



Wednesday, October 13, 2021

Quarles Quandary Not Key to Fed Reg, M&A Action

Late yesterday, the Federal Reserve Board [announced](#) that Randy Quarles will cease his duties as supervision vice chair starting today. Mr. Quarles' term as a governor continues until 2032 but the vice chairmanship is a position appointed by the President and confirmed by the Senate. The Board reads the law as ending an incumbent's authority at term-end and so it shall be for Mr. Quarles. Per the statement sent to press, regulatory proposals will be brought before the Board by consensus, the process followed for decades until the Dodd-Frank Act created the vice chairmanship. Mr. Quarles will also sit along with Govs. Brainard and Bowman on the Board's regulatory subcommittee. Some suggest that this process will forestall any rulemaking for the foreseeable future, but we disagree. [We believe](#) that the current vacuum in controversial regulatory actions as well as M&A approvals reflects progressive opposition to a second Powell term. When that is resolved with a new chairman's confirmation, rulemaking will resume along with other controversial actions. We also expect continued deliberations on questions such as climate risk, CBDC, and MMFs, with perhaps a slower pace of decision-making but forward progress nonetheless.

FSB Sets Ambitious Course for Cross-Border Payment Redesign

The FSB today published both a [progress report](#) on its cross-border payment roadmap ([see FSM Report PAYMENT21](#)) and a [final set of forward-looking plans](#). Work on the roadmap has advanced well, with the FSB now expressly incorporating CBDC into its forward-looking work. The 2022 plan includes specific proposals for material systems improvements and the development of new cross-border systems. We will shortly provide clients with an in-depth assessment of the FSB's final plan for cross-border payments, which continues its focus on retail, wholesale, and remittances. Four challenges – cost, speed, transparency, and access – are also targeted. An interim progress report on the plan and work set for 2022 will be issued mid-year, with overall completion set for end-2027 even though private-sector comments on the proposed approach doubted whether this ambitious schedule would prove feasible.

Senate GOP Heightens Pressure on Reserve-Bank Appointments

Countering an array of Democratic demands for diversity, Senate Banking Republicans today urged the boards of the [Boston](#) and [Dallas](#) Reserve Banks to ensure an apolitical appointment process. Noting that FRB presidents are selected by Reserve Bank boards in an independent, nonpartisan, and merit-based process, the Senators urge choices who preserve Fed independence and credibility. Interestingly, the letter to the Boston Fed's board accuses outgoing President Rosengren of embracing "politically-charged social causes" outside of the Fed's mission and statutory mandate; no such charge is levelled against outgoing President Kaplan in the otherwise identical letters. The senators also ask that they be notified of any outside attempts to influence their selection processes.

AI Task Force Considers Algo Privacy, Transparency, Bias

[As anticipated](#), today's HFSC AI Task Force hearing on ethical AI kicked off Congressional work on this hot topic, making it clear that Democrats may advance consumer-data privacy, algorithm transparency, and anti-bias standards. Chairman Foster (D-IL) underscored the importance of preserving privacy while retaining AI effectiveness and security, emphasizing that algorithmic bias that leads to discrimination and disparate outcomes must be prevented in part because AI-based fintech showed so much potential reaching minority

PPP borrowers. Rep. Foster also questioned whether algorithms should be judged based solely on their inputs and outputs or whether greater transparency into intermediate levels of neural networks is necessary even though too much information could be detrimental. Ranking Member Gonzalez (R-OH) agreed that PPP loan distributions showed the benefits of AI while also noting that the technology is not always perfect. He cautioned against going backwards by overregulating the industry, arguing that more innovation is key to resolving equity, access, and fairness. Rep. Gonzalez also underscored the importance of strengthening data transparency.

Brown Fires Fusillade at Fed Regulatory Policy

Making it more than clear that he takes at best a guarded approach to Jay Powell's renomination, Senate Banking Chairman Brown (D-OH) today [sent Mr. Powell a letter](#) demanding a "new direction" in bank regulation regardless of who succeeds Vice Chairman Quarles and chairs the Fed. Sen. Brown's letter castigates an array of recent Fed decisions, also citing the Federal Reserve Bank of Minneapolis stating that big banks only showed themselves resilient in the COVID crisis due to extraordinary monetary and fiscal policy backstops.

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.