoman Maloney (D-NY), and House Oversight Subcommittee Chairman Krishnamoorthi (D-IL) today demanded that the FDIC implement robust crisis readiness planning in light of worrisome recent OIG findings and resulting uncertainty as to whether the FDIC is prepared for the COVID crisis. The Members request a staff briefing on the agency's readiness and implementation plans. The FDIC concurred with most of the OIG's recommendations and promised action by 2022, but House Democrats will surely find that unsatisfactory. Decisions shortly before the crisis to cut staffing will also come under scrutiny. Although Chair McWilliams has so far avoided the political criticism directed at Comptroller Otting, this inquiry could bring her squarely on to the firing line, with Members clearly anticipating problems at the FDIC they intend to highlight ahead of time.

Global Report: Fintech Expansion Requires Careful Calibration

The BIS Committee on Payments and Market Infrastructures (CPMI) and World Bank today issued a joint report identifying opportunities and challenges to advancing payments-system inclusion as fintech gains wider adoption. As in past reports, fintech could improve transaction accounts and payment products by making them ubiquitous and more efficient. However, fintech could also adversely affect operational and cyber resilience, customer-fund protection, data protection, and privacy. It could also lead to digital exclusion and market concentration if not adequately managed, undermining financial inclusion efforts.

To realize positive outcomes from fintech, the report recommends that regulators and supervisors encourage fintech designs that are tailored to meet the needs of disadvantaged segments of the population through low- or no-cost accounts and services and readily available access points. Efforts to increase financial literacy around fintech products and services are also necessary to ensure end user capabilities. Increased international and cross-sectoral coordination is also essential given the cross-border and cross-currency nature of many fintech innovations. Central banks, supervisors, and regulators should also work together to eliminate potential regulatory arbitrage opportunities.

Pelosi: Fed's Main Street Window Must Be Wide Open to Universities, Non-Profits

Speaker Pelosi (D-CA) today urged the Fed to open its Main Street lending facility (see Client Report **COVID10**) to non-profits, focusing in particular on universities and institutions serving minorities. Building on continuing Democratic calls for greater Fed assistance to state and local

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issuers, Speaker Pelosi noted that these institutions are excluded from the PPP, although as noted in our analysis (see FSM Report **SBA37**), non-profits are eligible for limited funding. Noting that the FRB is currently soliciting input on potential changes to the program's eligibility, she called on Democratic House Members to encourage universities and other nonprofits in their districts to submit comments asking that they be granted eligibility. Comments on program eligibility are due April 16.

Speaker Pelosi's letter also encouraged Democrats to keep pushing for a second CARES Act that includes Democratic priorities, saying that Senate Majority Leader McConnell's (R-KY) proposals for a second package perpetuate flaws included in the first package. Ms. Pelosi highlighted a deficiency in the financial aid provided to hospitals, state and local government, and small businesses.

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

- **ILC14:** The FDIC has proposed to formalize the requirements it says have generally governed parent companies of industrial loan companies (ILCs) and other non-traditional insured depository institutions (IDIs) owned by companies exempt from FRB supervision at the parent level.

- **COVID10:** As signaled by Secretary Mnuchin, the Fed opened its windows still wider early this morning, launching facilities it says will add as much as $2.3 trillion of liquidity for what it describes as "Main Street" businesses, state and local governments, and a PPP secondary market.

- **COVID9:** In response to the CARES Act and in consultation with state regulators, the banking agencies and CFPB have expanded on forbearance and related guidance issued early in the course of the COVID crisis.

- **GSE-040720:** As we have noted, one option Treasury and the Fed have readily at hand to deal with mortgage-servicer risk is not only the new liquidity window so desperately sought by the sector, but also Dodd-Frank's orderly liquidation authority (OLA).

- **LEVERAGE22:** Building on the capital "neutralization" previously enacted via an inter-agency IFR, the Federal Reserve has also waived the supplemental leverage ratio (SLR) for large BHCs during the national emergency.

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- **GSE-040620:** As detailed in our in-depth analysis, the Fed issued an interim final rule (IFR) temporarily waiving the big-bank supplementary leverage ratio (SLR) for Treasuries and central-bank deposits (e.g., excess reserves).

- **LENDING12:** Although all the new windows in the CARES Act do not expressly provide support for troubled nonbanks such as mortgage servicers, the law does give the OCC authority it is likely to use to allow banks to suspend at least some loan limits to nonbank financial institutions for the duration of the crisis.

- **GSE-040220:** As clients will see in our in-depth report on the CARES Act's mortgage provisions, we simply don't share the Administration's desperate hopes that only the extra-worthy will apply for relief.

- **MORTGAGE115:** The CARES Act includes mortgage-relief language allowing any American with a "federal" mortgage to defer payment for as long as one year following an assertion of adverse COVID financial impact.

- **DEPOSITINSURANCE110:** The CARES Act revises a key provision in the Dodd-Frank Act to allow the FDIC to reopen a sweeping Temporary Liquidity Guarantee Program (TLGP) offered in the midst of the 2008 great financial crisis for uninsured deposits and parent-company debt.

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