



FedFin Daily Briefing

Tuesday, September 29, 2020

BIS/World Bank Advance Payment-System Inclusion

The BIS Committee on Payment and Market Infrastructure along with the World Bank Group today [released tools](#) nations can deploy to enhance payment-system inclusion. Private providers may also wish to do the same given growing debate in the U.S. over payment charters and the Fed's instant retail system ([see FSM Report PAYMENT20](#)). The report also addresses contentious fintech issues following an earlier [BIS/World-Bank assessment](#) finding that fintech has significant inclusion potential if cyber-risk, operational, privacy, exclusionary, and concentration concerns are addressed.

The new tools seek to measure all of these issues and others to assess broad inclusion factors germane to transaction-account offerings and thus to payment-system inclusion. As is common in such documents, one tool is data-driven based on research and cross-border data-sharing; others are more directed at measuring transaction-account use and the results of various inclusion efforts. A World Bank interactive-analytical tool is also provided. In general, nations are likely to keep the results of their assessments to themselves, although the report suggests the value of more transparent evaluations.

Agencies Formalize More IFRs

The banking agencies today finalized four more interim final rules providing relief during the pandemic, rejecting GOP calls when Chairman Powell was [on the Hill last week](#) ([see Client Reports COVID15](#)) to make these and other IFRs permanent. The first newly-final rule continues certain [appraisal protections](#) and allows a 120-day appraisal delay in certain cases (expanded in the IFR) to permit owners more quickly to access equity; this rule expires on December 31. The second rule codifies three IFRs providing relief from liquidity and capital rules related to the Money Market and Paycheck Protection Liquidity Facilities (see FSM Reports [COVID7](#) and [LIQUIDITY31](#)). These rules apply for the duration of the facilities.

Fintech Task Force Dems Urge Statutory Response to OCC Charters

[As expected](#), Acting Comptroller Brooks' proposed special purpose payment charter was front and center at today's HFSC Fintech Task Force hearing. Chairman Lynch (D-MA) stated that the OCC's special purpose charters for fintechs ([see FSM Reports FINTECH20](#)) and payments as well as the FDIC's approval [earlier this year](#) of new ILCs raise questions about the separation of banking and commerce. This, he said, has served the U.S. well. Rep. Lynch also worried that allowing big-tech firms to own banks could lead to TBTF fintechs; Congress cannot, he said, afford to allow outdated laws to create opportunities for regulatory arbitrage and consumer harm. Rep. Tlaib (D-MI) went farther, contending that the OCC special purpose charters overstep the agency's authority, stating also that big-tech companies are taking advantage of the outdated framework.

Despite banking industry opposition to the special purpose charters, Ranking Member Emmer (R-MN) praised the OCC's proposals. He argued that the OCC under Acting Comptroller Brooks has clarified the regulatory environment for emerging technologies and urged regulators to continue working to ensure clear and consistent regulation for fintechs. Rep. Hill (R-AR) pivoted to the payments system, arguing that its outdated infrastructure harms consumers. He urged continued work on a Fed-offered digital dollar and pushed for a dedicated cryptocurrency payment rail.

FinCEN Raises Crypto-Risk Profile

In [remarks today](#), FinCEN Director Blanco emphasized emerging AML risks related to cryptoassets, stating that these are not unique to exchanges and must be addressed also at banks. Indeed, he said that bank examiners along with FinCEN will emphasize this exposure going forward. Banks should assess their baseline controls and customers to ensure that AML tools suffice and that, if this is not done, examiners will have hard questions for them. Mr. Blanco did not address the OCC's expanded vision for crypto services ([see FSM Report CRYPTO15](#)); we note that, although the agency's recent interpretive letter provides significant charter relief, it emphasizes the need for AML compliance.

Mr. Blanco also pointed to his agency's recent ANPR to modernize the U.S. AML regime ([see FSM Report AML132](#)), urging commenters not just to answer the specific questions it poses, but also to expand on ways to make structural improvements that enhance effectiveness. No timeframe for action was provided.

Treasury Considering Structural MMF Rewrite

Deputy Treasury Secretary Muzinich [today](#) emphasized that Treasury has concluded that the MMF breakdowns in March of this year warrant additional and likely structural reform. Treasury and other agencies are considering the extent to which market risks should be considered systemic and thus a renewal of hazards first identified in the 2008 crisis or if the pandemic is sufficiently idiosyncratic as to suggest a different reaction or even none at all. However, MMF reform is under consideration even if Treasury concludes the overall March crisis was not systemic. Mr. Muzinich noted that the SEC's reforms – especially the thirty percent liquidity cushion – may have moved one liquidity cliff – breaking the buck – only to another floor and thus have done little to remedy structural MMF liquidity risk. Consideration is thus being given to whether other bright-line tests are possible or if remaining first-mover advantages require still more change. As noted, FRB Vice Chairman Quarles is heading an FSB task force planning a November report focused on MMF risk and needed reforms, an issue that appears to have taken priority over other “shadow banking” issues also on FSB's agenda in the wake of the pandemic.

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

- **[CRYPTO15](#)**: Continuing Acting Comptroller Brooks' efforts to enhance innovation at national banks and federal savings associations, the agency has now authorized these institutions to hold reserves associated with certain stablecoin offerings.
- **[GSE-092820](#)**: Following its [morning meeting](#), FSOC late Friday released the staff [statement](#) expressing its near-term decision on systemic risk in the secondary mortgage market.
- **[AML132](#)**: FinCEN is beginning a process that, while apparently not revising or eliminating any existing anti-money laundering (AML) requirements, would add an over-arching principle that AML programs be efficient, "reasonably-designed," and capable of providing high-quality information to law enforcement and other government entities.
- **[COVID15](#)**: HFSC's second CARES Act-required hearing with Treasury Secretary Mnuchin and FRB Chair Powell continued to stress the theme that has become apparent ever since negotiations on a Phase IV relief bill stalled: Democrats primarily want additional direct fiscal support and Republicans are pushing for adjustments to existing relief programs funded by unused 13(3) Treasury backstops.
- **[GSE-092220](#)**: As usual, FHFA's [new strategic plan](#) is more rhetorical than real. Still, it has a noteworthy emphasis on ending the conservatorship, promulgating new standards, and enhancing inclusion not just at the GSEs and within FHFA, but also in credit access.
- **[CRA29](#)**: Emphasizing its new focus on racial equity ahead of several Congressional hearings this week, the Federal Reserve Board today unanimously [approved a long-awaited ANPR](#) revising its CRA regulations.
- **[GSE-092120](#)**: Late last week, the [Federal Reserve Bank of New York](#) announced that the Fed bought almost \$56 billion in agency MBS over the past two weeks.
- **[GSE-091720](#)**: [As anticipated](#), today's marathon HFSC hearing with FHFA Director Calabria covered a wide-range of issues we will shortly analyze in detail due to the policy and strategic importance of several exchanges.
- **[FAIRLEND8](#)**: HUD has largely finalized a controversial fair-housing rule as proposed, with the new standards for adjudicating fair-housing disputes giving defendants numerous additional protections.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

- **[GSE-091020](#)**: As we [noted yesterday in our in-depth analysis](#), a CFTC subcommittee has issued a landmark [report](#) laying out an array of climate-change risks it urges policy-makers to prioritize to prevent systemic and sector risks.
- **[COVID14](#)**: Today's Senate Banking hearing on the status of emergency Fed facilities showed even more clearly the dividing lines between Democrats and Republicans on changes to the Main Street Lending program than the CARES Act Congressional Oversight Commission's [recent hearing](#).
- **[GREEN4](#)**: In this report, we analyze an influential and possibly even game-changing [paper](#) released today by the CFTC's Climate-Related Market Risk Subcommittee.
- **[GSE-090320](#)**: As noted in our three summaries of key FHFA comment letters, FHFA was not exactly overwhelmed by heartfelt praise for its GSE capital rule.
- **[COVID13.pdf](#)**: As anticipated, today's House Select Subcommittee on the Coronavirus Crisis hearing with Treasury Secretary Mnuchin reflected contentious negotiations over a phase four rescue package.
- **[GSE-090120](#)**: In this analysis, we continue our assessment of comment letters to FHFA on the [capital proposal](#).
- **[GSE-083120a](#)**: In this report, we begin our assessment of the comment letters on FHFA's [capital proposal](#) that we believe carry the most weight in terms both of FHFA's final rule and what Congress may care to do about it.
- **[GSE-083120](#)**: A new Fed staff study finds wide disparities among the mortgage rates borrowers pay on exactly the same loan that has nothing to do with risk and apparently everything to do with borrower sophistication.
- **[MORTGAGE118](#)**: Despite its pending proposal to overhaul the entire definition of loans eligible for qualified-mortgage (QM) status, the CFPB proposes also to establish an additional class of first-lien, fixed-rate mortgages that are QMs or given a rebuttable presumption of QM status.
- **[GSE-082520](#)**: The CFPB's [proposal](#) to allow QM treatment for certain seasoned mortgages will rewrite a decade's worth of securitized lending if macroeconomic and interest-rate conditions turn favorable.
- **[GSE-082020](#)**: A new study from FDIC staff challenges the predictive models on which much mortgage underwriting increasingly depends, discrediting both workhorse predictive models used across the spectrum of consumer credit as well as the ML-based mortgage models that fare still worse as macroeconomic, policy, and borrower conditions change.
- **[GSE-081920](#)**: Weighing into the GSE-evolution question with its formidable analytical might, CBO [today assesses](#) a likely administrative solution in which the GSEs retain all of their earnings for a

limited period of time following which common stock goes again on offer to the public and Fannie and Freddie go back to being Fannie and Freddie more or less as they were pre-2008.

- [OPSRISK21](#): Although the Basel Committee believes that its post-crisis capital and liquidity framework significantly enhanced bank resilience evident in a robust industry response to the pandemic, this crisis and other developments are said to highlight the need for additional regulatory and supervisory work to improve operational resilience.
- [GSE-081720](#): With the release late Friday of Chairman Crapo's [letter](#) to FHFA, the GSEs' [refi fee](#) announcement has taken fire from a high-impact Senate Republican along with [Ranking Member Brown](#) and [HFSC Democrats](#).