



Tuesday, October 26, 2021

## McWilliams Positions Herself as Crypto Liberal Among Agency Skeptics

In [remarks posted this morning](#), FDIC Chair McWilliams provided an update on the inter-agency "crypto sprint." Ms. McWilliams made it clear that her intent is not to prohibit bank crypto activities but instead to govern them, announcing that a series of policy statements will be issued in "coming months." The FDIC chair's statement emphasizes the need for the banking agencies to ensure sound innovation and bank engagement, likely putting her on a more permissive path than the Acting Comptroller, whose most [recent statement](#) said that cryptography poses structural and systemic risk. The Fed is less cataclysmic, but nonetheless considerably more cautious than Ms. McWilliams, surely joining Mr. Hsu in endorsing the broad approach in the Basel Committee's proposal for new capital rules applicable to bank crypto activities ([see FSM Report CRYPTO19](#)).

## U.S. Adds Voice to Health/Finance G20 Construct

The U.S. Treasury has now [joined](#) other G20 finance ministers in calling for a new forum coordinating health and finance policy. The proposal was sparked by an earlier report from former government officials such as [Larry Summers](#) based on the need to ensure that all national and global resources are prepositioned to prevent the next pandemic. The high-level group recommended developing a Global Health Threats Board made up of health and finance ministers modelled on the FSB. This group would work to implement a global surveillance and research network focused on preventing and detecting future threats, increase national health -system resilience, and ensure global governance is both coordinated and funded. All of this is focused on fiscal, to monetary or regulatory policy.

## Global Regulators Tackle Margining, CCP Resilience

Advancing an FSB priority most recently emphasized in the [Board's forward-looking plan](#), the Basel Committee, IOSCO, and the Committee on Payment and Market Infrastructures today [invited](#) comment on additional margining standards addressing problems identified in the March 2020 COVID crisis. As in prior reports, the consultation notes that CCPs stood firm but margining proved fragile even though those in the OTC market were generally stable. This raises significant concerns about end-user risk and the extent to which CCPs are suitably resilient on their own. Policy options for comment include requiring new disclosures, setting new liquidity standards and disclosures, identifying data gaps, streamlining variation-margin practices, and evaluating CCP and other margin models for stress resilience. Responses are due by January 12 and an in-depth FedFin analysis will follow.

## House Advances Open-Source Regulatory Data

The House late yesterday passed 400-19 the Financial Transparency Act (H.R. 2989), legislation [reintroduced](#) by Reps. Maloney (D-NY) and McHenry (R-NC) requiring the federal financial regulatory agencies to adopt data collection-and-distribution standards on format, searchability, and transparency. Describing the bill on the House floor, HFSC Chairwoman Waters (D-CA) stressed the need for open-source regulatory data to enable the development of RegTech and AI and to move towards a comprehensive Standard Business Reporting program that harmonizes and reduces the private sector's compliance burden. No companion has been introduced in the Senate and near-term action to advance one is unlikely.

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## OCC Stands Firm on LIBOR Transition, Supervisory Priorities

In [remarks generally focused on LIBOR](#) transition, Acting Comptroller Hsu today emphasized that the U.S. agencies fully intend to end LIBOR and "zombie LIBOR" as of year-end and that even banks that think themselves immune from transition risk are exposed to it. These indirect risks stem from a bank's own assets, reliance on problematic third-party valuation models, and new exposures. Mr. Hsu also address alternative benchmarks, [reiterating OCC](#) and [IOSCO](#) prior statements about the need to ensure these are based on liquid, broad, and transparent markets. Based on this, OCC "supervisory efforts" will target non-SOFR benchmark use.

## HFSC Takes Up CFPB Rulemakings, Bigtech, Big Banks

Ahead of its hearing tomorrow with CFPB Director Chopra, HFSC's [majority staff memo](#) indicates that Democrats plan to address recent CFPB rulemakings including those on [mortgage servicing](#), the [QM rule and GSE patch](#), small business lending disclosures ([see FSM Report SBA40](#)), and [LIBOR transition](#). [As anticipated](#), they also intend to question Mr. Chopra on the Bureau's [recent orders](#) requiring bigtech companies to disclose information on their payments operations. Democrats will also create a record for legislation including Rep. Pressley's (D-MA) [H.R. 4120](#) to require that credit reporting agencies better ensure accuracy, Rep. Maloney's (D-NY) H.R. 4277 overdraft bill ([see FSM Report OVERDRAFT4](#)), and Rep. Green's (D-TX) H.R. 5484 to provide financial incentives and confidentiality for CFPB whistleblowers. Draft bills of note would require that the national [CRAs establish a single online consumer portal](#), extend TILA to small business loans, codify CFPB regulations requiring 120 days of delinquency before a foreclosure initiation, and clarify that the CFPB has supervisory and fair lending enforcement authority over nonbank small-business lenders. A draft version of Chairwoman Waters' Megabank Accountability Act ([see FSM Report GSIB11](#)) is also set for consideration, signaling that she plans to address large-bank consolidation via the consumer-compliance route and not necessarily also pursue direct M&A controls such as those in pending Warren/Garcia legislation ([see FSM Report MERGER8](#)). A FedFin in-depth assessment of the hearing will follow.

## NGFS Prioritizes Climate Data Gaps, Inconsistent Methodologies

Continuing the go-slow approach to sweeping climate-risk rules, the NGFS [today](#) updated progress on implementation of its supervisory recommendations, urging supervisors quickly to address data gaps, the lack of harmonized methodologies and risk metrics, and insufficient internal capacity and resources. The report also reiterates that disclosures be consistent and comparable accompanied by a common taxonomy for terms such as "green" and "non-green" assets. Supervisors also need to increase their understanding and measurement of environmental risks and undertake both qualitative and quantitative assessments, including the scenario analyses and stress tests still being developed. Additional work is also needed to assess how environmental risks transmit to the economy and financial sector. As noted by a senior BIS official [last week](#), incorporating Pillar 1 treatment for climate-related and environmental risks is said to remain at an early stage, with supervisors currently awaiting standards from international and supranational agencies addressing the challenges associated with climate-related and environmental risks such as its non-linear nature and tenor.

## 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](#).

- **GREEN11**: As we [noted yesterday](#), the Financial Stability Oversight Council has now complied with President Biden's executive order ([see FSM Report GREEN8](#)), compiling an exhaustive [assessment](#) of the financial-stability implications of climate risk and what might best be done about it.
- **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 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.