# FedFin Daily Briefing

**Friday, March 19, 2021**

## SLR Stays For Now, But Change to Come

As we anticipated (see Client Report **FEDERALRESERVE59**), the FRB today decided to let the SLR exemption (see FSM Report **LEVERAGE23**) expire as planned on March 31. The OCC and FDIC did the same, making it unsurprisingly clear that the higher SLR for the largest banks at the IDI level will also again apply after the second quarter begins. Importantly, the Fed also said it will shortly issue a proposal to make substantive, permanent changes to the SLR. These will likely continue to focus on the denominator, surely implementing Basel IV changes (see FSM Report **LEVERAGE11**) to ease the standard with regard to some derivatives and going on to consider a permanent exemption for central-bank deposits. We expect the FDIC and OCC to join this proposal, with the FDIC as always remaining far more cautious about leverage-ratio relief than the other agencies.

In their announcements, the agencies highlighted that they are making this change to encourage, as their boiler-plate language has long had it, lending to households and businesses. Large banks will surely counter that a binding SLR, which is likely to be the case given huge reserve balances, is anything but conducive to other balance-sheet assets, but may be more reconciled to the decision given that it takes the heat off the Fed to reinstate a capital-distribution prohibition. Responding to it today, Sen. Warren (D-MA) praised the Fed's action to reinstate the denominator, but urged vigilance about future regulatory change.

## Global Regulators Craft Bigtech Regulatory Construct

The BIS's Financial Stability Institute (FSI) has released a set of regulatory-policy options advancing global work seeking to govern tech-platform financial-sector offerings. Authorized by the FSI director, the paper is nonetheless not an official document. Although finance remains a small part of revenue for most tech-platform companies, the paper notes how quickly this could change and how some services are increasingly systemic even though small in the context of an individual tech-platform company, with systems scale and resulting risk empowered by big-tech attributes such as data analytics and network effects. After surveying how bigtechs provide financial services and are regulated in this sector, the paper finds an array of gaps in direct rules and problems (e.g., unaccountability, low incentives for effective controls) in partnerships. Bigtech financial infrastructure also raises concentration, contagion, and control risk. Variations in rules governing critical issues such as privacy, cybersecurity, and AML are also cited as significant concerns both within jurisdictions and on a cross-border basis, as is regulatory and supervisory overlap, complexity, and omission.

Based on this assessment, the FSI paper urges domestic and international regulators to assess bigtech risk along the lines identified above and to improve governance as needed. Actions to be considered include expanding entity- or activity-based regulation or creating a bespoke policy for bigtech including non-financial considerations such as competitiveness, although the latter option faces complex definition, jurisdiction, and regulatory obstacles. The paper also includes the call for better regulatory and supervisory cooperation that is a staple in reports of this sort.

## Revived UDAP Back as of Today

The *Federal Register* today includes the CFPB's notice rescinding its previous statement regarding abusive acts or practices, effective today. As noted (see FSM Report **UDAP7**), the Bureau will now return to taking enforcement actions when it perceives abuse regardless of factors such as broader benefits or good-faith compliance efforts. Consumer-finance companies subject to the CFPB thus face greater risk of enforcement actions.

# Waters, Beatty Demand Investment-Bank Diversity Data

HFSC Chairwoman Waters (D-CA) and the chair of the Diversity and Inclusion Subcommittee, Rep. Beatty (D-OH), yesterday sent letters to the country's thirty-one largest investment firms such as BlackRock, Vanguard, and JPMorgan, demanding diversity and inclusion data. Although the letters were not released, they emphasized the need for diversity disclosures to improve financial-industry inclusion to hold institutions accountable. Following yesterday's hearing, they criticized what they see as a failure by investment firms to prioritize diversity and inclusion, asking for data from 2016 forward on workforce and board diversity, spending with diverse suppliers, and challenges implementing diversity and inclusion policies. The statement includes a full list of firms that received requests.

## 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.

- **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.

- **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.

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