



Wednesday, November 17, 2021

Williams Emphasizes Treasury-Market Failures

FRB-NY President John Williams [today reinforced](#) the principles laid out in the recent Inter-Agency Working Group on Treasury Market Surveillance report ([see Client Report TMARKET2](#)) – i.e., the "imperative of resilience." Mr. Williams goes no farther than the report in outlining possible policy responses, instead emphasizing that even Treasury-market instability when COVID hit is the result of market – not macroeconomic – forces. As previously noted, there is no timeline for substantive policy action although we expect a raft of new data and disclosure requirements again to be the inter-agency first line of response.

OFR: U.S. Financial Stability at Mid-Range, Too Soon to Judge Climate Risk

OFR [today](#) released its 2021 annual report, concluding that overall risks to U.S. financial stability remain in the medium range. Notably, the report generally downplays risks resulting from climate change, arguing these are difficult to quantify and thus deferring conclusion until more data are available. This ratifies concerns about the challenges of near-term stress testing and "brown-penalty" capital charges without countering [initiatives related to internal governance](#) or [supervisory guidelines](#) such as those proposed yesterday by the Basel Committee.

As in the FRB-NY staff report [yesterday](#), OFR concludes the financial system is now more resilient than prior to the onset of the pandemic. Although contagion risk at some banks increased during the initial COVID outbreak, this has now fallen to pre-pandemic levels. However, cyber risk has increased and costs associated with ransomware attacks as well as resulting downtime are increasing. OFR also largely agrees with conclusions regarding CCPs in the Fed's recent stability report ([see Client Report SYSTEMIC92](#)), noting that demands for additional margin during the March 2020 market turbulence imposed significant stress and created the potential for contagion. The limited number of CCPs holding material positions in the central clearing process also contributes to contagion risk.

Finally, the report worries that monetary policy normalization may pose risks if accommodation is quickly withdrawn and the economic recovery subsequently falters. OFR cautions that the Fed should consider how cutting its holdings of Treasuries could impact the smooth functioning of the Treasuries market, with the report noting that underlying causes of Treasury market stress in 2020 remain unaddressed.

Waller Breaks with PWG on Limiting Stablecoins to Banks

Although FRB Chair Powell has not yet decided on the need for CBDC, Fed Gov. Waller [today](#) opposed it on grounds that private innovation suffices to ensure U.S. payments innovation. This sets up a conflict should Mr. Powell's endorse CBDC after [pending discussion the draft](#) or if Gov. Brainard takes over the chair. She has [argued](#) not only that CBDC may well be needed, but also that it should take direct consumer deposits. Gov. Waller concurs that the stablecoin risks identified in the PWG report ([see Client Report CRYPTO21](#)) are problematic, but believes that its recommendations would unduly circumscribe innovation, are anti-competitive, and drive payments-system modernization offshore. He is particularly concerned with the PWG's recommendation that limit stablecoin to IDIs, saying that a bank-like regulatory framework is overly burdensome and not necessary to ensure safety and soundness. Instead, safety and soundness can be achieved if an entity's stablecoin-linked liabilities are its sole activity and the entity backs them with very safe assets, engages in no maturity transformation or lending, and is subject to ongoing supervision.

JEC Reviews Crypto Construct

At today's Joint Economic Committee hearing on cryptoassets, Chairman Beyer (D-VA) urged Congress to update the crypto regulatory framework to better protect consumers, prevent insider trading, and ensure economic stability in part by preventing runs on cryptoassets. Ranking Member Sen. Lee (R-UT) countered that current rules suffice if they are appropriately applied, also urging a flexible regulatory framework. Sen. Hassan (D-NH) also noted bipartisan legislation she has introduced with Sen. Ernst (R-IA) to require a Treasury report on the global use of cryptocurrency, targeting the supply chains.

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](#).

- **[GSE-111721a](#)**: FHFA's [new scoring system](#) for the GSEs and CSS is a startling, if unsurprising, mission rewrite.
- **[GSE-111721](#)**: As [noted](#) yesterday, the CFPB has opened its HMDA rules to a raft of changes
- **[GSE-111521](#)**: As we [noted on Wednesday](#), the CFPB highlighted Director Chopra's competition focus when it joined other agencies [renewing](#) their mortgage-servicing supervisory and enforcement standards.
- **[GSE-111221](#)**: As [Mark Calabria made clear earlier this year](#), reform of the Treasury market has direct, major impact on that for agency debt and MBS.
- **[TMARKET2](#)**: In this report, we build on [our initial analysis](#) of Monday's [report](#) from the Inter-Agency Working Group on Treasury Market Surveillance (IAWG).
- **[SYSTEMIC92](#)**: Late yesterday, the Federal Reserve [released](#) its most recent financial-stability report. As in its predecessor earlier this year ([see Client Report SYSTEMIC91](#)), this report takes a cautious view, counting on continuing bank resilience to counteract old worries, such as asset-price bubbles, along with containing at least some new fears.
- **[CRYPTO21](#)**: As [noted yesterday](#), the President's Working Group on Financial Markets (PWG) was joined by the OCC and FDIC yesterday issuing a report calling for prompt Congressional action to regulate stablecoins and, even in its absence, also for fast action by federal regulators and the FSOC.
- **[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.