FedFin Daily Briefing

Thursday, July 14, 2022

FSB Climate-Risk Progress Report Underscores Disclosure Standards, Improved Data

The FSB today released a climate-risk progress report that also details near-term actions. These include not only the statement to the G20 in October noted in yesterday's G20 report, but also a status report in September from the Task Force on Climate-Related Financial Disclosures (TCFD) on industry progress toward adopting its climate disclosure recommendations. Priority actions for the four blocks of its Roadmap for Addressing Climate-Related Financial Risks also include two ISSB Exposure drafts, and the need for timely issuance of a final global baseline climate reporting standard is emphasized. The FSB also targets the need for disclosure-metric standardization and new sustainability assurance, ethics, and independence standards. Key goals outlined regarding data improvement include the establishment of common metrics for financial risks as well as data repositories that provide open access to data in a consistent form. The FSB highlights the Network for Greening the Financial System's (NGFS) data directory as an essential tool for financial stability monitoring and stress testing that will also help assess progress on filling data gaps. Three strands of vulnerabilities analysis are identified, including ongoing monitoring, development of conceptual frameworks, and further development of scenario analysis. The report emphasizes the importance of moving to regular monitoring in a timely and flexible manner and embedding climate scenarios into monitoring. For regulatory practices, the report encourages financial authorities to continue to embed the supervision of climate-related risks into overall supervisory frameworks, including the further development of the use of climate scenario analysis and stress testing exercises.

CFPB, OCC Slam BofA for UI-Fraud Lapses

The OCC and CFPB today issued a $225 million enforcement order against Bank of America related to unemployment-insurance and public-benefit fraud that led the bank to improperly withhold prepaid-card payments to legitimate recipients. Both agencies censured the bank for failing to ensure that benefit freezes were related to actual fraud and to ensure timely and prompt payment when fraud was not clearly evident. The CFPB also deploys a new tactic: a "consequential-harm" payment the bank must pay in a lump sum to all adversely-affected beneficiaries, also setting up an individualized relief process, with each of these likely to result in hundreds of millions more in consumer redress according to the CFPB. The OCC also orders remediation in a more usual way, with both agencies using their UDAAP powers to censure the bank. The OCC's order also includes an array of mandated improvements to the bank's risk management and operational procedures, although both agencies also acknowledge that the state agencies for which the bank acted were overwhelmed in the course of the Covid crisis and failed to provide the support the bank alleges was contractually obligated by these agencies in concert with its own duties to disburse funds. The ruling thus makes it clear that banks acting in their view solely as agents may be held liable for failures related to proper claim payment and fraud prevention by the issuing party.

BIS Builds "Central Bank Liquidity Bridges"

Continuing its work to promote better cross-border payments, the BIS today floated the idea of "central-bank liquidity bridges" to overcome current frictions in the bank-dominated sector. As the paper readily notes, these liquidity bridges are not currently needed due to excess market liquidity, but liquidity can disappear in very short order and thus require central-bank intervention not only for stabilization, but – the paper suggests – also for operational integrity. The BIS also thinks these bridges could enhance cost-effective service that advantage emerging economies, remittances, and other fragmented markets. "Frictions" that would be eliminated include foreign-exchange trading, payment-line over-funding, and counterparty risk. The report, which is the opinion only of its authors, also views these central-bank bridges as substitutes for correspondent banks, noting that this central-bank role could also permit some relief from current liquidity standards related to payment obligations that can prove procyclical in stress scenarios. Given its conclusions, the paper also lays out design conditions for advancing these liquidity bridges, resulting in a transfer of an array of risks from the banking system to central banks, expanding their role in ways that may be problematic to affected financial institutions and private payment clearing providers.

Clarida and Powell Cleared, but OIG Still Reviewing Fed Ethics

The Office of the Inspector General at the Fed today cleared former Vice Chair Clarida and Chairman Powell of ethics violations that have dogged them as recently as a letter yesterday from Senate Democrats. Despite the overall clearance, Mr. Clarida was cited for several disclosure and reporting failures and the OIG is continuing to investigate former Dallas and Boston Reserve Bank Presidents. It is also reviewing the Fed's new trading rules and ethics standards, perhaps leading to findings that will further inflame Democrats. Unless the OIG strongly refutes Democratic assertions that the new standards lack teeth, we expect continuing pressure on the Fed to be both tougher and more transparent in this arena.

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.

- **CRYPTO30:** As part of its response to the President's digital-asset executive order, the Department of the Treasury is seeking views on the broad policy questions on which it believes answers might guide the Administration's next steps.
- **GSE-070822:** A new Fed staff note contains startling statistics on how much the housing market has changed in just a few months at grave cost to lower income households.
- **CRYPTO29:** Global banking regulators are trying a new, but still stringent, approach to governing bank exposures to certain types of crypto assets, revising an initial consultation to focus more on supervisory limitations than on extremely punitive capital requirements for what are deemed to be lower risk cryptoassets.
- **CREDITCARD35:** Taking the first concrete action following its new policy on "junk fees," the CFPB has sought public comment on whether and how to govern credit-card late fees and broader practices related to late payments.
- **GSE-070122:** FHFA today essentially conceded after its initial polite rebuff to an Urban Institute critique of the capital rules adverse impact on UMBS.

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- **GSE-063022:** The Federal Reserve Bank of Philadelphia's latest report on foreclosure risk includes a worrisome finding: the sharp rise in interest rates means that most loan-mod recipients won't actually get much relief.

- **GSE-062922:** In response to a request from its Inspector General, FHFA renewed the commitment to fourth-party supervision.

- **DEPOSITINSURANCE114:** The FDIC is proposing to raise base Deposit Insurance Fund (DIF) assessments by two basis points (BPS) to replenish the DIF by the statutory deadline to reflect deposit inflows that the FDIC no longer expects to be temporary.

- **GSE-062722:** A new Fed paper analyzes the striking differences between mortgage-market liquidity – or the dramatic lack thereof – in the great financial crisis of 2008 and the pandemic crisis of March, 2020.

- **FEDERALRESERVE71:** At today's HFSC hearing, Chairman Powell encountered the same political headwinds evident at yesterday's Senate Banking session (see *Client Report* **FEDERALRESERVE70**), reinforcing and even heightening his commitment to fighting inflation in concert with hopes that a soft landing may still be possible.

- **GSE-062322.pdf:** Following a sharp critique of GSE capital standards earlier today from the Urban Institute, FHFA Director Thompson today acknowledged Fannie and Freddie's new 50 bps fees when one of the GSEs guarantees the other's collateral for UMBS purposes.

- **FEDERALRESERVE70:** As we expected, today's Senate Banking session with Chairman Powell is a preview of broader national debate ahead of the midterm election.

- **CLIMATE14:** The Basel Committee has finalized its proposed climate-risk management principles largely unchanged from its proposal, establishing over-arching goals at which both banks and their supervisors are asked to aim.

- **CONSUMER43:** Combining some of its outstanding initiatives and adding new ones, the CFPB is seeking information on how well larger banks and credit unions serve consumers and what steps may be needed to make them do better.

- **GSE-061522:** Today's report to Congress is FHFA's first foray into expressing a statutory opinion since Sandra Thompson took over, a change doubtless due to her newly confirmed status and the will to tackle hard questions in which Congress has only nominal interest in the absence of another crisis.

- **CRYPTO28:** After protracted negotiations and much public attention, bipartisan senators have introduced a far-reaching bill designed to encourage digital-asset use without undue risk to consumers, investors, or the financial system.

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