



FedFin Daily Briefing

Wednesday, March 17, 2021

CFTC Launches New Unit Scrutinizing Products on Climate-Risk Criteria

Reflecting both the political climate and a prior, high-profile advisory report ([see Client Report GREEN4](#)), the CFTC [today](#) launched a Climate Risk Unit (CRU) tasked with assessing the role of derivatives in understanding, pricing, and addressing climate risk. Intended to support industry-led and market-driven processes, the CRU is charged with ensuring that new products and markets fairly facilitate hedging, price discovery, market transparency, and capital allocation. Engagement and research will also facilitate transition to a low-carbon economy by identifying areas where refinements to either products or the CFTC's approach to them would be beneficial. CRU will also seek to build domestic and international consensus on consistent standards, disclosures, and practices across derivatives products and markets, including with regard to regulatory, capital, and accounting standards. Additional work will consider the development of reliable climate-related market risk data resources and whether regulatory sandboxes are beneficial.

HFSC Tees Up Broker-Dealer Reform Legislation

Chairwoman Waters (D-CA) this morning announced a third hearing on the GameStop frenzy featuring regulators, making clear that reform legislation will follow. At today's second HFSC hearing on GameStop, Chairwoman Waters led Democrats in a push for greater transparency and more investor protections, while Ranking Member McHenry (R-NC) sharply criticized Democrats for what he believes is an attempt to use the GameStop saga to advance a progressive agenda, justify greater regulations, and clamp down on innovation. Capital Markets Subcommittee Chairman Sherman (D-CA) pushed back against Rep. McHenry's view of the hearing as being ideologically driven, while Capital Markets Subcommittee Ranking Member Huizenga (R-MI) echoed Rep. McHenry's concerns. In another partisan divide, Democrats raised concerns about market gamification, while Republicans emphasized fintech's ability to democratize the market. Democrats also pushed to ban payment-for-order flow, a reform Republican members strongly opposed. Many Republican members supported shortening settlement time to T+1, and Reps. Loudermilk (R-GA), Mooney (R-WV) and Rose (R-TN) opposed an FTT. Despite strong disagreements on most issues, there was some joint concern about short selling voiced by Rep. Luetkemeyer (R-MO) and Democrats, with Rep. Luetkemeyer interested in potential limits on the practice.

Powell: SLR, Capital-Distribution Decisions Coming Soon

Refusing to answer several key questions today, FRB Chair Powell said only that decisions on SLR relief and capital-distribution prohibitions are forthcoming in the next few days for the SLR and weeks on distributions. Decisions regarding potential mid-cycle stress tests and scenario analysis will also be announced in coming weeks. Answering a question on financial stability risks, Mr. Powell again noted last year's break-downs in short-term funding markets and reiterated the need for MMF reform, stressing that this work will be a joint effort across federal regulators as recommended in a recent PWG report ([see Client Report MMF16](#)).

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](#).

- **[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.
- **[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.