



FedFin Daily Briefing

Tuesday, October 20, 2020

Quarles Targets MMFs, Links to Banks as Top Global Concerns

FSB head and Fed Vice Chairman Quarles [today](#) reiterated that global regulators intend to address the NBFIs risk evidenced at the start of the COVID crisis, when a “dash for cash” precipitated dangerous shocks that propagated through government bond markets. MMFs are a major concern, with the FSB thus looking at financial stability, investor protection, and market efficiency. Mr. Quarles also described various negative feedback loops, leading to shocks across the system that were particularly pronounced in prime and tax-exempt U.S. MMFs, also noting an array of concerns with open-end funds. Mr. Quarles did not discuss potential U.S. responses to these shocks, instead providing a bit more detail on the FSB’s “holistic” review. In addition to bank/ NBFIs linkages, the review focuses on why margin calls were so unexpectedly large and on core-government funding markets with a focus on leveraged investors and dealer capacity. As we noted [yesterday](#), an FRB-NY study concluded that leverage-arbitrage hedge funds were a key funding channel due to the SLR’s impact on prime brokers. We expect no more specifics until the FSB’s report is sent to the G20 in November, and likely few regulatory proposals in the global arena until well into next year. U.S. action will also proceed slowly, although a Trump victory and continuity at Treasury could well lead to more rapid FSOC study and recommendations.

Controversial U.S. NSFR Advances

Leading the way for inter-agency approval, the FDIC today approved a [final NSFR rule](#) that significantly departs from that in the Basel framework ([see FSM Report LIQUIDITY18](#)). Reflecting this, Director Gruenberg strongly objected; it remains to be seen if FRB Gov. Brainard does the same. However, the OCC will agree given Acting Comptroller Brooks’ affirmative vote today. As finalized, the rule eliminates the proposed ([see FSM Report LIQUIDITY26](#)) five percent required stable funding (RSF) factor for unencumbered level 1 liquid asset securities and the ten percent required RSF factor for short-term secured lending transactions backed by level 1 liquid asset securities, instead assigning a zero percent RSF factor to each class. While industry advocates had argued for this change to support repo-market functioning, Director Gruenberg said it frees large banks from any obligation to take responsibility for the liquidity risks of Treasury- and repo-market activities, instead transferring these to the public sector via the Fed. The rule also increases from 50 to 90 percent the available stable funding (ASF) factor for affiliate sweep deposits where less than the full amount of the deposit is covered by deposit insurance. The scope of the rule is also narrowed compared to the NPR, decreasing from 21 to nine the number of institutions that would be subject to the full NSFR; 11 will be subject to a reduced requirement and 15 banks that would have been covered under the NPR are exempt. Disclosure requirements have also been revised, now requiring semi-annual disclosures starting 18 months after a bank becomes subject to the rule. It is effective July 1; an in-depth FedFin analysis will follow.

The FDIC also approved what is expected to be an [inter-agency final rule](#) revising the regulatory capital treatment of investments by advanced-approaches banks in unsecured debt instruments issued by

GSIBs for the purpose of meeting minimum TLAC and long-term debt requirements. Unlike the NSFR final rule, this is substantially similar to the NPR and remains consistent with Basel's standards. However, its scope of application has been narrowed and now covers only Category I and II organizations pursuant to the agencies' tailoring rule ([see FSM Report SIFI34](#)); Director Gruenberg objected due to this. It is effective April 1.

As part of the summary agenda, the FDIC also approved an [inter-agency NPR](#) to codify the agencies' [2018 statement](#) on the role of supervisory guidance. This clarifies that supervisory guidance is not binding law and therefore cannot be the basis of an enforcement action. Instead, the role of supervisory guidance is limited to providing general expectations, priorities, and proper practice. Comment is due 60 days after *Federal Register* publication.

Brainard Presses CRA's Housing-Equality Benefits

FRB Governor Brainard [today](#) stated that CRA incentives are essential to solving what she expects to be severe housing affordability and availability problems in the wake of the pandemic. The CRA also plays a role by encouraging housing-finance access for under-served borrowers, with all of these effects making it essential to get CRA modernization right. Ms. Brainard urged comment on the Fed's pending CRA ANPR ([see FSM Report CRA30](#)), describing several of its key proposals.

GSE Patch Sticks a Little Longer

The CFPB [today](#) finalized its extension of the GSE Patch ([see FSM Report MORTGAGE116](#)), extending the January 10 sunset date until the Bureau finalizes the General QM loan definition and it becomes effective. No timing for this is set. When proposed, the Bureau expected that the Patch would expire no sooner than April 1, but commenters indicated that this date seemed overly optimistic based on the likely timing of finalizing the overall rule. Provisions requiring that the Patch expire with respect to a particular GSE when that GSE exits conservatorship remain unchanged.

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](#).