FedFin Daily Briefing

Wednesday, March 31, 2021

FSB Launches Third Review of Resolution Key Attributes

The FSB today launched its third peer review on implementation of the FSB's Key Attributes of Effective Resolution, seeking views regarding progress on bank resolution planning and resolvability assessments since the last review in March, 2016. The new review focuses on DSIBs and GSIBs, with comments sought on DSIB resolution planning, challenges arising from Key-Attributes implementation (see FSM Report **RESOLVE9**) and common material inconsistencies or gaps. Recommendations to address these inconsistencies are also solicited, with the FSB warning that this effort focuses only on national practice, not institutions. Feedback is due July 4.

Basel Committee Turns to NBFI Interconnectedness

The Basel Committee's governing body of central-bank heads and supervisors today issued their latest edict on global bank regulatory priorities. Consistent with prior statements putting Basel III to bed, the Basel Committee is now instructed to continue its work to ensure proper implementation, assess emerging risks, and increase supervisory cooperation. A new work plan will be released in April, with Basel clearly turning now also to address the NBFI agenda set earlier this year by the FSB (see FSM Report **NBFI**). Today's document provides no further detail but suggests, as we anticipated (see Client Report **MMF16**), that new standards will not only directly address NBFIs, but also bank interconnectedness to them. The FSOC last sought to do so in 2016 (see Client Report **ASSETMANAGEMENT3**), and we expect that incomplete effort to form the basis of bank-focused work on NBFIs in the U.S. later this year.

Basel Finalizes Operational-Risk Resilience Standards

In addition to the new work plan addressed in an earlier FedFin report, the Basel Committee today released final versions of sound principles for operational risk management and principles for operational resilience. As discussed in FedFin analyses of each Basel proposal (**see Client Report OPSRISK18** and **OPSRISK21**), both statements are very general, following longstanding operational-risk principles with clarifications designed to increase focus on new threats arising from cybersecurity, remote work, and pandemic disruptions. We do not expect significant change to U.S. business-contingency, cyber-security, and related supervisory requirements. However, a key Basel operational-risk rule -- new capital standards (see FSM Report **CAPITAL200**) – remains unaddressed in the U.S. The banking agencies plan later this year to proceed with it along with the other capital changes finalized by Basel in 2017.

BIS Head: Space for Private Sector in CBDC

BIS General Manager Agustín Carstens today argued that well-designed CBDCs would be a safe, neutral, and final means of settlement for the digital economy, spurring more efficient payment systems and improving public welfare. CBDC must thus be account, not token based, act primarily as a means of payment rather than as a store of value, and be small relative to the financial system. Consistent with Chairman Powell's recent comments (see Client Report **REFORM203**) the BIS head said also that CBDC should not upend the two-tier financial system, with banks continuing their intermediation role. However, Mr. Carsten suggested that central bank control inflows may be needed to prevent "digital runs" from banks to CBDCs in times of crisis, possibly via cash-line restrictions. Banks or other private payment service providers would open accounts for users and conduct KYC checks to ensure AML/CFT compliance.

Notably, he predicts that CBDCs could lead to new, nonbank participants in the payments market, fostering greater competition that leads to lower transactions costs and encourages innovation. Mr. Carstens also argued that CBDC would enhance the efficiency of cross-border payments by integrating national payment systems, and globally coordinated CBDCs could provide an alternative to privately-issued stablecoins or cryptocurrencies.

CFPB Revokes Enforcement Relief

The CFPB today rescinded seven 2020 policy statements that provided regulatory flexibility due to the pandemic. These statements offered HMDA-reporting relief, eased appraisal requirements, deferred credit-card and prepaid-account data collections, eased FCRA supervision, suspended billing-error resolution enforcement, and reduced electronic credit-card disclosure supervision. The Bureau is also rescinding a 2018 bulletin changing how CFPB examiners communicate supervisory expectations, replacing it with a statement that the CFPB will continue to rely on MRAs and laying out the circumstances under which it intends to do so. In announcing the recissions, the Bureau says it is returning to a supervision and enforcement stance that exercises the full scope of its authority under Dodd-Frank. The recissions are effective tomorrow.

FSOC Prioritizes Open-End, Hedge Funds

Chairing her FSOC meeting today, Secretary Yellen deferred FSOC MMF work to the SEC, turning instead to open-end funds. The secretary has now requested an interagency assessment of whether additional reforms are needed, specifically looking at leverage and liquidity. Hedge funds also pose leverage and liquidity risks, leading FSOC now to restart its Hedge Fund Working Group to share data, identify risk, and address systemic risk. Sec. Yellen also began an interagency working group on the short-term Treasury market focusing in particular on liquidity problems during the March, 2020 dash-for-cash. Rebutting GOP assertions that climate risk is outside the purview of financial regulators, Sec. Yellen and agency heads laid out ongoing work and emphasized climate-change prudential risk.

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.

- **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.
- **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.

- **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.