FedFin Daily Briefing

Thursday, June 9, 2022

FSB, IMF Close One Data-Gap Project, Open Next Phase

In a joint report today, the FSB and the IMF reported progress on closing financial data gaps, closing the second phase of the Data Gaps Initiative called for by the G20 in 2009. The project identified these gaps in the wake of the financial crisis, with phase two specifically addressing increasing data collection on financial stability risks and interconnections, as well as enhancing communication of financial statistics. The organizations state that data gaps have closed considerably on financial soundness indicators, G-SIFIs, non-bank intermediation, and other financial stability risks. However, they concede that challenges remain on phase two priorities including collecting data on securities, international banking statistics, and international investment position. The IMF have developed a workplan dividing additional data collection priorities past phase two on climate change, household distributional information, fintech and financial inclusion, and access to private sources of data. This workplan will be submitted to G20 Finance Ministers and Central Bank Governors later this year with the expectation of its conclusion coming in five years.

IMF Staff Assess Green CBDC Options

A new IMF paper concludes that Proof of Work-based DLT applications should not define any payment system transformation prioritizing reduced energy consumption, including CBDC. Although CBDC could be designed to be more energy efficient than the current payment system, the ultimate energy efficiencies and environmental benefits of CBDC will depend on the design priorities of the issuing central bank. Factors that might increase CBDC energy consumption include increased resilience measures, security architecture, bespoke regulatory compliance tools, and offline capabilities. A one-tier and two-tier model for CBDC is also described, with the one-tier model involving direct central bank management over retail payments and being more energy efficient, and the two-tier model involving authorized payment stakeholders but resulting in higher energy consumption. The paper calls for more robust environmental impact data around payment systems and standardized impact assessment research methodologies to inform future policy decisions.

BIS Officials Caution re "Green Bubbles"

In an article today, top BIS officials highlighted the potential risk of "green bubbles" and stressed the limits of the financial industry's ability to reduce climate risk. The article states that the financial sector faces the same misalignment of incentives as other industries, with the current generation bearing the costs of a green transition that will mainly benefit future generations. While the authors acknowledge that green-investment preferences have to some extent eased this misalignment, it has also increased green asset prices that could create a bubble due to continued social pressure. Should this bubble pop, it could severely discredit the transition to a green economy. The article thus concludes that calls for the financial industry to be one of the primary drivers of the green transition are unrealistic and that the industry must play an essential but supporting role in the transition by minimizing risk.

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-060922:** When Sandra Thompson earlier this year enunciated a new equitable-finance mission, we forecast that Fannie and Freddie would undertake an array of new activities that significantly expand their footprint along with their equity and equality impact.
- **GSE-060722:** FHFA released its first-ever report on the extent to which Fannie, Freddie, and the FHLBs meet their statutory mission.
- **GSE-060222:** Following on the heels of new capital disclosures, FHFA has finalized a planning process designed to ensure that GSEs have something good to say when they post these reports, reassuring markets and perhaps even speeding the way out of conservatorship.
- **GSE-060122:** As detailed in our new in-depth report, the CFPB has issued another sweeping rule by way of a seemingly innocuous circular not subject to public notice and comment.
- **FAIRLEND11:** Continuing its use of novel rulings that preclude public notice and comment, the CFPB has issued a landmark ruling on artificial intelligence (AI) and other forms of algorithmic underwriting stipulating lender responsibility for sending out the adverse action notices required under the Equal Credit Opportunity Act (ECOA).
- **GSE-052722:** 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.
- **CBDC13:** Newly in place as Fed Vice Chair, Lael Brainard today made it clear at an HFSC full committee hearing that her prior statements laying out CBDC benefits are still her thinking despite the considerably more ambivalent approach outlined in the Fed's discussion draft (see FSM Report **CBDC10**).
- **DEPOSITINSURANCE113:** Using a new approach to issuing enforcement edicts – a circular – the CFPB has made use of its controversial decision to bring nonbanks under its ambit to bolster the FDIC's efforts to enhance consumer understanding of which funds are entrusted to FDIC-insured depositories and which may be at greater risk in other hands.
- **CRYPTO27:** Sharp disruptions in cryptoasset markets, and especially those for stablecoins, have energized calls for rapid U.S. statutory and regulatory action along lines initially laid out by the President's Working Group on Financial Markets (PWG).
- **CRA32:** Following much talk about the need to update Community Reinvestment Act (CRA) rules since this was last done in 1995, federal banking agencies have finally agreed on a proposed redesign of standards essential to banks that wish to expand or acquire as well as those seeking strong community ties and the policy and political benefit these afford.
- **GSE-051622:** As we noted last week, the federal banking agencies sighed a mighty sigh and heaved up a massive inter-agency proposal rewriting decades-old standards detailing which activities earn the Community Reinvestment Act (CRA) points essential for any bank's strategic objectives and national reputation.

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- **FSOC27**: With stablecoin markets even more distressed than earlier in the week, today's HFSC hearing with Secretary Yellen was even more emphatic than senators two days before on the need for action (see *Client Report* **FSOC26**).

- **FSOC26:** Today's Senate Banking Committee hearing with Secretary Yellen renewed calls for federal legislation based on recent algo-coin losses and resulting digital-currency market volatility.

- **SYSTEMIC93:** In this report, we assess the new Federal Reserve financial-stability report.

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