



GSE Activity Report

Friday, May 27, 2022

Now You Know

Summary

FHFA has [finalized](#) its October [proposal](#) to create a new qualitative capital and governance disclosure regime, going well beyond the disclosures initially mandated in the final capital [rule](#) to instill market discipline long associated with private companies, not conservatorships. FHFA's goal is to ready Fannie and Freddie for a return to private markets without implicit-guarantee guardrails, but the chances of that in the near future seem small. Minor pricing differences on debt and derivatives are thus the new rule's most likely result.

Impact

The final rule implements quantitative and qualitative disclosure requirements related to risk management; corporate governance; capital structure; statutory capital requirements; supplemental capital requirements; counterparty exposures; and credit-risk mitigation, CRT, and securitization. Mandatory disclosures also include the names of external parties providing credit judgements; market risk; equity issuances by type and realized/unrealized gain or loss; certain interest rate-risks and related management information; market-risk exposures and management; capital buffers (including with regards to capital distributions and discretionary bonuses); operational risk; a key leverage-capital ratio; and more, much more.

All of these disclosures other than the leverage-ratio disclosure would be both quantitative and qualitative and apply only to the standardized approach (SA), but plans are afoot to bring them forward to the advanced approach when and if this becomes applicable to Fannie and Freddie.

Akin to the big-bank rules on which FHFA's standards are based, quantitative disclosures are due quarterly and qualitative releases are annual, although material items (now defined) must be disclosed as soon as practicable and, in all cases, no later than the next calendar quarter's end. As proposed, disclosures prepared for accounting or SEC purposes with appropriate reconciliation suffice if they meet FHFA's demands. Also as with big banks, FHFA's rules include governance standards requiring board and senior-management oversight of disclosure practices.

Outlook

Get out your eye-shades – the first mandatory disclosures are due in the first quarter of 2023.