FedFin Daily Briefing

Tuesday, February 21, 2023

Nonbank Corporate Finance Stokes Systemic, Macro Risk

A new BIS paper supports bank assertions that nonbank corporate finance is considerably more procyclical in terms of its threat to financial stability and macroeconomic growth than that conducted by regulated companies. This risk-arbitrage question is germane not only to the ongoing debate about NBFI regulation, but also efforts to ensure that U.S. "end-game" capital rules sharply reduce the RWA for lower-risk corporate obligations. Using global syndicated-loan evidence, the paper finds that nonbanks reduce their lending in stress scenarios significantly more than banks (i.e., fifty percent) even after controlling for factors such as borrower creditworthiness and funding model. However, accounting for the extent to which banks versus nonbanks have relationships with borrowers reduces the gap by about two-thirds, demonstrating that nonbanks typically follow a transaction-based strategy that does not provide the information and other asymmetries resulting when a bank has a long-term business relationship with a borrower. Bank lending in crises also significantly reduces the cost of borrowing compared to the loans nonbanks may continue to make in these scenarios. The authors note that the sharp uptick in nonbank lending combined with the lending gap it uncovers suggests that the market resilience won by virtue of bank regulation may have less benefit buffering shocks given the large role of procyclical nonbanks in corporate finance.

FSB Fears Systemic Risk from Bank, CCP Commodity Risk

A new FSB report today assesses systemic risk posed by the oil, gas, and wheat commodity markets given its highly-leveraged and illiquid nature and its deep interconnections into the global banking system. Global regulators conclude that bank exposures in general are "manageable," but some banks and CCPs have significant sector exposure and thus risk. Commodity firms have recently reduced liquidity risk, but they also hiked credit and market risk at a time of tightening that exacerbates them, leading the FSB to describe emerging risks and detail the data gaps that make it challenging to draw clear conclusions. Nonetheless, the FSB urges jurisdictions to ensure that commodities firms, CCPs, and banks are prepared for another sudden spike in margin calls, with national regulators likely to build on this report to take steps to ensure that banks with concentrated commodity or commodity-clearing exposures have additional risk buffers. Some jurisdictions may also review the extent to which commodity clearing organizations remain outside the scope of financial-market utility regulation, an issue of particular interest in the U.S. given ICE's large role in equity, CDS, and commodity clearing along with its proposed acquisition of a major mortgage-technology firm.

FSB Prioritizes Crypto, NBFIs

The FSB head's letter to the G20 yesterday reiterates priorities outlined in his November letter, stating that global regulators will deliver a joint paper with the IMF later this year synthesizing policy findings and regulatory issues around cryptoassets. The

FSB will also continue to prioritize NBFI supervision (see *Client Report* **NBFI2**), re-emphasizing the importance of studying hidden leverage and addressing liquidity mismatches in open-end funds. The FSB and IOSCO will also complete review of MMF reform later this year. As previously noted, the FSB will focus crypto-related work on implementation of its "same activity, same risk, same regulation" framework (see FSM Report **CRYPTO34**), and the FSB now will also perform an in-depth analysis of large cryptoasset intermediaries. Finally, the letter reiterates that global regulators will release final climate-disclosure standards within the coming months.

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-022123:** As we noted, FHFA is venturing onto treacherous political ground with a request for input on expanding Fannie and Freddie's ESG imprint.
- **CRYPTO39:** Although Chairman Brown (D-OH) remained non-committal on the need for crypto legislation, he emphatically called for reform to protect consumers and investors.
- **GSE-021323:** Following our initial report, we turn here to a more detailed analysis of what's in store for the Home Loan Banks following the Brookings high-impact forum on Home Loan Banks that are also facing far more unflattering public attention than has been their fate for years.
- **CREDITCARD36:** Following on a controversial advance notice of proposed rulemaking, the CFPB has now released an NPR setting specific standards for credit-card late fees that also eliminates the inflation adjustments established by the Federal Reserve when implementing the 2009 credit-card law.
- **GSE-020623:** A new post from the Federal Reserve Bank of Atlanta summarizes key findings from recent pandemic-era mortgage refinancing research, reiterating prior findings that more White mortgage borrowers got lower refinancing interest rates in 2020 compared to Blacks.
- **CHARTER29:** In conjunction with rejecting an uninsured crypto bank's application for Federal Reserve membership, the Federal Reserve issued a policy statement conforming state member bank powers only to those authorized for national banks even if the state member is an uninsured depository institution.
- **CONSUMER49:** Using one of its controversial edicts to set what some consider a new rule, the CFPB has opined that negative-option or "subscription" marketing of consumer-financial products or services may be unfair, deceptive, or abusive (UDAAP) and thus subject to significant sanction for both the provider and any third parties with which it works.
- **GSE-012323:** Under Director Thompson, FHFA's top policy priority is equitable housing.

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