



# *FedFin Daily Briefing*

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Friday, February 12, 2021

## **Senate Banking Dems Demand Tougher Insider-Trading Rules**

Senate Banking Chairman Brown (D-OH), Sens. Warren (D-MA) and Van Hollen (D-MD) [today](#) urged Acting SEC Chair Lee to implement insider-trading reforms, calling for improved disclosure and enforcement of safe harbors in which corporate executives may trade their company's stock. This issue will clearly figure in upcoming confirmation hearings for Gary Gensler, perhaps leading the SEC now to accelerate work on this much as it did yesterday for another Democratic concern: [automatic waivers in connection with enforcement actions](#). Reforms sought by the senators include the cooling-off period suggested by former Chair Clayton, public disclosure of executive plans and trades, and improved enforcement of filing deadlines. The SEC is also told to explore better alignment of executive incentives with shareholders and the public, with the Senators also asking for information on processes to ensure plan compliance, plan-related enforcement actions, any work to require a cooling-off period, plans to increase disclosures, and other actions either taken or considered to prevent plan abuse. A response is requested by February 22.

## **Toomey Launches Renewed Attack on Certain Diversity Programs**

Senate Banking Ranking Member Toomey (R-PA) today led a [letter](#) from all Senate Banking Republicans demanding that the SEC block NASDAQ's proposed diversity requirements. The senators argue that, as a quasi-regulatory body, NASDAQ does not have the authority to implement social policy. They also assert that NASDAQ's proposal would actually harm economic growth through burdensome regulatory costs. The senators take issue with what they describe as NASDAQ's narrow idea of diversity and raise concerns that NASDAQ's proposal may violate securities law. Although they do not set a deadline for a response, they ask that the SEC either block NASDAQ's proposed role or explain why it will not do so. We do not expect the SEC to comply with this request, which signals the strong – if unsurprising – tone Republicans will take to any diversity efforts deemed to be a quota. As in the past, this position makes unlikely Senate action on HFSC legislation in this arena.

## **Severely-Adverse Scenario is Still More Dire**

Reiterating confidence in the resilience of the nation's largest banks, the Fed [today](#) released scenarios for the next stress-test round. This will be conducted under the new capital-planning rule ([see FSM Report CAPITAL227](#)), making the quantitative test the principal factor governing capital distribution. In its severely-adverse scenario, the new test tempers last year's unemployment peak, but accelerates the peak to trough range due to lower unemployment at the test's start. The GDP trough through which capital must remain sufficient has been deepened to four percent. Perhaps reflecting growing bubble worries despite Mr. Powell's [sanguine views](#), the new test assumes equity-market drops of 55 percent. Under the scenario, commercial real estate prices drop forty percent and aggregate house prices decline 23 percent, compared to 27 percent in the previous scenario. Housing-price declines are concentrated in areas of extreme appreciation over the previous two years, with banks told to vary average stresses to reflect particularly hard-hit sectors or areas. There are severe recessions pretty much everywhere with dollar depreciation adding to the pain for U.S. banks despite projected flight-to-safety dollar inflows. The path of interest rates is largely unchanged from the previous scenario, with

the 3-month Treasury rate remaining near zero and the 10-year yield falling to 25bps until 2022, when it starts to gradually rise and reaching 1.5 percent by scenario end.

## Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto: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 116<sup>th</sup> 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.