



Thursday, October 7, 2021

## Brainard: Fed to Issue Climate Scenario Analysis Guidance

Confirming Fed Chair Powell's comments ([see Client Report REFORM209](#)), Gov. Brainard [today](#) said that the Fed will issue large-bank supervisory guidance on climate scenario analysis without providing timing, whether it will be proposed for comment, or details. The guidance will guide efforts to measure, monitor, and manage material climate-related physical and transition risks but will not be the equivalent of the stress tests sought by Democrats ([see FSM Report GREEN9](#)) because data to assess links between climate risks and economic outcomes are problematic. Scenario analysis may also include a review of insurance and other hedging because, Gov. Brainard says, stress may be transmitted through a sudden repricing of insurance contracts or by withdrawal of coverage. While voluntary disclosures are an "important first step," consistent, comparable, and mandatory disclosures are needed to ensure climate risks are managed on a consistent basis. Still, these are to come from the SEC, not Fed; Gov. Brainard's comments here confirm that our forecast of near-term action following President Biden's climate-risk executive order ([see FSM Report GREEN8](#)) correctly anticipated only near-term SEC action on mandatory reporting.

## FSB: Varying National Stablecoin Standards Present Arbitrage, Fragmentation Risk

The FSB [today](#) updated progress on its high-level recommendations on global stablecoin (GSC) arrangements ([see FSM Report CRYPTO14](#)), laying out work to date even as much more needs to be done. [As previously noted](#), we expect the U.S. shortly to ramp up its stablecoin work, following the FSB's lead but likely gold plating it in several areas. Reporting jurisdictions have varied implementation approaches that the FSB concludes present regulatory-arbitrage and market-fragmentation risk. Global regulators also highlight several areas for further work, including the conditions for qualifying a stablecoin as a GSC, prudential and investor protection, and issuer, custodian, and provider requirements. The FSB also wants standards for redemption rights along with more cross-border and sectoral cooperation and mutual recognition and deference. FSB will review its current high-level recommendations in January and complete it by July, 2023. Global regulators then will update the recommendations if warranted.

## Cleveland Fed: Bank Consolidation Does Not Lead to Banking Deserts

New research from Cleveland Fed Staff [finds](#) that, despite banking-industry consolidation, rural and urban consumers have not experienced decreased banking access measured by the nearest full-service branch. According to the study, the nearest full-service branch for urban consumers has remained stable over the past twenty years, with an average of 1.5 miles to the nearest bank branch. The average distance for rural consumers has decreased, but only from 4.6 to 4.3 miles.

However, this is not to say that consolidation has not affected choice and thus competition. The study concludes that banks now favor increasing branches via consolidation without branch closings rather than through organic expansion. Since 2000, the average number of per-bank full-service branches increased from 11 to 19 even though there were fewer banks. Thus, consumer access is unaffected by consolidation but there is now less choice of bank.

These findings contradict one key assertion in the Biden executive order on competition ([see Client Report MERGER6](#)), which opposes bank mergers on grounds of banking "deserts." The Warren [anti-merger bill](#) (see forthcoming FedFin analysis) also is based in part on assertions of diminished access. Those seeking to oppose bank consolidation may have more solid ground on competitiveness arguments, but banks will surely counter that the operational efficiencies that allow acquirers to retain most acquired branches provide

an array of consumer and market developments. Absent consolidation, at least one of the banks involved in these transactions might well have a considerably smaller footprint with still more adverse access and competitiveness consequences.

## Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- **INVESTOR19**: As [anticipated](#), today's HFSC hearing with SEC Chair Gensler covered the full SEC agenda, although members steered clear of the SEC investigation demanded by Sen. Warren (D-MA) into recent Fed trading.
- **CBDC8**: As we [noted](#) last week, the BIS and seven major central banks have advanced global CBDC policy with three new reports evaluating key design features.
- **GSE-093021a**: Now that we have FHFA's comment deadline – November 26 – we expand our [initial analysis](#) of FHFA's capital rewrite into a more detailed assessment of its strategic impact.
- **REFORM209**: In very sharp contrast to the Senate Banking session on Tuesday with Chairman Powell and Secretary Yellen ([see Client Report REFORM208](#)), today's HFSC session was largely devoted to partisan wrangling over monetary policy, the debt ceiling, and the Biden Administration's overall fiscal policy.
- **GSE-093021**: Late yesterday, Senate Banking Ranking Member Toomey sent letters [to Secretary Yellen](#) and FHFA [Acting Director Thompson](#) strongly protesting the [PSPA rewrite](#) and [pending capital proposal](#).
- **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 clearly 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.