



Tuesday, November 30, 2021

FSB Revisits Cross-Border GSIB Resolution Quandary

Continuing its work to end TBTF banks, the FSB today [issued](#) good practices for the crisis management groups that would take on a troubled GSIB. It is striking that this statement does not use the more conventional "best practices" designation; one can only speculate that this is due to limited English proficiency by the final drafts people or the document fell short of what some FSB participants believed behooved best practice. The statement in fact notes that some of its good practices are well established but others have yet even to be begun. The document is principles-based and focuses on issues such as resolvability assessment and CMG operations. It also addresses the need to handle home/host coordination without taking a stand on the critical, controversial question of ring-fencing ahead of or in the event of resolution.

Waters, Foster Urge Rules to Combat Algo Bias

Continuing a [recent hearing theme](#), HFSC Chairwoman Waters (D-CA) and AI Task Force Chair Foster (D-IL) late [yesterday](#) urged federal financial regulators to ensure that AI/ML is algorithmic-bias free. Responding to the regulators' request for information on AI use ([see FSM Report AI](#)), they argue that historical data may perpetuate longstanding bias and create models that discriminate against protected classes. Alternative data may also result in discrimination, with Reps. Waters and Foster highlighting violations by student loans to borrowers attending HBCUs and other minority-serving institutions. They urge the agencies to ensure that AI and ML are transparent, with automated decisions reviewed by humans. Regulators should also provide clear and robust rules and guidance, ending regulatory sandboxes and no-action letters and relying where possible on regtech monitoring and compliance systems. Rules should also be implemented to ensure consumer data are collected only when necessary and protected. CFPB Director Chopra pledged in concert with recent fair-lending enforcement actions that [he would prioritize](#) algorithmic underwriting due to its opacity and disparate-impact risk; other agencies have so far announced no specific near-term plans, although Acting Comptroller Hsu recently highlighted the need to focus on "modern" redlining without mentioning AI/ML.

Clarida Stands By Fed Emergency Market Interventions

Outgoing FRB Vice Chairman Clarida [today argued](#) that the Fed has carefully deployed its 13(3) emergency powers and thus preserved its independence. Mr. Clarida details Fed history, continuing the Fed's long tradition of describing the mandate assigned to it in 1977 as a "dual" one despite the statute's reference also to "[moderate long-term interest rates](#)." Detailing an array of interventions in 2008 and 2020, Mr. Clarida also concludes that the Fed has acted not only wisely, but also fully within both its mandate and the law applicable to emergency-liquidity support.

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](#).

- [FEDERALRESERVE64](#): Most of the news at today's Senate Banking hearing revolves around Chairman Powell's concession that inflation may not be transitory and economic growth is now so robust that quantitative tightening might proceed more quickly than planned, pandemic permitting.

- **GSE-113021**: Unsurprisingly, [FHFA today raised](#) the GSEs' conforming loan limit to about \$647,000 and the high-cost limit to nearly \$1 million.
- **GSE-112421**: Because FHFA tends to take its cue from both the Basel Committee on Banking Supervision and its U.S. cousins, we here drill down to look at the housing-finance implications of the proposed global framework we assessed in a [recent in-depth report](#).
- **CLIMATE12**: Following the UN's COP26 climate-risk summit, the Basel Committee has proposed high-level 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.