



# *FedFin Daily Briefing*

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Friday, September 9, 2022

## White House Reaffirms Anti-Algo Stand

The White House late [yesterday](#) announced core bigtech policy principles. These are extremely general and do not go as far in areas such as antitrust that progressives sought. They do, though, include a commitment to privacy protection sure to color the CFPB's work on both bigtech and data privacy, also strengthening its recent attack on digital marketing ([see FSM Report FINTECH30](#)). The principles also call for an end to discriminatory algorithmic decisions, another action right in the CFPB's corner ([see FSM Report CONSUMER39](#)).

## U.S. Announces Start of Work on Basel “End Game”

Ahead of what might otherwise have been a fractious Basel Committee meeting, the Fed, OCC, and FDIC [today reaffirmed](#) the U.S. commitment to finalize what FRB Vice Chair Barr Wednesday called the [Basel III “end-game.”](#) The statement now indicates that these rules will apply only to large banks and will come in the form of a joint proposal issued as a priority but on some still-uncertain date. One key objective of U.S. regulators will be to finalize these Basel rules without reducing current capital ratios or making it still more difficult to achieve the holistic-capital standards Mr. Barr also affirmed. As we [noted](#), much in the Basel package will make it still more challenging to craft a unified regime in which risk-based and leverage ratios combine as desired, operational-risk standards fit in the new framework, and the advanced approach to risk-based capital continues to make sense. Key pieces of the Basel package include new standardized floors to limit reliance on internal models ([see FSM Report CAPITAL207](#)), a new standardized approach ([see FSM Report CAPITAL206](#)), a significantly revised operational-risk construct ([see FSM Report OPSRISK16](#)), new market-risk rules ([see FSM Report CAPITAL211](#)), and leverage-ratio revisions ([see FSM Report LEVERAGE9](#)).

## Basel Chair Announces Preliminary AI Priorities

Pablo Hernández de Cos, Chair of the Basel Committee, [announced](#) today the work that regulators plan on AI and algorithmic decision-making. The Committee will determine the extent that AI/ML model outcomes are explicable, assess model governance, and evaluate resilience and financial-stability implications. Mr. Hernández de Cos gives no dates for these plans, which do not appear to include any near-term global consultations. US banking agencies have also taken only preliminary steps in this arena, last year releasing an RFI on AI/ML models ([see FSM Report AI](#)) seeking comment on explicability and bias risk, but no significant action has followed. In sharp contrast, the CFPB has taken an active role addressing AI, at least when it comes to discrimination ([see FSM Report FAIRLEND11](#)) and targeted marketing ([see FSM Report FINTECH30](#)).

## OFR Details Climate Data-Sharing Efforts

Acting OFR Director James Martin [today](#) addressed the need for integrated climate-related financial data and challenges to forecasting and modeling climate risk. He highlighted the Data Hub collaboration between the Fed and OFR earlier this year, which is being piloted for climate-related financial research and may be used as a data and analytic tool on other financial-stability concerns. The Hub provides access to data such as precipitation and crop conditions with tools to

merge these data with supervisory financial data. This would then expand inter-agency collaboration and enable more accurate assessments of climate change systemic impacts.

## Liang Stresses Climate-Resiliency

Treasury Under Secretary Liang today [reiterated](#) an array of agency and Administration climate-risk priorities, emphasizing ongoing Treasury and FSOC climate resiliency efforts and underscoring Treasury's commitment to a net-zero economy. Work under way includes a forthcoming report on how climate risk is challenging household finances, and Treasury is continuing to assess the impact of climate risk on the federal budget and government macroeconomic forecasts. Ms. Liang also highlighted FSOC's 2021 climate-risk report ([see Client Report GREEN11](#)), calling attention to inter-agency working groups striving to achieve improvements in data quality and availability, data infrastructure, climate risk metrics, and scenario analysis. [As noted](#), FRB Vice Chairman Barr and Acting Comptroller Hsu earlier this week indicated that their agencies are advancing pilot scenario analytical projects after determining that the current stress-test construct is unsuitable to climate risk.

## Treasury To Issue Price-Cap Sanction Guidance

Deputy Treasury Secretary Wally Adeyemo [today](#) made it clear that enforcement of the anti-Russia oil-price caps will depend not only on restricting shipping insurance, but also doing so for financial and payment services. Although this seemed clear from the initial G7 announcement last week, questions continue not only on whether this is the case, but also on how it could be enforced. To that end, Mr. Adeyemo also announced that OFAC will initially issue a simplified compliance guide followed by more detailed standards. These are intended to provide certainty over complex questions about the origin of an oil shipment and the price at which caps apply. Sanctions would then apply to parties to a transaction related to Russian oil above the cap governing all financial entities subject to U.S. law and rule in this high-impact arena.

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### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [INSURANCE61](#): Chairman Brown (D-OH) convened a hearing today focused on the insurance industry largely focusing on the extent to which private-equity takeovers endanger insurance solvency and threaten pensioners following risk transfers.
- [GSE-090722](#): Reinforcing the sharp turn-around in housing markets evident since the Fed surprised markets with its first 75 bps hike, a new working paper from the [San Francisco Fed](#) provides the first hard evidence of how monetary-policy shocks in the U.S. hit listing prices hard and fast.
- [GSE-090122](#): As seems always the case, FHFA Director Thompson is as good as her word to Congress earlier this [summer](#), announcing [yesterday](#) a review of the extent to which the Home Loan Banks and their System meet the mission assigned to them and, regardless, if that mission still makes sense.

- **[GSE-083022](#)**: BofA's new no-down payment [mortgage](#) is another innovative product in which banks use their balance sheets to address their CRA obligations by offering down payment assistance or, as here, flat out nothing down.
- **[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.