



FedFin Weekly Alert

Monday, March 1, 2021

❑ TWO TOUGH NUTS

On Tuesday, the Senate Banking Committee will take up the two most controversial nominations to come before it so far from the Biden Administration – those of Gary Gensler to head the SEC ([see Client Report INVESTOR14](#)) and of Rohit Chopra to become director of the even more controversial CFPB. Both nominees have already received [strong endorsement](#) from Banking Committee Chairman Brown (D-OH), but we doubt Republicans will share his enthusiasm. The fate of each confirmation will hang on the extent to which the nominees watch their backs, avoid partisan third-rails, and hold on to all the Democrats essential for approval. We'll of course provide clients with an in-depth analysis of the confirmation hearing, listening for questions as follows:

For Mr. Gensler, top questions include:

- what he wants done with MMFs through the SEC, FSOC or both;
- what digital assets and crypto-currency are good for and how federal regulations should proceed to ensure it;
- next steps on bond-market reform;
- how fast the SEC under Mr. Gensler will revive Dodd-Frank mandated incentive-compensation restrictions ([see FSM Report COMPENSATION33](#));
- whether the SEC will move quickly to initiate the Dodd-Frank demands for more short-selling disclosures [sought by HFSC Chair Waters](#) and, if so, when;
- what will be done to reverse Trump Administration barriers to ESG investing ([see FSM Report ESG2](#)) within the SEC's purview;
- how soon will Mr. Gensler rewrite the controversial best interest rule; and
- how fast will new environmental, diversity, and compensation disclosures be finalized.

For Mr. Chopra, key questions include:

- if he believes that corporate speech should be censured as some have contended;
- his views on whether the Bureau should be a board or commission;
- how he will advance Acting Director Uejio's equality-focused [agenda](#);
- what's next for payday lending;
- the future of disparate-impact restrictions and other ECOA initiatives following the Bureau's over-arching inquiry ([see FSM Report FAIRLEND7](#)); We continue to expect ([see Client Report CONSUMER36](#)) a wholesale rewrite of rules to bring artificial

intelligence and machine learning under them in ways technology advocates are likely to oppose;

- who will come to own consumer-data following the Bureau's recent inquiry ([see FSM Report DATA](#));
- whether credit reporting should be nationalized under the SEC; and
- if not, what should change in credit scores and furnisher responsibilities.

Headlines From the Past Week's Daily Briefings

[February 22](#)

- **Yellen Support for CBDC Puts More Pressure on Fed** - Treasury Secretary Yellen reversed Treasury indifference to a U.S. digital dollar in favor of strong, if cautionary, support of a central bank digital currency (CBDC).

[February 23](#)

- **Peirce Rejects Calls for Post-GameStop Regulation** - SEC Commissioner Hester Peirce deferred GameStop discussion until more facts are in hand, but urged that this case not lead to what she deems to be regulatory excess.
- **CFPB Delays QM Compliance, Retains Patch** - The CFPB indicated it will soon issue a rulemaking delaying mandatory compliance with the General QM Rule ([see FSM Report MORTGAGE116](#)), now set for July 1.

[February 24](#)

- **HFSC Considering New FinCEN Powers to Combat Domestic Terrorism** - HFSC's National Security, International Development, and Monetary Policy Subcommittee will consider four draft bills taking on what has become a key policy concern: domestic terrorist financing.
- **Dems Renew Demand for Political Disclosures, Add Climate-Risk Provisions** - HFSC's Investor Protection, Entrepreneurship, and Capital Markets Subcommittee will meet to consider seven draft bills on climate change and social responsibility and H.R. 1087, which revives longstanding Democratic demands for corporate political-expense transparency.
- **SEC Responds to Pressure, Ups Climate-Risk Disclosure Assessment** - Reflecting pressure sure to be heard in HFSC Capital Markets Subcommittee hearing, the SEC's acting chair directed staff to re-evaluate climate-related disclosures in public securities filings.

[February 25](#)

- **Biden Formalizes End to Trump's Reg-Relief Principles** - Among the Trump executive orders repealed by President Biden is one instructing Treasury to examine laws, rules, and other financial-regulatory actions that contravened the Trump

Administration's principals on efficiency, reduced burden, investor freedom (i.e., no ESG requirements), and an end to moral hazard.

- **Quarles Defends SCB, Announces Additional Model Transparency/Risk Recalibration** - FRB Vice Chairman Quarles continued his quest to refine stress testing and Fed supervision to suit his vision of a more effective and less burdensome system.
- **FSB Accelerates MMF Reform** - FSB Chair Quarles updated G20 finance ministers on the 2021 work program, now detailing delivery dates for previously-announced initiatives.
- **HFSC Members Raise Alarm Over Crypto in Domestic Terrorism Financing** - HFSC hearing on domestic terrorism financing focused on the need to investigate how domestic terrorists fund their activities to reduce their access to the financial system.
- **Syndicated Loans Signal Growing Risk Supervisors to Monitor** - The banking agencies issued their annual syndicated-credit report, now finding a doubling of overall troubled loans and still worse performance in hard-hit sectors.
- **FedFin Assessment: Fed Outage Alters Payment-System, CBDC Debate** - The Fed's payment-system outage comes at a more than awkward time for the central bank's efforts to advance FedNow without ensuring inter-operability.
- **Pressure Grows for Diversity, Climate Disclosures** - At a HFSC Capital Markets subcommittee hearing on climate change and social responsibility, Chairman Sherman (D-CA) led Democrats in pressing for greater climate, diversity, and executive-pay disclosures and for investigations into dark money and tax havens.

February 26

- **SEC Opens Path to Broker-Dealer Digital Services** - Spurred by all the OCC actions authorizing certain national banks to provide digital-asset custody services, the SEC issued a new policy statement seeking comment on like-kind powers along with broader digital-securities services for broker-dealers.
- **FRB Finalizes Governance Standards for BHC Boards** - Deferring if not rejecting 2017 proposed guidance on board responsibilities ([see FSM Report CORPGOV23](#)), the Fed released a new supervisory [letter](#) creating a new construct for domestic BHCs (but not IHCs) with assets over \$100 billion.
- **IOSCO Sets Go-Slow Path on MMF Reform** - IOSCO released its 2021-22 workplan, adding financial stability and systemic risks from NBFIs and COVID-related risks – systemic or not – to its priorities over the next two years.

This Week

Monday, March 1

FRB Minneapolis Virtual Event entitled: "Racism and the Economy: Focus on Housing" [2:00pm]
 Keynote speakers: **Andre Perry**, Senior Fellow, Metropolitan Policy Program, Brookings Institution; **Keeanga-Yamahtta Taylor**, Assistant Professor, Department of African-American Studies, Princeton University. Additional speakers: **Raphael Bostic**, President, Federal Reserve Bank of Atlanta; **Tane**

Danger, Host, “The Theater of Public Policy”; **Bambie Hayes-Brown**, President & CEO, Georgia ACT; **Junia Howell**, Assistant Professor, University of Pittsburgh; **Neel Kashkari**, President, FRB Minneapolis; and **Loretta Mester**, President, FRB Cleveland. *More speakers to come.*

Tuesday, March 2

Senate Banking hearing entitled “Nomination Hearing” [10:00am, Remote] Witnesses: The Honorable **Gary Gensler**, Member Designate, Securities and Exchange Commission; and The Honorable **Rohit Chopra**, Director Designate, Bureau of Consumer Financial Protection.

Thursday, March 4

Senate Banking Committee remote hearing entitled: “Wall Street vs. Workers: How the Financial System Hurts Workers and Widens the Racial Wealth Gap” [10:15am, Remote] Witnesses: **Abbye Atkinson**, Assistant Professor, UC Berkeley Law School; and **Dr. Darrick Hamilton**, Founding Director, Institute on Race and Political Economy, The New School.

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 info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **[GSE-022521](#)**: In a [new paper](#), Lew Ranieri, who needs no introduction, and Mike Calhoun of the Center for Responsible Lending float an important new idea along the way to turning the GSEs into the [utilities](#) presaged by actions under the Trump Administration to recast the conservatorship.
- **[FEDERALRESERVE61](#)**: At today’s HFSC hearing, Chairman Powell not only delivered the same testimony, but faced many of the same questions to which he provided the same answers. He would not, for example, commit to ending the SLR exemption ([see FSM Report LEVERAGE23](#)) or to condition any continuing exemption on capital-distribution restrictions.
- **[GSE-022421](#)**: As anticipated in an earlier FedFin [report](#), we confirm that U.S. banking agencies plan to turn quickly to U.S. implementation of the 2017 “Basel IV” package.
- **[FEDERALRESERVE60](#)**: As usual, Senate Banking’s hearing today with Chairman Powell strayed from monetary policy and post-pandemic prospects to a range of financial-policy critical questions.
- **[REALESTATE24](#)**: Continuing the OCC’s recent actions to expand national-bank powers into unprecedented arenas, the OCC has now proposed major liberalization of the ways in which federally-chartered organizations may use commercial real estate owned as bank premises.
- **[GSE-020121](#)**: While it will take time for the swamped Biden Administration to craft U.S. housing policy, elements of it emerged last week during stimulus negotiations, the [President’s statement](#), and [HUD-nominee Fudge’s appearance](#) before Senate Banking.

- [**CAPITAL227**](#): Although the FRB in its proposal indicated that this rulemaking would also begin consideration of the U.S. large-bank capital framework post-COVID, its final rule largely confines itself to aligning stress-test standards with the 2019 tailoring rule and stress capital buffer (SCB) for Category IV banking organizations.
- [**GSE-012221**](#): The failure of yet another Administration and Congress to conquer the conservatorships does not augur well for constructive policy action anytime soon.
- [**INVESTOR14**](#): In this report, we expand on prior forecasts to assess broad financial-regulatory and structure issues under the SEC's jurisdiction under what seems likely: a Chairman Gensler. His will be an activist SEC, one sure to throw broker-dealers, asset managers, and investment funds from the relative comfort of the last four years.
- [**GSE-012121**](#): As forecast following a landmark CFTC-committee [report](#) and the Fed's financial-stability assessment, [FHFA has now](#) turned to the climate risk that worries them the most: residential real estate.
- [**GSE-011521**](#): Last night, Treasury and FHFA [announced](#) an agreement on the GSEs' conservatorship unsatisfactory to all concerned and highly objectionable to many of those on the Hill with the power to change it.
- [**GSE-011321**](#): Setting Senate Banking's [agenda yesterday](#), incoming Chairman Brown highlighted refi inequality as a top committee priority.