Monday, November 22, 2021

FedFin Initial Assessment: Powell Appointment Process, What's Next

As anticipated, today President Biden nominated Jerome Powell to a second term as Fed chair and Lael Brainard accepted the vice chairmanship of the Federal Reserve System, not just that for supervision. While we expect this package to be confirmed by a sizeable bipartisan majority as soon as year-end, but we do not also think this predictable result settles critical questions about Fed policy over the next three years. Monetary policy will surely continue on its current path because Mr. Powell and Ms. Brainard are in almost full agreement on it. However, to win Chairman Brown's (D-OH) acquiescence, Mr. Powell will surely have made numerous, progressive-oriented assurances on many other critical policy questions on which he and Gov. Brainard have not always agreed. These include the pace and construct of U.S. CBDC, the extent to which the Fed continues to control the payment system, and large-bank consolidation. We shall await word of Mr. Biden's nominee to become vice chair for supervision before assessing the extent to which a more progressive regulatory policy is also part of the package, but we expect this to have been the case.

ECB Adopts Innovative, Crypto, Digital Regulatory Construct

Leaving the U.S. still farther behind, the European Central Bank today finalized a new electronic-payment regime capturing nonbank and digital payments. To be sure, the ECB has far broader authority over nonbanks than the Fed, authority reflected in coverage now of all companies providing payment instruments, debit instruments, credit transfers, digital tokens (including stablecoins), and wallets. Crypto-asset services and transfers are also subsumed in the new framework, which comes ahead of both broader EU crypto rules and global stablecoin standards (see FSM Report **CRYPTO14**). Companies already under EU regulations have until next November to comply, while transition provisions apply to entities now broadly under ECB standards.

FSB Reiterates Urgency of LIBOR Transition

Underscoring the importance of quickly ending LIBOR reliance, the FSB today again emphasized that it is critical that institutions be ready for LIBOR cessation at the end of the year. The statement again urges that benchmarks should generally be overnight risk-free rates (RFRs) to avoid reintroducing LIBOR's weaknesses, although some cases may warrant a role for RFR-derived term rates. The FSB also reiterates that all alternative rates should be robust and reflect underlying markets with significant transaction volume. Active transition of legacy contacts should also continue to the greatest extent possible, with the statement again making clear that synthetic LIBOR will not be indefinitely published. U.S. legislation to address legacy contracts (see FSM Report **LIBOR6**) remains entangled in House jurisdictional disputes and larger controversies about the tax treatment of altering rates in the absence of fallback contractual provisions.

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.

- **CLIMATE12**: Following the UN's COP26 climate-risk summit, the Basel Committee has proposed highlevel principles guiding risk management and supervision related to both physical and transition climate risk.

- **REFORM210**: As expected, today's hearing with Comptroller-nominee Saule Omarova included an unprecedented amount of fireworks for what is normally a low profile appointment.

- **FAIRLEND10**: The CFPB has followed a study earlier this year finding significant mortgage product and price discrepancies based on race or ethnicity with a request for input (RFI) on the HMDA data on which the study was based.

- **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.

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