



Thursday, October 28, 2021

To Have and to Post

Summary

FHFA is [proposing](#) a new disclosure regime designed to bring Fannie and Freddie into the public marketplace in a fashion analogous to large U.S. banks. We expect no revolution akin to the uproar sparked in 2003 when the GSEs were forced to make SEC filings. This for the first time unveiled the scale of GSE leverage and governance shortfalls that didn't dent the market but spurred a bout of Congressional reform efforts. Now, Congress is content with the conservatorships and markets will likely take even more comfort than they did before not just because the GSEs are in better shape, but also of course due to the conservatorship.

Impact

This proposal goes beyond the disclosures mandated in the final capital rule now being [significantly restructured](#) under Sandra Thompson, redesigning these releases to accord more with those demanded of big banks. FHFA believes this will enhance not just risk management, but also market discipline. The latter goal may prove elusive as long as Fannie and Freddie are wrapped with an effective federal guarantee, but at least markets might better see trouble coming. Still, after the SEC filings, the markets clearly saw acute vulnerability – see Karen Petrou's 2003 Congressional [testimony](#) – they nonetheless thought the implicit guarantee sufficed.

The new disclosure construct initially requires transparency for the GSEs' standardized approach (SA), operational, market, and leverage capital requirements. Eleven categories of new quantitative and qualitative disclosures would apply, with quantitative disclosures released quarterly, and most qualitative disclosures mandated only annually absent material change.

In addition to these specified disclosures, the GSEs would be required to have board-approved disclosure policies under which they make public anything dictated by a materiality standard. However, other disclosures (e.g., for accounting purposes) may meet FHFA's needs as long as these are timely.

The agency of course asks for comments on this proposal; we would guess it will get an earful from the GSEs due to the length, depth, and cost of these new releases. It does seek comment on the burden it may impose as well as the extent to which the rule covers proprietary or confidential information, but we expect revisions in a final rule to be on the details, not on the overall construct outlined above.

Outlook

Comments are due sixty days after *Register* publication, with the disclosures set to kick in only after the capital rules are implemented. The agency presumably will not finalize disclosures until after the revised capital revisions are set because it also says that the new disclosures would start six months after this final rule.

Federal Financial Analytics, Inc.
2101 L Street, N.W., Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail : info@fedfin.com www.fedfin.com

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