



Tuesday, October 19, 2021

Global Central Bankers Tread Wary Path to Green Scenario Analysis

The central-bank group focused on climate risk, the Network for Greening the Financial System (NGFS), today [issued its latest assessment](#) of financial scenario-analytic approaches. This will guide the FRB as it advances the big-bank supervisory guidance Gov. Brainard recently [signaled](#), but also reinforce those in the U.S. and elsewhere who fear that climate-risk scenarios need additional development before clear conclusions may be drawn from their results. The type of binding stress tests sought by Democrats ([see FSM Report GREEN9](#)) are also a long way off.

NGFS-identified challenges include the complexity of adapting off-the-shelf methodology to individual jurisdictions, significant data gaps, the limited utility of stable balance-sheet analytics, and uncertainties extrapolating work to date on banking to other key financial sectors (e.g., insurance). Defining scenario-analysis objectives also remains a work in progress. Due to these challenges, no NGFS member has yet imposed binding scenario analyses, with the NGFS now planning work to conclude in 2022 to advance these efforts.

FRB-NY Analysis: BHC Exposure to Open-End MMFs Warrants Supervisory Attention

A [new blog post](#) from the Federal Reserve Bank of New York tackles an issue left hanging in the FSB's new MMF-reform options ([see FSM Report MMF18](#)): the fire-sale risk posed by open-end funds. Reiterating that open-end MMF spillover risk has increased due to their growth and correlation, new quantification shows a six-fold increase in risk to U.S. BHCs since 1996. Actual BHC risk exposures are heterogeneous, differentiated not by total size of a bank's exposures to open-end funds, but by its own equity to assets ratio and larger holdings of illiquid assets. Extrapolating these conclusions to the March 2020 experience validates significant risk to BHCs more vulnerable to open-end fund contagion risk, leading the post's authors to suggest supervisory action to address what is deemed an economically-significant risk to affected BHCs.

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](#).

- [SANCTION15](#): Today's Senate Banking hearing with Treasury Deputy Secretary Wally Adeyemo showed bipartisan concern that the Administration is failing to implement sanctions required by law, especially when it comes to China, North Korea, and Russia.
- [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.