



FedFin Daily Briefing

Wednesday, September 29, 2021

HFSC Yellen, Powell Hearing Sure to be More than Lively

Although the HFSC Democratic [staff memo](#) suggests tomorrow's hearing with Chair Powell and Secretary Yellen will focus on pandemic-relief programs, we expect it instead to devolve to the kind of heated debate evident at yesterday's Senate Banking session ([see Client Report REFORM208](#)). Questioning will thus focus on the debt ceiling, Reserve Bank trading, Mr. Powell's renomination, and big-bank mergers. However, Treasury's efforts to prevent eviction will be a primary focus for Chairwoman Waters (D-CA), as will homeowner assistance along lines in the pending [economic-stimulus legislation](#). We also expect Ranking Member Toomey (R-PA) and other Republicans to echo Senate GOP concerns about what they believe to be a "social agenda" of climate-risk and diversity regulation, with a good deal of focus on both sides of the aisle also on China and CBDC. As always, we will provide clients with an in-depth analysis shortly after the hearing concludes.

Global Supervisors Renew Demand for Bigtech Standards

The BIS's Financial Supervisory Institute (FSI) today [issued](#) its latest bigtech assessment. Largely a survey of global actions, it concludes that competition (i.e., antitrust) policy is the focus of recent efforts in most surveyed nations. Work is under way also on data, conflict, and operational and systemic risk, with the report reinforcing the [BIS's overall view](#) that bigtech firms cannot be adequately governed by activities-based standards and require an entities-based (i.e., designation) strategy. The FSI believes this is already under way in several unnamed regimes, with these initiatives differing so markedly that the FSI calls for heightened international cooperation to prevent regulatory arbitrage or fragmentation.

Basel Capital, Liquidity Compliance Gaps Grew in 2020

In its latest monitoring [report](#), the Basel Committee finds a significant jump to 2.9 percent from 1.8 percent in the amount of capital the largest banks need to comply with the final Basel III/IV framework. This is, Basel says, attributable to some significant outlier banks along with capital relief during the 2020 pandemic. Leverage-ratio compliance was more robust above the three percent global minimum, but Basel notes that this in part results from the exclusion of central-bank reserves from the LR denominator during the crisis. The number of banks with LR shortfalls and the size of their shortfalls increases -- often significantly -- when adding these assets back into the denominator as Basel assumes will be done in concert with full Basel III/IV implementation. While LCR and NSFR ratios sharply rose across all surveyed banks, seven large banks fell below a 100 percent LCR versus only one in 2019. This is attributed to emergency reliance on reserves under stress. These findings demonstrate significant challenges to full implementation of the final Basel III/IV framework yet even to be proposed in the U.S. It also suggests that at least some global banks decided against buffer draw-down because they were considerably closer to minimum global standards than domestic regulators may have realized.

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](#).

- **MERGER7**: In a wide-ranging hearing today, HFSC's Consumer Protection and Financial Institutions Subcommittee showed the extent to which Chairwoman Waters (D-CA) and progressive Democrats are

wary of large-bank mergers.

- **REFORM208**: Although today's Senate Banking hearing with Chairman Powell and Secretary Yellen was largely taken up by the debt ceiling, Sen. Warren (D-MA) made it very clear that progressives will mount an aggressive campaign against Mr. Powell, calling him a "dangerous" man.
- **GSE-092421**: According to a group of Senate Democrats, the answer to this question for a new class of federally-backed mortgages is "out of debt."
- **GSE-092221**: Getting a bit ahead of FHFA's new [equitable-finance mandate and its express demand for appraisal equity](#), Freddie Mac has released a detailed [study](#) of one of the most significant barriers to housing-finance equity: discriminatory appraisal practices that reduce the chances for wealth accumulation.
- **DATA2**: Today's HFSC Fintech Task Force Hearing featured an appearance by Full Committee Chairwoman Waters (D-CA) arguing against consumer opt-out.
- **PUSH-OUT14**: As [we noted](#), SEC Chairman Gensler's written Senate Banking [testimony](#) included a short – but very significant – statement prioritizing Commission review of key fixed-income market sectors.
- **GSE-091621**: As [we noted](#), FHFA wasted no time after the [PSPA revision](#) with its proposed changes to GSE capital [regulation](#).
- **GSE-091521**: As noted [yesterday](#), Treasury and the FHFA pulled the Trump PSPA's plug, although importantly and widely overlooked is that this is true only when it comes to near-term asset-purchase considerations.
- **INVESTOR18**: As is often the case, Senate Banking's hearing today with SEC Chairman Gensler did not touch on the fixed-income structure questions highlighted in his [written testimony](#) even though these could be among the most consequential for long-term capital-market regulation and the balance between the Fed and SEC in this key arena.
- **GSE-091021**: Soaring house prices have of course aroused lofty housing-bubble worries.
- **GSE-090821**: As Karen Petrou's [Monday memo](#) forecast, FHFA is doubling down on an already-ambitious work plan to make Fannie and Freddie the epitome of mortgage-finance equity.
- **SMBUS27**: Turning again to a provision in the 2010 Dodd-Frank Act, the Bureau of Consumer Financial Protection has issued a sweeping proposal to implement small-business and small-farm lending disclosure requirements akin to those long required under the Home Mortgage Disclosure Act (HMDA).
- **GSE-090121**: A [major paper](#) delivered at last week's Jackson Hole Fed meeting shows – we think conclusively – that it's not demographics that keep interest rates so, so low, but wealth inequality.
- **OVERDRAFT10**: Senior Senate Democrats have proposed legislation that would sharply restrict most transaction-account overdraft fees to the point of likely eliminating them for most consumers at most depository institutions.
- **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.

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