



FedFin Daily Briefing

Wednesday, October 7, 2020

Global Central Bank Prioritizes MMF Reform

Highlighting liquidity mismatches and investor runs in money market and corporate bond funds, BIS General Manager Agustín Carstens [today](#) emphasized that the regulatory framework for nonbank financial intermediaries (NBFIs) requires urgent attention, setting NBFIs reform as a top agenda item for the global central bank. The BIS thus joins the FSB, which now has [implemented a work program](#) to determine if additional global standards are needed. Key BIS concerns include leverage that causes instability due to fire sales and adverse feedback loops. Reform needs to ensure that private entities are resilient and hold reasonable amounts of “self-insurance” to reduce the likelihood and severity of liquidity crises. He does not define what this self-insurance might entail – i.e., whether it would be capital buffers along the lines sought by the FRB after the 2008 crisis, greater liquidity cushions along the lines the SEC sought to implement, a combination of these remedies, or still more buffers.

Treasury Urges Cryptocurrency Caution

Deputy Secretary Justin Muzinich today [highlighted](#) his department’s concern that cryptocurrency may facilitate criminal activity and even threaten financial stability or monetary-policy transmission. Pointing to concerns such as how a private stablecoin might shift out of certain currencies or act if allowed only to hold partial reserves, Mr. Muzinich said that the U.S. and EU must ensure that governments retain control over key policy sectors even as stablecoin innovation advances. As we noted, the OCC has recently adopted a policy on cryptoassets that, while requiring reserving, does not specify how reserves are to be maintained and in what they must be held ([See FSM Report CRYPTO15](#)).

FRB Presidents Express General Commitment to Racial Equity, Policies TBD to Achieve It

The Federal Reserve Bank of Minneapolis [today](#) convened a session focused on racial equity at which Reserve Bank presidents strongly emphasized the central bank’s commitment to ending systemic racism without proposing actions other than a great deal more listening. However, Atlanta Fed President Bostic noted the need for inventive approaches such as CRA community investment incentives and local outreach. Minneapolis Fed President Kashkari cited the need for policymakers to better understand the limits of monetary policy, arguing that QE does not substitute for extended unemployment benefits. Mr. Kashkari also confirmed that the central bank has a PR problem in this area, stating that the average individual may have a general understanding of Fed initiatives but does not necessarily grasp the complexities of its actions.

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

- **[CAPITAL226](#)**: In conjunction with numerous changes to its supervisory stress test (CCAR) for the largest U.S. banking organizations in response to COVID, the Federal Reserve is seeking comment on structural changes to current capital-planning requirements.
- **[GSE-100120](#)**: A troubling new IMF staff paper looks at U.S. housing policy since COVID to uncover some worrisome aggregate and distributional effects.
- **[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.

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- **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.
- **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.