



FedFin Weekly Alert

Monday, August 30, 2021

❑ BACK TO (GREEN) BUSINESS

While Congress and media attention will be preoccupied with Afghanistan, infrastructure, and the budget bill when it returns, House and Senate committee work before the summer recess will also press on. This will very much include climate risk given its top-priority importance to Democrats and their electoral base. Although most of the focus on climate risk will come in the context of the infrastructure and budget battles, finance won't be forgotten. HFSC and Senate Banking will thus turn to the climate-risk initiatives launched earlier this year. These include two major initiatives we assessed in depth last week:

- **Stress Tests:** [FSM Report GREEN9](#) analyzes legislation introduced in both chambers directing the Fed quickly to implement mandatory climate-risk stress testing for large banks and nonbanks. Firms would be required to submit remediation plans, and the FRB could impose restrictions or even outright bans on capital distributions when a plan is deemed insufficient.
- **Risk-Based Capital:** [FSM Report GREEN10](#) assesses a discussion draft of legislation on HFSC's radar that would require high-cost penalty capital requirements on most bank exposures to entities with ties to fossil fuels. The three-pronged capital approach would also implement a capital surcharge on large BHCs whose activities are deemed to increase greenhouse-gas emissions, encompassing a broader set of activities than those simply tied to fossil fuel companies and packing an even bigger punch. However, as we point out, a raft of methodological challenges is unaddressed.

Headlines From the Past Week's Daily Briefings

[August 23](#)

- **GOP CFTC Commissioner Tries to Circumscribe Its Crypto Powers** - Doubtless countering Chairman Gensler's high-profile comments about the scope of broad federal securities and derivatives law, Republican Commissioner Dawn Stump published an infographic laying out her arguments for the bounds of CFTC authority.

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- **Emphasizing Benchmark Choice, Agencies Still Stand by SOFR** - Highlighting their commitment to LIBOR-replacement rate choice, Treasury Secretary Yellen, FRB Chairman Powell, SEC Chairman Gensler, and other regulators sent a letter to corporate advocacy groups emphasizing the need for rates based on borrower preference.

August 24

- **SEC Launches Broad-Scope Review of Digital Brokerage** - SEC Chairman Gensler announced in a Reuters exclusive that the agency will very shortly issue a “sweeping” consultation on digital-engagement practices.
- **SF Fed: Ultra-Low Rates Accelerate Bank-Profit Woes, Disintermediation** - The San Francisco Fed released a staff letter concluding that ultra-low and negative monetary-policy rates exacerbate the adverse impact on bank profitability and financial intermediation when rates drop further due to the effective zero lower bound on household-deposit rates.

August 25

- **New GSE Affordable-Housing Policy Advances** - The *Federal Register* includes FHFA’s proposed housing goals for Fannie and Freddie.

August 26

- **Global Supervisors Urge Adherence to Step-In Risk Guidance** - The BIS Financial Stability Institute (FSI) reinforced the importance of Basel’s 2017 step-in risk guidelines.
- **Toomey Seeking Input on Light-Touch Crypto Legislation** - Continuing his push for light-touch crypto regulation, Senate Banking Ranking Member Toomey (R-PA) issued a call for ideas and legislative proposals to ensure federal law supports cryptocurrency and blockchain network development while also protecting investors.

August 27

- **McWilliams’ Innovation Push Silent on Controversial Charters** - In [remarks](#), FDIC Chair McWilliams reiterated her commitment to innovation but outlined steps to enhance it only in areas such as tech sprints.
- **Gensler Targets Conflicts, Investment Advice in Anti-Gamification Push** - Following SEC Chairman Gensler’s announcement of an upcoming consultation on broker and investment-adviser digital-engagement practices (DEPs) [earlier this week](#), the SEC issued an RFI on the use of DEPs—including predictive data analytics, differential marketing, and behavioral prompts (e.g., gamification).

This Week

No meetings of note.

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](#).

- [GREEN10](#): House Democrats are considering legislation to mandate a punitive capital construct for bank and, in some cases, also to certain nonbank exposures to companies with fossil-fuel links.
- [GREEN9](#): Legislation from House and Senate Democrats would force the Federal Reserve quickly to implement mandatory stress testing for all large banking organizations and large nonbanks judged by asset size if they are principally engaged in finance.
- [GSE-082321](#): In this in-depth report, we build on our [preliminary analysis](#) of the CFPB's latest HMDA-data assessment. As we noted on Thursday, the agency chose to highlight its totally-unsurprising finding that the mortgage market was hot, hot, hot in 2020.
- [ACCESS3](#): Although states and localities continue to ban merchants from refusing to accept cash, federal legislation is also pending to create a nationwide ban on such practices and govern how cash must be accepted to enhance equality without facilitating money laundering.
- [GSE-081821](#): As we anticipated when Sandra Thompson [took over](#), FHFA's [newly-proposed approach](#) to the GSEs' affordable-housing goals tackles longstanding criticism that the old measurement criteria promoted gentrification.
- [PREEMPT38](#): The chairmen of the Senate Armed Services and Banking Committees, together with many Democratic colleagues, have introduced legislation to extend the interest-rate ceilings in the Military Lending Act (MLA) to all consumers.
- [GSE-081321](#): FHFA today [released](#) both the 2020 and 2021 stress-test results for Fannie and Freddie.
- [GSE-081121](#): As we briefly noted [yesterday](#), the CFPB released a [report](#) assessing how the largest servicers handled borrowers over recent, chaotic months.
- [LIBOR6](#): The House Financial Services Committee has reported H.R. 4616, a bill designed to prevent the chaos feared when the use of the LIBOR benchmark ceases for legacy contracts that lack language authorizing reliance on an alternative, "fallback" rate.
- [GSE-080421](#): A new [Fed study](#) finds a significant mark-up in the cost of mortgages during the 2020 boom even though government guarantees secured continued mortgage supply for all but the lowest and highest ends of the housing market.