



# FedFin Weekly Alert

Monday, March 29, 2021

## ❑ ASKED AND ANSWERED

Heading into last week's CARES Act hearings with FRB Chair Powell and Treasury Secretary Yellen, we [raised numerous questions](#) about how the two high-ranking officials will advance financial-services policy in the Biden Administration despite the hearing's ostensible focus on the CARES Act. As we noted in our two hearing reports (see Client Reports [REFORM203](#) and [REFORM204](#)), they didn't disappoint, providing key insights on plans to advance a host of initiatives. We now know that:

- committed though the Fed and Treasury are to climate-change risk management, the U.S. will go slow, an approach also laid out in a [new Fed paper](#);
- activity-and-practice, not SIFI designation, will be FSOC's general approach, starting first with asset management;
- while SLR relief will [end as scheduled](#), the Fed intends shortly to issue a proposal on substantive reforms to it to ensure leverage does not again become a big-bank binding constrain, hopefully via inter-agency action;
- the Fed will not proceed with a CBDC without first obtaining Congressional approval. Any U.S. CBDC would also need to balance privacy and transparency – i.e., it will not be anonymous – and is likely to be a two-tiered system allowing wallets outside the central bank. CBDC will also take new law;
- Secretary Yellen no longer believes capital distribution prohibitions are necessary given the renewed strength of the banking sector; and
- legislation to fix legacy LIBOR contracts is needed.

## Headlines From the Past Week's Daily Briefings

### March 22

- **Banking Agencies Implement Capital Break for Treasury's CDFI, MDI Support -** Facilitating COVID-related relief, the Federal banking agencies as required issued an IFR providing that preferred stock issued under the Emergency Capital Investment Program (ECIP) qualifies as additional tier 1 capital.

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- **Fed Steps Warily Towards CBDC** - Chairman Powell's comments make it clear that the Fed is set on CBDC only after extensive study despite strong Congressional pressure to move quickly.
- **USD LIBOR to Meet Certain Death** - FRB Vice Chairman Quarles said that "there is no scenario in which a panel-based USD LIBOR will continue past June 2023."

### March 23

- **BIS: Mutual Funds Need New Buffers** - Pressing the case for mutual-fund reform, senior BIS staff have concluded that poor liquidity-risk management – not investor redemptions alone — led to acute distress as shown by the fact that bond-fund asset sales exceeded redemptions except where funds have pre-existing, effective liquidity-risk management protocols.
- **FRB Ramps Up Climate-Risk, Scenario Analytical Capabilities** - Continuing her focus on climate change, FRB Gov. Brainard announced a significant increase in the central bank's analytical and supervisory efforts.

### March 24

- **Fed Analytical Framework Buttresses Incremental Climate-risk Action - Framework** - Buttressing the macroprudential approach to climate risk announced by FRB Gov. Brainard, a new FEDS Note outlines a cautionary analytical approach to measuring, anticipating, and mitigating systemic climate risk.
- **FRB-NY: SLR May Adversely Affect Dealer-Bank Intermediation** - The Federal Reserve Bank of New York's blog tackles the SLR-critical question of why financial markets froze last March, causality that — if attributable — will affect the extent to which U.S. regulators decide to revise the SLR denominator and, if they do, get Congress to accept it.
- **Central Banks Told to Take Cautious Steps to Climate-Risk Recognition** - Reflecting the caution epitomized in recent Fed comments, the Network for Greening the Financial System (NGFS) reported on the obstacles confronting incorporation of climate risk into monetary-policy operational frameworks.

### March 25

- **ECB: Central Banking is Distributional, but ECB's for the Greater Good** - The European Central Bank released a lengthy bulletin assessing the extent to which monetary policy has an impact on economic inequality.
- **Toomey Increases Criticism of SEC Climate, ESG Actions** - Continuing his criticism of regulatory climate agendas, Senate Banking Ranking Member Toomey (R-PA) sent a letter to SEC Acting Chair Lee asking for more information on the SEC's new ESG task force.
- **Climate-Risk Standards for Insurers Take Shape** - Again leading the way on key Democratic financial standards, the New York Department of Financial Services (NYDFS) proposed guidance for insurers on integrating climate-risk into their governance, risk management, and business strategies.

- **Big Banks Catch Capital Break** - Doubtless reflecting Secretary Yellen's comment that she no longer opposes big-bank capital distributions, the FRB today unanimously lifted temporary restrictions on dividends and share repurchases, announcing that these will generally end at the end of the second quarter.

## March 26

- **PPP and PPPLF Encouraged Small Business Lending** - Ahead of imminent extension of the PPP, the Federal Reserve Bank of San Francisco has released a paper finding that participation in the PPP and PPPLF increased both small-business and farm lending growth in the first half of 2020.
- **McWilliams: Interagency RFI on AI Coming Soon** - As expected ([see Client Report CONSUMER36](#)), federal bank and consumer regulators will shortly launch significant policy work on AI, with FDIC Chair McWilliams [confirming](#) that work on an interagency RFI is already underway.
- **Dems Push FFIEC to Address Housing-Appraisal Disparities** - A group of over thirty Democratic lawmakers led by Sens. Klobuchar (D-MN), Warnock (D-GA) and Rep. Cleaver (D-MO) [urged](#) the FFIEC to work with the housing appraisal industry to address home-valuation disparities.
- **CBC Increases Pressure on Biden to Pick Baradaran for OCC** - Adding to the already-contentious debate regarding President Biden's nominee for Comptroller of the Currency, Rep. Jamaal Bowman (D-NY) and thirty-three other members of the Congressional Black Caucus [urged](#) President Biden to nominate Mehrsa Baradaran to lead the OCC, saying this would be "transformative."

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## This Week

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### Wednesday, March 31

FSOC Open & Executive Sessions [3:00pm, videoconference] **Preliminary Agenda for Open Session:** Climate change and its potential impacts on financial stability. **Preliminary Agenda for Executive Session:** Hedge fund activity and open-end mutual fund performance during the COVID-19 crisis.

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## 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](#).

- **REFORM204:** Following yesterday's HFSC session ([see Client Report REFORM203](#)), Secretary Yellen and Chairman Powell today faced Senate Banking and, as before, a raft of questions with little to do with the hearing's ostensible focus on CARES Act programs.

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- **[REFORM203](#)**: At today's HFSC hearing on pandemic-relief programs, Members asked also about key financial-policy questions.
- **[GSE-032321](#)**: Last week, [we analyzed](#) a Federal Reserve study showing that unemployment is still inexorably linked to mortgage-default risk.
- **[GSE-032221](#)**: As [we predicted](#), federal banking agencies didn't back down: the [SLR exemption](#) for central-bank reserves and Treasuries is no more as of April 1.
- **[GREEN7](#)**: Today's Senate Banking Committee hearing on climate risk made it clear that the partisan divide evident earlier this week on housing ([see Client Report MORTGAGE119](#)) and much else extends to what financial regulators should do about climate risk.
- **[GREEN6](#)**: Reflecting views of the Biden Administration and those of its nominee to chair the SEC, Acting Chair Allison Herren Lee is requesting public views ahead of more formal proposals revising the climate-risk disclosures to be required of publicly registered companies.
- **[GSE-031721](#)**: As our in-depth report makes clear, the Senate Banking (and Housing!) Committee's hearing yesterday showed the wide partisan chasm between what Democrats and Republicans want of the GSEs.
- **[MORTGAGE119](#)**: Reflecting Chairman Brown's (D-OH) prioritization of the "housing" jurisdiction under Senate Banking, the panel's hearing today addressed not only GSE reform, but a sweeping range of rental and affordable-housing considerations in concert with lending discrimination and housing finance.
- **[UDAP7](#)**: Continuing the quick reversal of numerous Trump-era policies, the CFPB has ended a controversial policy statement providing consumer-finance companies with considerable protection from assertions of abusive acts or practices.
- **[GSE-031621](#)**: A new [FEDS Note](#) unpacks the unprecedented patterns of mortgage default risk during the pandemic to find that unemployment will tell the default tale.
- **[REFORM202](#)**: At a wide-ranging hearing, HFSC today launched its inquiry into racial equity in the financial system. Democrats offered a sweeping array of solutions, with witnesses alleging discrimination in lending and the failure of the banking system for people of color.
- **[GSE-031021](#)**: As previously [noted](#), the CFPB has decided to restore the DTI-based QM along with the patch without withdrawing its price-based QM or the seasoning rule, essentially allowing mortgage lenders to do pretty much anything and sell as much of their volume as Fannie and Freddie will bear.
- **[INVESTRO16](#)**: While Senate Banking's GameStop hearing today continued many of the partisan battles fought when HFSC held its [first hearing](#) on the matter, at least one area of consensus emerged today: the need to decrease settlement times.
- **[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.