



FedFin Daily Briefing

Tuesday, July 26, 2022

Fed Encounters Tough New Complaints re Governance, Security

Sen. Rob Portman (R-OH) today released a [report](#) from the Republican Members of the Senate Homeland Security Committee not only alleging repeated Chinese attempts to infiltrate the Federal Reserve, but also Fed laxity ahead of and in response to this threat. Chairman Powell has sharply rebutted these [findings](#), countering that they are unverified with regard to the cited employees and stating the Fed takes strong action to identify intrusions by hostile states and promptly report them to the appropriate authority. However, the GOP study states that the FRB did not in fact make such reports when its own internal investigations surfaced significant concerns, noting also that the Fed only acted in 2019 to ban officials from taking compensation from hostile nations and criticizing it for opacity and the lack of clear consequences if compensation is nonetheless taken. The policy would also appear to allow Fed officials to accept external compensation from other entities, an issue that – if true – will surely exacerbate ongoing concerns about [conflicts of interest](#) and stoke sharp questioning after tomorrow's FOMC announcement. It is unclear why Homeland Security Democrats refused to agree to this report, but we expect it relates to the fact that Sen. Portman is among Republicans pressing legislation in the pending semiconductor/China bill conference to which Democrats object. Democrats have also generally sided with the Fed in order to deflect broader GOP criticism about inflation that ties back also to the Biden Administration and Congressional [fiscal policy](#).

SEC Official Seems to Doubt Swing Pricing

In remarks [today](#), the head of the SEC's investment management division, William Birdthistle, seems to cast doubt on the agency's MMF swing-pricing proposal ([see FSM Report MMF19](#)). As we noted in our assessment of the FSB's MMF report ([see FSM Report MMF18](#)), one alternative to MMFs would be bank deposits, but Mr. Birdthistle indicates that this is both unlikely and undesirable due to the lower rates paid on bank deposits. Swing pricing might prevent migration either to bank deposits or ultra-short bond funds, but Mr. Birdthistle doubts that swing pricing will address redemption risk under acute stress. Defending the NPR, he suggests that immediate attention to MMF "plumbing" might make swing pricing more effective, but Mr. Birdthistle also seeks additional research and views even though the comment deadline on the agency's proposal expired on April 11.

Brown, Sanders, Dems Introduce Bill to Extend Full Range of Civil Rights Protections to Financial Services

Today, Sen. Brown (D-OH) and seventeen Senators introduced [legislation](#) that explicitly prohibits financial institutions from discriminating against customers based on race, color, religion, national origin, sex, gender identity, or sexual orientation. No text of the bill is available, but the release [today](#) suggests it is similar to or identical to legislation Sen. Brown introduced late in the last Congress ([see FSM Report FAIRLEND9](#)) revising the Civil Rights Act to expressly cover financial services. Senate Banking scheduled hearings on this issue today and last week, but doubtless cancelled each session because the bill was either not ready for introduction or work was under way to add more sponsors and supporting organizations. We will of course cover the

hearing once it occurs as well as review the bill to determine the extent to which it differs, if at all, from the prior measure. Citing cases of alleged racial profiling at JP Morgan Chase, Wells Fargo, and Bank of America, the bill's sponsors argue that victims of discrimination have little recourse due to gaps in current law.

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](#).

- **[LIBOR8](#)**: Moving belatedly but now expeditiously to implement legislation governing legacy-contract benchmarks when there is no contractual fallback rate, the Fed has proposed a new framework for derivatives, consumer loans, certain GSE contracts, and any other legacy contracts without clear LIBOR-replacement provisions and a "determining person" to effectuate them.
- **[GSE-072122](#)**: We yesterday provided a complete assessment of Sandra Thompson's sojourn on HFSC's [griddle](#), noting the lack of any insights into essential issues such as conservatorship's end or the full scope of CRT's new beginning.
- **[GSE147](#)**: At her first hearing as confirmed FHFA Director, Sandra Thompson made it clear to House Financial Services that she is committed to expanding credit-risk transfer (CRT), encouraging equitable finance via new GSE activities, and recapitalizing Fannie and Freddie as quickly as possible.
- **[GSE-071922](#)**: As noted earlier today, the Fed has finally brought forth its LIBOR-transition [proposal](#) specifying permissible benchmarks for legacy contracts without contractual fallback rates.
- **[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](#).
- **[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.
- **DEPOSIT INSURANCE 114:** 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.