



Friday, December 10, 2021

## FRB Stipulates Archegos-Risk Remedies

As forecast when Archegos broke ([see Client Report HEDGE59](#)), the FRB [today](#) issued new, tough guidance detailing its supervisory expectations for large-bank exposures to investment funds. Sparked by the Archegos incident, the guidance warns banks, BHCs, and counterparties not only of exposure restrictions, but also of practices that may warrant supervisory censure. Derivatives such as those at the heart of Archegos' losses are a major target of this new clarity and stringency, but so is the use of unverified information not only at the inception of a fund relationship, but also on an ongoing basis. Banks are also told to go beyond verification to drill down to factors such as fund concentration and leverage to enable sufficient risk mitigation; interestingly, banks must now also know the number of prime brokers on which a fund relies. The Fed also targets mispricing that leads to poor margining and an overall failure of independent risk management and monitoring. Banks and BHCs with exposures in this arena may thus wish quickly to ensure that they have ample and verified information as well as appropriate internal controls since supervisors are likely soon to query them on these matters and, where this has already occurred, to cite this guidance to press remedial action.

## FSB Advances Cross-Border Payment Revamp

Building on its new cross-border payment policy ([see FSM Report PAYMENT23](#)), the FSB [today](#) sought comment on how national and regional data frameworks affect the cost, speed, access, security, and the interoperability of cross-border payments. Comment is also sought on barriers to cross-border data use in existing frameworks, with suggestions requested on barrier reductions and payment ring-fencing. Specific payment corridors of particular concern should be identified, especially those related to emerging markets. Comment is due January 14.

## Aborted Merger Paper Hits Partisan Battle Lines

Following yesterday's battle over an [RFI on bank mergers](#), senators are squaring off on both process and policy. Banking Chair Brown (D-OH) agreed with it, arguing that what he calls M&A "rubber stamping" hurts communities and creates banking deserts. HFSC Chairwoman Waters (D-CA) has yet to address the RFI, but she almost certainly agrees with Chair Brown. In sharp contrast, Banking Ranking Member Toomey (R-PA) described the action as an "illegitimate FDIC coup" and "lawless overreach," imploring the Biden Administration to disavow it (which is unlikely). Other GOP Members, including Sens. Crapo (R-ID), Scott (R-SC), Lummis (R-WY), Tillis (R-NC) and Reps. Luetkemeyer (R-MO) and Huizenga (R-MI) focused on process, saying that CFPB Director Chopra is usurping the FDIC Chair's authority and, in some cases that this proves the need to restructure the Bureau into an agency led by a board, not single director. Should the GOP gain the majority in the House and/or Senate after the mid-term, the RFI will figure prominently in renewed efforts to restructure the CFPB.

## Waters Demands Regional-Bank Merger Moratorium

Uping the ante on bank mergers after the [FDIC fracas](#) over an RFI, HFSC Chairwoman Waters (D-CA) late this afternoon [called](#) on the FRB, OCC, and FDIC to hold all M&A over \$100 billion until completion of this review, one under way by the FRB and Department of Justice, and any similar OCC assessments. The chairwoman does not opine on the propriety of the controversial FDIC review; instead, the letter treats it as if it is already underway. Calling for action along lines in Warren M&A legislation ([see FSM Report MERGER8](#)), Rep. Waters also argues for public hearings before any large deals and pre-approval consultations with both FSOC and the CFPB. The letter also cites Gov. Brainard's opposition to at least one regional-bank merger, detailing an array of pending deals and criticizing risks and community implications

the chair believes might well result were any of these approved because, she says, voluntary commitments addressing these risks cannot be effectively enforced.

## 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-120921**: On Tuesday, [HUD](#) and the [CFPB](#) opened the door to [special-purpose mortgage finance](#). Now, we expect FHFA to use this safe harbor to mandate express GSE equitable-finance programs and for banks to take much of what's left in all their commitments after George Floyd's murder and turn it into mortgage and other community-finance products.
- **CRYPTO23**: As [anticipated](#), today's HFSC hearing was a marathon session at which industry witnesses defended their business model, Republicans liked it fine, and Democrats worried about a wide array of policy challenges.
- **COVEREDFUNDS3**: The OCC is "clarifying," but also in many respects rescinding one aspect of controversial 2020 rules expanding the "covered funds" under which banks may make equity investments as provided by the Volcker Rule.
- **GSE-120621**: As we noted on [Friday](#), Senate Banking Ranking Member Toomey asked SEC Chairman Gary Gensler a trick question about GSE [obligations](#) at the very end of a lengthy letter focused principally on cryptography.
- **GSE-120221**: Two recent studies add fuel to the fire we first spotted [late last year](#): demands for ARMs that only go down.
- **FEDERALRESERVE65**: Continuing the partisan and often-acrimonious tone of the Senate Banking hearing ([see Client Report FEDERALRESERVE64](#)), HFSC today heard from Chairman Powell and Secretary Yellen.
- **CRYPTO22**: Although the OCC joined other agencies issuing a non-committal "roadmap" for future cryptography actions, the agency at the same time and far more decisively stated that crypto activities are permissible only if they are also safe and sound.
- **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.