



# *FedFin Daily Briefing*

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Monday, March 1, 2021

## Brainard Favors MMF Buffers

FRB. Gov. Brainard [today](#) endorsed two reforms of the ten outlined for fast consideration by the President's Working Group on Financial Markets ([see Client Report MMF16](#)) late last year: capital buffers or first-mover restraints (e.g., swing pricing, balances-at-risk). Capital buffers and minimum balances at risk are perhaps the most controversial of the options outlined by the PWG, but Ms. Brainard's comments reflect a longstanding Fed preference for MMF resilience derived from express buffers, not reliance on investor willingness to absorb loss. However, she reiterated that MMFs are not the only risky investment vehicles, citing off-shore prime dollar money funds and open-end funds with illiquid assets (e.g., bonds). Gov. Brainard also cited other risks targeted for action by the recent FRB stability report ([see Client Report SYSTEMIC89](#)) and FSB ([see Client Report NBF1](#)), including Treasury-market fragility, noting the need for enhanced transparency, backstop Fed facilities, and improved all-to-all trading – each of these is complex and Ms. Brainard thus took no position on any of them. CCPs also came under strain, and the Fed believes they should review liquidity and margin requirements to enhance their own resilience and counter-cyclicality. Finally, Ms. Brainard said that some large banks are close to capital minimums and that the sector as a whole faces downside risk due to future credit losses. She does not directly address the Fed's pending decision as the SLR deadline nears.

## A New Fed Housing Mandate?

During another of the Federal Reserve Banks' [seminars](#) on economic inequality, FRB-Atlanta President Raphael Bostic today offered a new interpretation of the Fed's dual mandate that includes housing opportunity and equity. Mr. Bostic noted that housing falls within the Fed's "full employment" mandate – already an interesting variation on usual references to "maximum employment" because housing inequality undermines economic growth. Further, Fed policies across the spectrum of its responsibilities have significant housing impact. Although Mr. Bostic did not suggest any new Fed actions, noting that the central bank has long focused on housing, this view of the central bank's mandate will surely encourage those calling on the Fed to adopt a broader view of its mandate ([see FSM Report FEDERALRESERVE58](#)). The FRB and Reserve Banks may thus not only initiate new research in this arena, but also consider regulatory or other policy solutions, including the tough stand on lending discrimination Chair Powell promised at hearings last week ([see Client Report FEDERALRESERVE61](#)).

## 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](#).

- [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.
- [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.