



Thursday, October 21, 2021

BIS Advances Push for Central Bank Green Investment

The BIS today [announced](#) a new program channeling central-bank funds to green bonds in the Asia-Pacific region. Eligible bonds will be issued by sovereigns, supranational, and corporates that comply with relevant anti-greenwashing standards. While limited, this program adds to growing global pressure for "green" central-bank investments, advancing an initial design for doing so in a 2020 BIS policy paper on green finance, supervision, and regulation ([see Client Report GREEN](#)). Any like-kind Federal Reserve program would be challenged by opponents (e.g., Republicans opposed to "mission creep") under the Fed's statutory authority absent a change to it along the "green new deal" legislation [occasionally proposed](#) by progressive Members of Congress. We do not expect the FSOC report later today to call on the FRB to consider its authority and its ability to make like-kind investments, but political pressures on it to do so will surely continue.

CFPB Plows New Path into Bigtech, Competition Policy

With a newly-confirmed director with long experience battling bigtech, the CFPB [today](#) issued orders requiring large tech companies operating payments systems to turn over information on their payments products, business plans, and practices. Orders have initially been sent to Amazon, Apple, Facebook, Google, PayPal, and Square, but the Bureau is also studying Alipay and WeChat Pay. Although it remains to be seen what the Bureau does with the information it receives, the orders make it clear that the CFPB reads its authority over consumer finance to include bigtech, setting a precedent for an array of actions should the agency choose to proceed with express regulatory, supervisory, or enforcement actions. In addition to these orders, the Bureau plans a larger public inquiry via a forthcoming *Federal Register* notice.

The Bureau appears most immediately concerned that P2P payments growth raises possible risks to families and businesses, with the CFPB also targeting payment-data use and behavioral targeting. Surely due to Director Chopra's actions while an FTC commissioner confronting bigtech, the orders also address the potential for payment companies to restrict access to competitors. Although competition policy is outside the CFPB's ambit, the orders base this demand on possible threats to consumer choice and market function. The President also ordered the Bureau to consider data-use in the recent competition order ([see Client Report MERGER6](#)), giving the agency an additional reason to focus on bigtech despite the order's express focus on consumer-data ownership. The action comes in concert with a BIS staff paper [today](#) assessing the threats posed to personal privacy due to bigtech network effects in financial services, an area of longstanding [concern to Managing Director Carstens](#) and the basis for entity-based regulatory proposals such as those the FSOC may at some point consider in the U.S.

Fed Hops To After Latest Ethics Revelation

Following a still more embarrassing story about Fed trading in today's [New York Times](#), the FRB this afternoon [announced](#) conclusion of a "comprehensive review" and new senior-officer trading restrictions. These bar holding individual securities, restrict active trading, and increase reporting requirements. In addition, new steps would address the appearance of impropriety by, for example, requiring 45-days advance notice of securities sales or purchases and a one-year holding period. The Board and Reserve Banks will implement these standards in "coming months," a process likely to leave Sen. Warren (D-MA) [still unsatisfied](#). It remains to be seen if this action suffices to end her allegations of a Fed "culture of corruption," but we expect her opposition and that of other progressives to Mr. Powell to continue largely unabated. Prior to the Fed's announcement, Sen. Warren used the *Times* article to launch another [attack](#) against the Fed.

FSOC Adopts Tough-Talk, Cautious-Action Climate Plan

FSOC today approved the [report on climate-related financial risk](#) required by President Biden's Executive Order ([see FSM Report GREEN8](#)) adopting the cautious, disclosure-focused framework we anticipated when the executive order was issued. It includes over thirty recommendations across four broad areas: assessing climate-related financial risks and their financial-stability impact; enhancing climate-related disclosures; improving climate-related data; and increasing capacity to analyze climate-related information. We will shortly provide clients with an in-depth analysis of the report and here cover topics highlighted at today's meeting.

While no FSOC member voted against the report, FDIC Chair McWilliams did abstain, arguing that – while financial-stability risk from climate change must be addressed – more analysis is needed before actions are taken. The only other FSOC hold-over from the previous administration, FRB Chair Powell, fully supports the report and its recommendations, emphasizing the need for consistent and comparable climate disclosures, also highlighted by SEC Chair Gensler as he reiterated that SEC staff are working on a proposal. Chair Powell also pointed to the report's recommendations on scenario analysis, noting continuing Fed work developing this tool. Acting Comptroller Hsu focused on safety and soundness, noting that the OCC is developing high-level supervisory expectations for large banks to be issued in the "near future" based on the report's recommendations as well as experiences shared at the Basel Committee and the Network for Greening the Financial System.

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](#).

- [CBDC9](#): Shortly after the BIS and a group of central banks endorsed a construct for retail-facing central-bank digital currency (CBDC), the Group of Seven (G7) finance ministerial issued these public-policy principles to establish a still broader framework for future action
- [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 clear 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.