



Monday, November 1, 2021

## FSB Presses NBFi Analysis, Bank Inter-Connectedness

The FSB [today](#) updated its late-2020 paper on nonbank financial intermediaries ([see Client Report NBFi](#)), largely reiterating the reasons it then said that global regulators need to act without indicating any actual action beyond its recent MMF Principals ([see FSM Report MMF18](#)) and work focused on [margin calls](#). Now describing NBFIs as having their own ecosystem, the FSB ratchets up its description of its risk, stating that work to analyze them remains under way for open-end funds and core government and bond markets. It also adds a new focus: the interaction of U.S. dollar funding markets with emerging economies. Most of the new work plan focuses on adding more data on global markets and enhancing cross-border cooperation, but the FSB is also planning to map quantitative interconnections between NBFIs and the financial system as well as with actual savers and borrowers that pose systemic risk. Inter-connectedness between NBFIs and banks is not only a significant concern, but one where the FSB makes clear that regulators have the best-available policy tools; we reiterate our longstanding forecast that the FSOC will revisit not only MMF regulation, but also bank inter-connections ([see Client Report ASSETMANAGEMENT3](#)). The FSB is also working on ways to ensure public support for NBFi liquidity shortfalls that do not create moral hazard.

## HFSC Dems: BNPL, Other Fintech Products Present Consumer-Protection Risks

Ahead of its Fintech Task Force hearing tomorrow examining buy-now, pay-later and other fintech cash-flow products, HFSC's [majority staff memo](#) indicates Democrats have significant consumer-protection concerns although no immediate solutions to address them. Although the memo notes that these products provide credit access, it also argues that they present risks such as unsustainable debt, insufficient consumer disclosures, detrimental consumer credit reporting, and consumer-data privacy, governance, and security concerns. Democrats appear most skeptical about overdraft-avoidance products, noting Rep. Maloney's (D-NY) legislation (H.R. 4277) to strengthen overdraft protections and disclosures ([see FSM Report OVERDRAFT4](#)). Democrats also will explore whether consumer protections contained in TILA and Gramm-Leach-Bliley should apply to BNPL and other products, highlighting ongoing work by state and federal regulators.

## PWG Slams Stablecoins, Agencies Outline Action Plan

The President's Working Group today spearheaded an inter-agency [report](#) on stablecoins that, [as anticipated](#), takes a very dim view of this form of cryptography outside the regulatory perimeter. As we will detail shortly in an in-depth analysis, the report lays out a litany of systemic, compliance, trading, and consumer concerns, noting in particular key gaps when it comes to the payment system. The report thus urges Congress to mandate that stablecoin issuers be housed in insured depositories with regulated parent BHCs and limit affiliation with commercial entities. Congress is also told to decide if additional restrictions are essential for custodial-wallet providers (e.g., affiliation, data constraints).

Should congress not act, all of the agencies involved in this report – the Treasury, FRB, SEC, CFTC, OCC, and FDIC – pledge to implement its recommendations, making it clear for example by inference that the FDIC will now not approve ILC applications for stablecoin entities. The CFPB was not directly involved with the paper, but Director Chopra [today](#) stated that its ongoing [bigtech inquiry](#) covers stablecoins and may lead to significant change with regard to the payment system. The Bureau has also launched a broad crypto review to assess the need for UDAAP designation that would force consumer-protection reform.

The report also says that, should Congress fail to act, the FSOC will go beyond the actions of individual regulators also to consider systemic activity or designation as a systemic form of payment infrastructure. In response, [Republicans argued](#) that the report's rightful recognition of Congress's role means that the agencies should not act in the absence of new law. We do not expect this in any way to constrain the agencies, [several of which](#) have made it clear that they will now proceed as directed by the PWG. Senate Banking Chairman Brown (D-OH) is said to have praised the report but no formal statement has yet been released.

## Fed Study Shows Macro Impact of Fed Muni Backstop

A new [FRB-NY Staff paper](#) looks at the Fed's municipal-debt backstop, concluding that it served not only as a generic muni-market stabilizer, but also as a credit risk-share facility for low-rated issuers that supported municipal employment at the worst of the crisis. We will shortly be doing some work on the extent to which the Federal Reserve can and should structure automatic stabilizers instead of racing into markets in crisis, making this study an interesting example of how one COVID facility worked from a macroeconomic perspective. It details the importance of the short-term muni market, which is particularly stress-prone, and points to the adverse social-welfare effects of curtailed municipal services to demonstrate the benefits of the Fed's 2020 intervention. A regression-discontinuity model focused on the revised and [expanded muni facility](#) is deployed to differentiate Fed intervention from the raft of COVID backstops at the start of the crisis, and an analysis of debt relationships to municipal employment supports conclusions about the extent to which the lower funding costs and new funding options identified by the model translate into sustained or even increased municipal employment. The model finds as much as a 30 percent recovery in employment (largely of health and education workers) in the two months following the revised-program. A positive feedback loop between short- and long-term issuance is also identified for the low-rated municipalities that saw direct benefit from the MLF, leading the paper to suggest that short-term optionality due the credit impact of Fed liquidity support could also benefit the general-obligation market.

## 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](#).

- [GSE-102821](#): 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.
- [CONSUMER37](#): As anticipated, HFSC's hearing today with CFPB Director Chopra skidded over a wide range of policy issues.
- [GSE-102721](#): After years of enforcement inactivity, the OCC has [issued a tough set of restrictions](#) against one of the increasingly few large mortgage servicers still willing to be a banks.
- [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.