# FedFin Daily Briefing

**Thursday, August 25, 2022**

## KC-Fed: Data Aggregation Requires Rules Before Mass Adoption

The Kansas City Fed yesterday released a briefing on data aggregators concluding that they can improve the efficiency and quality of consumer financial services if proper regulation protecting data security and privacy is enacted. The briefing argues that data aggregators can leverage consumer data to improve personal financial management, allow lenders to assess alternative creditworthiness data, and enable third-party service providers to offer efficient payment services. However, data aggregators also require regulation given data breach and privacy concerns. The briefing comes at a time when the CFPB has promised action later this year on data privacy likely to avoid the open-banking model discussed in this article in favor of express prohibitions on certain uses of personal data without consumer consent. The banking agencies have yet to set a policy on data aggregators, including the screen-scraping of greatest concern to banks.

## SEC Prioritizes Enforcement, Disclosure, Working-Families and Systemic Risk

The SEC's new strategic plan through 2026 speaks to Chairman Gensler's focus on fairness, economic opportunity, and enforcement. Specifics are sparse, but the plan puts the agency's enforcement policy in the context of protecting "working families" especially when it comes to enforcement in areas such as cryptoassets. Cases will follow the "like-kind" transaction principle (regardless of technology) Mr. Gensler has espoused (see *Client Report* **INVESTOR19**), with the plan noting that enforcement is intended to deter not only specific, but also general, misconduct. The plan also defends recent agency data-collection standards, disclosure requirements such as those pertaining to climate risk, and the need for greater authority to govern systemic and infrastructure risk. No specifics are provided on any pending or planned initiatives including those germane to MMFs, open-end funds, PFOF, and financial-market utilities.

## FSI Report: Bigtech, Third Party Vendors Pose Operational Risk

The BIS Financial Stability Institute today released a study examining operational resiliency through a macroprudential lens, offering recommendations on how to address systemic risks presented by critical third-party service providers and bigtech. The report highlights systemic risk resulting when financial firms use only a handful of external technology providers, offering four policy options: require all financial firms acquiring technology services to assess operational resiliency, require all firms to use a multi-provider strategy, bar SIFIs or FMIs from relying on third-party technology providers, and/or expand the reach of financial regulation to critical third-party service providers. The report also notes the unique risk that bigtechs pose as many offer both technology and financial services, often depending on each other within the same company group. It thus recommends that bigtechs be required to identify internal interdependencies and conduct regular group-wide testing exercises. There is no way to mandate this in the U.S. absent some form of FMU designation or activity-and-practice rules addressing operational risk in nonbanks through rigorous standards on bank third-party vendors. U.S. agencies have proposed a framework that might reach to bigtech if pressed hard enough in final standards (see FSM Report **VENDOR9**).

## 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.

- **CRYPTO31:** Reflecting the concerns voiced in a recent executive order from President Biden and a subsequent request for views from Treasury, the Federal Reserve has joined the OCC in demanding prior notice from banking organizations that wish to undertake cryptoasset activities.
- **GSE-082222:** A new Federal Reserve Bank of Cleveland study validates forbearance as a mortgage-market buffer, reinforcing the likelihood that policymakers and servicers will turn quickly to it if current mortgage-market conditions turn ugly under the combined stress of higher rates and slow to no growth.
- **GSE-081922:** We look here at an interesting idea from three senior Fannie Mae officials: an index to measure a Single-Family MBS's social impact.
- **PAYMENT25:** Following considerable controversy surrounding how Federal Reserve Banks grant master accounts, it has finalized a somewhat more explicit set of guidelines along lines proposed the second time the Fed attempted to set guidelines via a "supplemental" proposal earlier this year amending its 2021 effort.
- **GSE-081722:** FHFA and Ginnie Mae today let loose their long, long delayed standards for eligible seller-servicers.
- **INFOSEC28:** Using another of its tools to set policy without prior public comment, the CFPB has released a circular stating that inadequate consumer-data safeguards may constitute a breach of the unfair, deceptive, or abusive acts or practices (UDAAP) protection standards subject to Bureau enforcement action.
- **FINTECH30:** Continuing its practice of setting sweeping policy by administrative action without prior notice or comment, the CFPB has issued an interpretive rule sharply curtailing the extent to which digital advertising and market strategies are exempted from the legal and compliance obligations associated with most parties directly providing consumer financial products or services and those acting as servicers to these entities.
- **GSE-081222:** FHFA, Fannie, and Freddie yesterday released the results of FHFA's latest stress test, focusing on the severely-adverse scenario in order – or so FHFA says – to push the GSEs to the limit.
- **INTERCHANGE10:** Two senators have reopened questions about the manner in which card-related payments are handled, tackling those applicable to credit cards with a bill mandating that merchants must be given a network choice that is not either Visa or Mastercard in order to, the sponsors argue, increase competition and lower credit-card transaction costs.

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