



Monday, October 18, 2021

## Quarles Takes FSB Victory Lap

Speaking as he heads toward the end of his term as FSB chair, FRB Gov. Quarles [today](#) applauded the FSB for all the work it did to ensure financial stability during the pandemic. He reiterated the need to understand why banks failed to use buffers and the FSB's pending work on nonbank financial institutions, digital assets, and cybersecurity. All of this was addressed last week in more detailed [FSB statements](#).

## Fed Researchers Conclude U.S. Regulatory Perimeter More Permeable Than Ever

A new [Fed staff note](#) builds on a major [recent research paper](#) to assess the U.S. regulatory perimeter. It concludes that [the debate](#) between entity- and activity-based regulation is a "red herring" in the U.S., urging an "if you do, you are and because you are, you do" approach. Noting as many have that the perimeter is challenged by unbundling, the entry of commercial firms, and many new delivery channels, the note concludes that perimeter changes are intrinsic to U.S. financial policy and can have beneficial impact. However, the U.S. financial system has changed in recent years, creating a very complex set of regulatory definitions and agency authority. It thus also concludes that the regulatory perimeter may now be more permeable than ever with regard to allowing unregulated companies to expand the perimeter by engaging in regulated banking and payments even though banks have little ability to go beyond the perimeter. The note does not go on to discuss how perimeter asymmetry could affect systemic ability or other key policy concerns.

## BIS Advances CBDC, Payments Projects

In [remarks today](#), BIS Managing Director Carstens reinforced the benefits of ongoing global work to advance CBDCs, focusing in particular on the BIS Innovation Hub's recent project on CBDC [cross-border settlement](#) and the retail-facing construct ([see Client Report CBDC6](#)) endorsed last week [by the G7](#). The talk also discusses other cross-border payments work focused on speed and the BIS's general focus on digital assets, setting no new policy on any front.

## OCC's Libor Assessment Addresses Benchmark Replacement

The OCC [today](#) provided national banks with an updated self-assessment tool to gauge their readiness for the end of LIBOR. While a self-assessment, the tool is also an important advisory as to issues about which examiners are likely to inquire. It stipulates that LIBOR exposure and risk assessments as well as cessation preparedness plans should now be complete or near completion. Appropriate management oversight and reporting should already be in place. Banks should also have work underway toward resolving replacement rate issues, communicating with affected customers and third parties. Touching on the critical question of replacement benchmarks and following much in pending LIBOR-transition legislation ([see FSM Report LIBOR6](#)), management is told to evaluate whether a rate always reflects competitive forces of supply and demand, is anchored by a sufficient number of observable arm's-length transactions, and has extensive underlying historical data. Replacement rates should also have administrators that maintain durable methodology and governance processes, and rates should have transparent methodologies that allow independent substantiation. Replacement rates must also be sufficiently liquid to allow for effective market-risk management.

## FHFA Revises Refi Standards, Continues Capital and Mission Rewrite

In [remarks today](#), Acting FHFA Director Thompson announced changes to the GSEs' refi-underwriting standards aimed at expanding access for low- and moderate-income households. We anticipated this [earlier this year](#) as more and more data came out showing unequal refi access, with FHFA now targeting large banks due to slow take-up levels by increasing income eligibility and reducing operational frictions. As detailed in a [new FHFA statement](#), the ten-year seasoning cap will also end. Director Thompson also emphasized the agency's new [equitable-finance plan](#) and reiterated that her agency is committed to finalizing [changes to last year's GSE capital standards](#), reiterating the need for leverage-ratio and CRT fixes. She also stood by recent changes to the [PSPA reversing Trump Administration action](#), but new sell-servicer eligibility requirements will come no sooner than next year via revisions to controversial 2020 standards GSE.

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### 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](#).

- [MMF18](#): Global regulators have now finalized a framework on which national regulators may base the reforms they deemed necessary after the pandemic sparked profound disruptions in this sector.
- [CRYPTO20](#): Responding to requests from the G7, G20, and FSB, this report addresses market-infrastructure considerations related to systemically-important stablecoins that do not involve multi-currency baskets (e.g., Facebook's Diem).
- [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.