



FedFin Daily Briefing

Thursday, February 11, 2021

Yellen: Innovation is Essential, Must Be Inclusive, Equitable

Late yesterday, the Treasury Department released [Secretary Yellen's remarks](#) emphasizing the critical importance of innovation to protect privacy, enhance AML enforcement, and prevent cryptography abuse. Without providing specifics on policy, Ms. Yellen also highlighted the benefit of responsible innovation to financial inclusion and equity. She also highlighted the importance of bridging the digital divide, suggesting that the digital ID technology addressing AML might be useful to inclusive and equitable financial-services delivery and shrinking “financial deserts” such as those identified when PPP funding first rolled out.

FDIC Grants Recordkeeping Relief as COVID Continues

Reflecting ongoing pandemic stress, the FDIC today issued two time-limited exceptions from the rules governing recordkeeping for timely deposit insurance determination. The [first exemption](#) provides relief from information-technology system and recordkeeping requirements for principal and interest payments held in mortgage servicing accounts, running now until March 31, 2022. The [second exemption](#) covers certain formal revocable and irrevocable trust accounts, deposit accounts requiring data clean up, and deposit accounts held in a trust department where the institution is a fiduciary. This exemption lasts until August 3, 2022 except for the data clean-up exemption, which lasts until February 3, 2022.

FRB-NY Staff: TBTF Subsidy Rises Under Pandemic Stress, Government Interventions

The Federal Reserve Bank of New York's blog [today](#) released a post concluding that the global TBTF subsidy as measured by equity prices believed to back GSIBs increased following COVID and resulting financial stress last year. Investors generally required more compensation for holding large financial firms compared to the largest. But, because subsidy levels decreased after post-crisis reforms, the current GSIB subsidy now is less than pre-2008, remaining moderate compared to historic levels measured by the post author's methodology. Noting that the pandemic was generally costlier to small firms, the post also compares banks to nonbanks, but the funding advantage for large nonbanks is mixed based on sector and uniform for GSIBs. The post notes that its TBTF calculations occurred at a period of unprecedented governmental intervention across the economy, muting bank risk but perhaps reinforcing bailout expectations. As previously noted ([see FSM Report TBTF23](#)), the FSB last year concluded that the GSIB subsidy had largely disappeared due to post-crisis reforms, but it cautioned that its analysis did not include the pandemic and resulting changes in government policy.

SEC Starts Enforcement-Policy Rewrite with a Bang

Reflecting a new SEC policy stance even before Gary Gensler takes charge, the Commission [today](#) made it less likely that firms found to have violated securities law will get waivers from automatic disqualifications from certain, often-critical activities. Going forward, the SEC's Enforcement Division will no longer make waiver recommendations, thus forcing firms to decide on settlements without a waiver commitment. These waivers thus may no longer be “bargaining chips,” with the Commission

statement emphasizing that waivers are not a default position. As previously noted ([see Client Report INVESTOR14](#)), we expect the Commission also to toughen enforcement in others areas (e.g., the non-admit/non-deny settlements that have frequently sparked opposition from Senate Banking Democrats).

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](#).

- [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.
- [CRYPTO17](#): This interpretive letter (IL) follows an OCC advance notice of proposed rulemaking that suggested a notice-and-comment process before the agency made substantive changes to the digital-currency powers of federally-chartered banks.
- [AML133](#): In a cliff-hanger before the end of the 116th Congress, the National Defense Authorization Act was enacted into law with an array of provisions significantly revising U.S. anti-

money laundering (AML) and countering the financing of terrorism (CFT) requirements.

- **ELECTION25**: It will take considerable time for Congress to absorb the meaning of yesterday's insurrection not only in institutional terms, but also and more immediately with regard to each Member's thinking about his or her own policy and political agenda.
- **TMARKET**: As we noted earlier ([see Client Report REFORM200](#)), we do not expect U.S. regulators to extend SLR relief ([see FSM Report LEVERAGE23](#)) after its scheduled March expiration.