Tuesday, October 12, 2021

FSB Crafts Multiple-Choice MMF Regime

The FSB today released the final version of its proposed MMF-reform framework (see FSM Report **MMF17**). We will shortly provide clients with an in-depth analysis of a paper which appears little more definitive than the proposed assessment of an array of options and ways nations could turn their choice among them into a new MMF construct. The final paper is even more emphatic than the proposal that new rules are needed, but its unusually-noncommittal approach nonetheless reflects considerable industry opposition and jurisdictional concerns. However, more specific guidance may come from IOSCO, which did agree formally to reconsider its 2012 standards (see FSM Report **MMF8**), standards the Fed and FSOC at the time believed fell far short. The FSB will also commence a stock-taking of international MMF reforms in 2023 aimed for 2026 completion. These deadlines make clear also that the FSB is done with MMFs for now. As we will detail shortly, it is instead turning to other NBFI reforms for building out the framework adopted here at the start of this year (see *Client Report* **NBFI**).

This ambivalent international result will not reverse ongoing U.S. MMF and open-end fund reforms. Janet Yellen recent cited these sectors as posing a top-level systemic threat (see *Client Report* **REFORM208**). SEC standards picking up options in the FSB report are likely by year-end.

Big Promises, Slow Going on FSB NBFI, Payment Reforms

FSB Chair Quarles' latest and perhaps last letter to G20 finance ministers and central bank governors highlights the final MMF framework actions announced today (see our separate report) and otherwise promises continued action on additional priorities in the FSB's November NBFI report (see Client Report **NBFI**). The FSB now details little meaningful progress on matters such as open-end fund liquidity risk, with a report here planned for a date left uncertain. The FSB also continues to assess the impact of margin calls, with global regulators set shortly to complete an examination of margin calls in derivatives markets during the pandemic. Study of core funding markets will go into 2022.

FSB work on payments also continues, with Chair Quarles noting its recent progress report on global stablecoin arrangements and its cross-border payments roadmap (see FSM Report **PAYMENT21**), indicating that work to be finalized by 2027 may next set specific targets for action on cost, speed, transparency, and access.

Gensler Won't Back Down on Digital Engagement, PFOF

SEC Chair Gensler today not only mentioned the SEC's digital-engagement practices RFI, but also highlighted those comments most interesting to him. We view this as an indication of how a final set of standards may well emerge, with the chairman particularly noting that commenters indicate that business models using digital engagement may present conflicts of interest that need action regardless of any inclusion benefit via existing rules (presumably via enforcement actions) or regulatory updates. SEC staff will also recommend additional actions on brokers and investment advisors, with the chairman reiterating that the SEC is examining incentives such as payment for order flow regardless of all the GOP pushback at recent Congressional hearings (see Client Report **INVESTOR19**).

HFSC Starts Work on Ethical AI

Ahead of an AI Task Force hearing tomorrow, the HFSC Democratic Staff memo indicates that the session will consider proposals to advance "ethical" AI. None of these proposals is legislative given the Task Force's limited jurisdiction, but these sessions tend to lead to bills that then advance through legislative subcommittees or even go straight to the full committee's mark-up roster. Proposals on the table tomorrow would set fairness, accountability, transparency, justice, security, bias, interpretability, and privacy standards. The hearing will also examine AI predictive analytics, seeking to balance positive developments such as better fraud monitoring against negative ones including embedded racial- or gender-based biases. This will include an assessment of alternative data used in combination with AI/ML and whether it leads to an unfair allocation of opportunities and resources, infringes on civil liberties, or fails to provide the same quality of service for all. We will provide clients with a hearing update ASAP.

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.

- **GSE-101221:** Although the majority of FHA ARMs are now LIBOR-linked, HUD has been waiting for Congress, the Fed, or forces on high to help it set a new benchmark.

- **MERGER8:** Progressive Democrats in the House and Senate have introduced legislation demanding an array of new decision factors governing bank M&A transactions and new or even revised BHC activities.

- **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.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com