



FedFin Daily Briefing

Thursday, October 15, 2020

Quarles Reiterates Calls for SCP, Treasury, NBFIs Reform

FRB Vice Chair for Supervision Quarles [today](#) outlined reforms that may be required to address short-term funding risk, citing reduced commercial-paper markets liquidity in March. As noted [yesterday](#), the Treasury market also experienced stress, showing the need as well to improve Treasury-market function over the longer term. Mr. Quarles also [reiterated](#) that the FSB's November holistic review will address nonbank financial intermediation and that banks served as a source of strength for the financial system.

Treasury Reiterates Need for MMF-Liquidity Rewrite

The SEC's lengthy roundtable on credit-market risk and interconnectedness revisited the critical question of MMF and other asset-management substitutes for bank financial intermediation. Treasury Under Secretary for International Affairs Brent McIntosh argued that MMF reforms in both 2010 and 2014 made considerable progress, but – [like Deputy Secretary Muzinich](#) – concluded that bright line rules may encourage runs. Policymakers should thus assess if liquidity can be enhanced without a bright line or if a line can be drawn without creating first-mover advantage. Concerned that the sector may again be engaging in too much risk taking, the IMF's Tobias Adrian said that monetary policy should be eased to remove downside risk and regulators should consider if swing pricing is warranted.

The conversation also featured extensive discussion of risk migration outside the regulatory perimeter, with Former NEC Director Gary Cohn stating that interconnectedness has increased because activities previously conducted within the regulatory perimeter such as equity market making are now performed almost exclusively by a handful of nonbanks even though banks remain a conduit for liquidity in equity market making. He also said that credit markets have become dislocated and that a full economic recovery is not possible if banks continue to take on reserves while remaining disengaged from community lending. Former FSB Chair Mark Carney agreed that credit conditions have bifurcated but countered that the analysis cannot be limited to looking at activities purely as banking or nonbanking.

Former PIMCO CEO Mohamed El-Erian chastised the extent to which “society” has become hooked on credit leverage to pursue economic growth, arguing the use of finance to expand growth has gone too far. While central bank intervention was successful in restoring normal market functioning, Mr. El-Erian argues that this worked only in a narrow sense and did not promote systemic health despite apparently-unlimited central bank willingness to backstop markets. This, he said, exacerbates economic inequality as well as creating a K-shaped recovery.

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-101520](#)**: Although direct mortgage discrimination based on race and ethnicity has abated in recent years, a new [study](#) from the Federal Reserve Bank of Boston shows a striking difference in prepayment rates due to refinancing-speed differences directly attributable to race and ethnicity after controlling for an array of well-accepted underwriting risks.
- **[CRA30](#)**: Following opposition to the OCC's CRA rewrite, the FRB has proposed an initial construct that takes some elements of the OCC's approach and adds further and in some cases different provisions to craft what the Fed hopes will become an inter-agency CRA construct in 2021.
- **[BIGTECH](#)**: Last week, the House Judiciary Antitrust Subcommittee released a lengthy, high-impact Democratic [report](#) calling for structural changes to the nation's biggest tech-platform companies.
- **[GSE-100820](#)**: As will soon be detailed in an our in-depth report, the Federal Reserve's long-awaited [CRA proposal](#) is a comprehensive rewrite that, while preliminary, would dramatically change large bank community-focused lending and investing.
- **[CORPGOV31](#)**: In this report, we analyze the strategic implications of enforcement actions against Citibank issued late yesterday by the [Fed](#) and [OCC](#).
- **[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.
- **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](#).