



FedFin Daily Briefing

Tuesday, June 22, 2021

FCA Charges Ahead on Climate-Risk Disclosures

As [controversy swirls in the U.S.](#), the U.K. continues to [mandate climate-risk stress tests](#) and [today](#) proposed to refine its climate-risk disclosure regime. The Financial Conduct Authority has jurisdiction unmatched in the U.S. to govern disclosures from issuers, asset managers, pension providers, and insurers. It today proposed to expand its general approach – which is based on the [FSB's framework](#) – to a wider class of equity issuers. The FCA's [second consultation](#) demands climate-risk disclosures from asset managers, insurers, and pension providers, focusing first on climate risk as stipulated by the FSB and planning over time to expand mandatory disclosure protocols also for other ESG offerings. The FCA believes that varying climate-risk disclosures now confuse consumers and investors and may even fail to reflect true ESG considerations. Comment on both consultations is due on September 10.

Fed Extends Comment Deadline on Controversial Interchange Rewrite

The FRB [today](#) extended the comment period on its controversial proposal to change Regulation II ([see FSM Report INTERCHANGE8](#)). As noted, the proposal leaves interchange-fee restrictions intact but would require all debit-card transactions are enabled for processing on at least two unaffiliated payment-card networks for card-not-present transactions. Comments are now due August 11.

Senate Banking: Dems Prioritize Beneficial-Ownership Registry, Bipartisan Support for Anti-China Sanctions

Today's Senate Banking confirmation hearing for two key Treasury positions – Brian Nelson to be Under Secretary for Terrorism and Financial Crimes and Elizabeth Rosenberg to be Assistant Secretary for Terrorist Financing – featured bipartisan interest in strong sanctions and cryptocurrency controls, as well as Democratic support for implementation of the new AML law ([see FSM Report AML133](#)). Chairman Brown (D-OH) noted the need to prioritize the beneficial ownership registry, an issue also addressed in the anti-China bill (see forthcoming FedFin in-depth report). Sen. Warren (D-MA) highlighted her “Ending Too Big to Jail Act” which would require bank executives to certify that no fraud is occurring at their bank and then hold them personally liable if that is not the case. Sen. Warren's bill would also overhaul the use of deferred prosecution agreements and give FinCEN the ability to investigate criminal activity without DOJ involvement.

Also reflecting issues in the anti-China bill, Ranking Member Toomey (R-PA) and Sens. Menendez (D-NJ), Hagerty (R-TN), and Tillis (R-NC) worried about Chinese violations of Iranian oil sanctions and Sen. Van Hollen (D-MD) expressed concern that no financial institutions have been sanctioned under the Hong Kong Autonomy Act. Sen. Daines (R-MT) also worried about Chinese money laundering in the United States; Mr. Nelson noted the importance of the new beneficial ownership reports. Sen. Cortez Masto (D-NV) highlighted cryptocurrency fraud, asking how the witnesses would work with federal regulators to combat crypto “heists”; Mr. Nelson would prioritize implementing the new AML law. Ms. Rosenberg noted the need to “examine” the AML/CFT regime in order to ensure that it is applied to crypto consistently and appropriately. Sen. Lummis (R-WY), on the other hand, emphasized the increasing strength of law enforcement's investigate tools in the digital asset space, asking how best to treat digital assets that comply with BSA/AML; Mr. Nelson noted the need to be less focused on technology and more on crime.

Waters: Extend Foreclosure Moratorium

In a [letter](#) to the heads of HUD, USDA, VA, CFPB, and FHFA, HFSC Chairwoman Waters (D-CA) urged that each extend its moratorium on foreclosures until the CFPB implements its [mortgage-servicing rule](#). As proposed, that rule would protect mortgage borrowers using forbearance from foreclosure until at least January 1. However, the CFPB rule may not be finalized until August, leading the chairwoman to argue that there will be a gap in borrower protection. The Chairwoman contends extensions are needed because servicers may not be able to effectively communicate with borrowers regarding available mortgage assistance options, noting investigations from both HFSC Staff and HUD's OIG finding that some servicers initially failed to inform borrowers about forbearance or provided misleading or inaccurate information.

SF-Fed President: Climate-Risk Under Review, No Action Imminent

The president of the Federal Reserve Bank of San Francisco, Mary Daly, today [detailed](#) the economic and financial impact of climate risk but reiterated that the Federal Reserve is in a watch-and-study phase rather than planning near-term monetary or regulatory policy intervention. Ms. Daly described the Fed's new office focusing on climate risk as well as detailing monetary-policy thinking on questions such as climate risk's impact on the neutral interest rate. She also described the need to understand better the pace of structural change resulting from climate risk prior to crafting Fed policy, describing Fed data-gathering and convening actions. Ms. Daly makes no mention of specific actions such as the [climate-risk disclosures](#) demanded by the President nor of the pressure from Congress to incorporate climate risk in stress-testing scenarios (see forthcoming FedFin report).

Powell: Digital IDs Key Question for CBDC

In testimony today to the House's Select Subcommittee on the Coronavirus, Chairman Powell reiterated that inflation will be transitory, while acknowledging that inflation has been larger and may be more persistent than expected. In response to questioning from Rep. Foster (D-IL), Mr. Powell indicated that a secure digital ID will likely be needed for CBDC, making this among the issues covered in the Fed's CBDC [discussion paper](#) later this summer. Led by Ranking Member Scalise (R-LA), Republicans worried about inflation and labor shortages, while Rep. Maloney (D-NY) countered that the Fed will raise interest rates too early.

Echoing recent Congressional concerns about China and the dollar's reserve-currency status ([see FSM Report CBDC4](#)), Rep. Green (R-TN) worried about China and Russia dumping the dollar and forming their own alliance. Although this issue is not on Mr. Powell's radar, he argued that the U.S. dollar does not face any real competition. Joining the Committee briefly at the end of the hearing, HFSC Full Committee Chairwoman Waters (D-CA) thanked Mr. Powell for his "leadership and creativity" during the pandemic, adding that although she has never been particularly worried about inflation, she would like to "keep an eye" on it.

Chairman Clyburn (D-SC) highlighted restrictions that he believes made Main Street's loans unattractive to many businesses and banks, and Rep. Maloney asked what adjustments the Fed could make to increase the effectiveness of Main Street for future crises; Mr. Powell believes that Main Street was very effective, although it shows the difficulty of reaching small businesses. PPP will be most useful in reaching small businesses going forward.

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](#).

- **CHINA16**: The Senate has passed by a wide margin legislation taking an array of actions to counter the threat now seen to be posed by the People's Republic of China.
- **GSE-061721**: We have reviewed FHFA's massive [report to Congress](#) on its 2020 activities, finding only lots of handy facts and no significant policy insights.
- **GSE-061621**: As [detailed in our new in-depth report](#), the Basel Committee is proposing a new regulatory framework for bank exposures to cryptoassets that will influence not only what banks do in this critical arena, but also what the GSEs can do and thus what happens to the [digital mortgage](#).
- **CRYPTO19**: Advancing some of the most controversial ideas in a 2019 discussion paper, the Basel Committee has now formally proposed capital, liquidity, risk-management, and supervisory standards it believes nations should apply to bank cryptoasset exposures.
- **CBDC5**: Kicking off Congressional action on CBDC, the hearing today in Senate Banking's Economic Policy Subcommittee made it clear that, as we forecast, progressive Democrats such as Chairwoman Warren (D-MA) are strong supporters of a U.S. CBDC that not only facilitates payments, but also supplants retail banks and other private-sector consumer-finance entities.
- **GSE-060821**: This Friday, FSOC will meet in closed session to craft its agenda for 2021 and beyond. Housing and the GSEs will figure prominently in this work plan, but not as you might think.
- **PAYMENT23**: Continuing work on a priority set by the Group of Twenty heads of state, the FSB in consultation with other global bodies is seeking views on how best to measure progress towards the G20's goal of a faster, safer, cheaper, transparent, and inclusive cross-border payment system.

CBDC4: Members of Congress have launched an initiative to secure continued dominance of the dollar as the globe's reserve currency, focusing on the extent to which China could over time threaten this via its own CBDC along with strategic financial activities such as its Belt and Roads initiative.
- **GSIB19**: Although the GSIB CEOs got another earful at HFSC's marathon hearing yesterday, it – like the Senate Banking session that preceded it (see Client Report GSIB18) – generated more anger than clear action plans.
- **CRYPTO18**: Following an array of actions by the OCC, the FDIC has begun its consideration of the rules governing insured depository institutions (IDIs) engaged in digital-asset activities.
- **GSIB18**: As anticipated, Senate Banking progressives today excoriated big-bank CEOs for what Chairman Brown (D-OH) describes as their preference for profit over public welfare.
- **ACCESS**: The Federal Reserve's latest wellbeing survey provides important, new insights into how Americans view their financial-services firms at a time of heightened focus on access and equity.
- **REFORM206**: In the one-two punch [we anticipated](#), Senate Banking Chairman Brown (D-OH) convened today's hearing with FRB Vice Chairman Quarles not only to lambast supervision and regulation under

Mr. Quarles' watch, but also to reiterate the malign role [he believes](#) big banks play in the U.S. economy ahead of tomorrow's hearing with GSIB CEOs.

- [GSE-052521](#): President Biden has issued an executive order (EO) setting in motion a series of administrative actions designed to reduce both climate risk in the financial sector and in any way financial companies make it worse.
- [GREEN8](#): President Biden has issued an executive order (EO) setting in motion a series of administrative actions designed to reduce both climate risk in the financial sector and in any way financial companies make it worse.