



FedFin Weekly Alert

Monday, March 8, 2021

❑ THE WALL-STREET WHACKER

In addition to confirmation hearings, Senate Banking Committee Chairman Brown (D-OH) has convened three hearings in just about the same number of weeks tagging Wall Street as his villain in chief. In his [opening statement](#) at last month's hearing on rebuilding Main Street, Sen. Brown immediately blasted Wall Street for excluding small and minority-owned businesses, arguing it only measures success by the performance of the stock market rather than workers and communities. The second anti-Street hearing last week ([see Client Report REFORM201](#)) blamed Wall Street for over-complex financial products, predatory lending, favoring capital distribution over capital formation, and a good deal more. The third one fingering Wall Street this week is entitled "Who Wins on Wall Street? GameStop, Robinhood, and the State of Retail Investing." We'll be listening for:

- Who's on Wall Street? Citadel was a target of much HFSC opprobrium when that [panel took up meme mania](#), but it's not often seen as "Wall Street" despite its huge size and market clout. The Depository Trust Clearing Corporation is a bastion of Wall Street and critical in the GameStop saga, but it's also not usually considered "Wall Street," which is instead a sobriquet usually aimed at giant commercial and investment banks. So far, they've been out of the Robinhood line of fire, but Sen. Brown may have other ideas.
- Will a lot of opprobrium be heaped on Wall Street to advance a federal financial transaction tax? We'd bet on it.
- Will any Democrats agree with Ranking Member Toomey (R-PA), who will surely stand up for unrestricted markets and the free enterprise he believes it fosters? Probably not – most panel Democrats disagree with Mr. Toomey and, even if they don't, they're likely not to say so given the animosity between Banking Committee leadership on each side of the aisle.
- Is short-selling by retail investors deemed a good idea but that by hedge funds a practice to be abhorred? Indeed, how does the Senate Banking Committee think the balance should be set between retail investors and the giant financial companies on which they depend directly and indirectly?
- Does Congress want to abolish zero commissions and fractional trading? This would doubtless lead to a Reddit riot, which Congress on both sides of the aisle knows well. Will reforms advance that have the same effect without showing it?
- Are changes coming to payment for order flow? Banking Democrats pushed Gary Gensler hard on this during his confirmation hearing ([see Client Report INVESTOR15](#)),

Federal Financial Analytics, Inc.
2101 L Street, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

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while HFSC Democrats including Capital Markets Subcommittee Chairman Sherman (D-CA) also demanded a review, if not much more.

- Is “best execution” working in customers’ best interest? House Democrats emphatically argued it isn’t, contending there is an implicit conflict of interest between offering order-flow data and executing retail customers trades.
- Will all the focus on trading lead to renewed attention – read attack – on recent changes to the Volcker Rule ([see Client Report PROPTRADE26](#)). We doubt it – Sen. Brown and other opponents have other, better platforms from which to pursue a longstanding cause. However, we’ll be listening just in case.

Headlines From the Past Week’s Daily Briefings

March 1

- **Brainard Favors MMF Buffers** - FRB. Gov. Brainard endorsed two reforms of the ten outlined for fast consideration by the President’s Working Group on Financial Markets late last year: capital buffers or first-mover restraints (e.g., swing pricing, balances-at-risk).
- **A New Fed Housing Mandate?** - During another of the Federal Reserve Banks’ seminars on economic inequality, FRB-Atlanta President Raphael Bostic offered a new interpretation of the Fed’s dual mandate that includes housing opportunity and equity.

March 2

- **Brown, Warren Warn Against Unconditional SLR Exemption** - Unsurprisingly following up on strong statements during a hearing with Chairman Powell, Chairman Brown (D-OH) and Sen. Warren (D-MA) released a letter to federal banking agencies vociferously objecting to any extension of the SLR-denominator exemptions.
- **BIS Analysis: MMF Runs are Liquidity, Not Solvency, Crises** - Weighing into determined FSB and U.S. MMF reform efforts, the BIS released a detailed staff paper building on prior assessments of MMF redemption patterns and resulting systemic risks.

March 3

- **SEC Uses Exam Priorities to Tackle Biden Policy Agenda** - The SEC’s 2021 examination priorities mark an unsurprising and sharp shift from the last four years to many of the priorities Gary Gensler highlighted at the confirmation hearing.
- **IMF Staff: Negative Rates, No Problem** - The IMF released a blog post concluding that negative rates over the past eight years have had largely beneficial effects in terms of easing financial conditions without resulting inflation.

March 4

- **SEC Adds Enforcement Heft to Exam ESG, Green Initiatives** - Building on policies set in its new examination priorities and overall Biden Administration goals, the SEC announced the creation of a Climate and ESG enforcement Task Force.

March 5

- **FedFin Assessment: Big-Bank Commodities Activities Back in the Crusher** - The *Financial Times* [reports](#) that Bank of America made “hundreds of millions” from the “mayhem” of Southwestern power outages.

This Week

Tuesday, March 9

Senate Banking Committee remote hearing entitled: “Who Wins on Wall Street? GameStop, Robinhood, and the State of Retail Investing” [10:00am, Remote] Witnesses: **Professor Gina-Gail S. Fletcher**, Professor of Law, Duke University School of Law; **Rachel J. Robasciotti**, Founder & CEO, Adasina Social Capital; **Dr. Teresa Ghilarducci**, Bernard L. and Irene Schwartz Professor of Economics, The New School; and **The Honorable Michael S. Piowar**, Executive Director, Milken Institute Center for Financial Markets; and **Andrew N. Vollmer**, Senior Affiliated Scholar, Mercatus Center.

Wednesday, March 10

HFSC virtual hearing entitled: “Justice for All: Achieving Racial Equity Through Fair Access to Housing and Financial Services” [10:00am, Cisco WebEx] Witnesses not yet available.

Thursday, March 11

HFSC Subcommittee on Consumer Protection and Financial Institutions virtual hearing entitled: “Slipping Through the Cracks: Policy Options to Help America’s Consumer During the Pandemic” [10:00am, Cisco WebEx] Witnesses not yet available.

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](#).

- **[REFORM201](#)**: Although today’s Senate Banking hearing on Wall Street’s role was poorly attended, it nonetheless captures the theme Chairman Brown (D-OH) intends to guide his work this Congressional session: “Wall Street” incentives adversely affect equity, equality, economic growth, and social welfare and thus require structural, sweeping reform.

- [**INVESTOR15**](#): The Senate Banking Committee today took up two of the more contentious nominations so far to come its way: those for Gary Gensler to chair the Securities and Exchange Commission and for Rohit Chopra to head the CFPB.
- [**GSE-030221**](#): Critics of FHFA policy are finding still more affordable-housing ammunition to add to their anti-PSPA armament.
- [**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.