



FedFin Daily Briefing

Thursday, February 23, 2023

Agencies Strengthen Defenses vs. Crypto-Related Funding

As FedFin forecast when significant bank crypto-related deposit exposures came to light ([see Client Report CRYPTO38](#)), the banking agencies today issued [guidance](#) telling banks to monitor and mitigate risks related to resulting liquidity risk. The inter-agency statement stipulates that this guidance reiterates existing risk-management principles and does not establish new ones – a caveat we expect intended to ensure that any enforcement actions now under way cannot be countered by assertions that the agencies are engaging in retroactive standard-setting. We will review the guidance for strategic implications beyond those to banks now wrestling with large crypto funding exposures, providing an in-depth analysis as warranted. On initial review, we see no discussion of resort to FHLB advances under liquidity stress.

FSB Sets Out Key Cross-Border Payments Action Items

The Financial Stability Board today [released](#) a list of actions for implementing the G20's Roadmap for Enhancing Cross-border Payments, including three priorities. These are payment system interoperability and extension; legal, regulatory and supervisory finalizing frameworks; and cross-border data exchange and message standards. Work on most programs will begin in Q1 2023 and conclude in 2024 or 2025. Key actions include convening a forum for central banks to exchange practices regarding payment system interoperability, finalizing requirements for cross-border payment service level agreements, developing recommendations for data framework alignment and interoperability, developing harmonized global ISO requirements, updating the application of AML/CFT rules, and exploring enhanced use of the legal entity identifier (LEI) in cross-border payments. The FSB will lead a taskforce on legal, regulatory and supervisory frameworks. The BIS's Committee on Payments and Market Infrastructures (CPMI) [will also lead](#) a taskforce on cross-border payments interoperability and extension. CPMI's task force will work on the extension of access to and operating hours of payment systems as well as their interlinking across borders. Nominations for the task force are sought from banks, industry associations, non-bank PSPs and market infrastructure providers.

IMF Presses CBDC, New “Unified Ledger”

A new IMF [blog](#) post advocates for public sector implementation of new payment technologies including tokenization, encryption, and programmability to improve cross-border payments, limit counterparty risk, and facilitate AML and other compliance. Noting that private sector innovation in tokenization is accelerating, the authors argue that it is likely to result in client-only networks for trading assets and making payments that will not ensure safe, efficient, and interoperable transactions even with strong regulation. They thus recommend CBDC adoption on grounds that it would provide interoperability and efficiency, alleviate counterparty risks, and provide liquidity in payments. Echoing but not explicitly citing calls from BIS's General Manager [yesterday](#) for a central bank “unified

ledger,” the post also recommends a public platform allowing banks to trade digital representations of domestic central bank reserves across borders. It notes that this would reduce counterparty risk and improve information transfer by preserving anonymity in foreign exchange and other transactions without compromising compliance.

FHFA Proposes GSE-Capital Revamp

FHFA today [sought comment](#) on several significant revisions to the regulatory-capital rules [governing](#) Fannie and Freddie. As we will detail in a forthcoming in-depth report, several of these changes concede to comments rejected as the current rules were finalized. For example, the capital rules for cross-guarantees in UMBS are significantly liberalized, as are those for certain government-subsidized multifamily projects. The proposal would also bring GSE capital related to certain derivatives in line with the SA-CCR for banks, allow eligible time-based call options in capital-favored CRT, and extend the compliance date for the advanced approach until 2028. As we have noted before, U.S. regulators may well decide to end the advanced approach in concert with imposing the “end-game” standards set to be proposed as soon as next month. We do not view the sum total of the changes as materially affecting the pace at which the GSEs can exit conservatorship, but they do afford scope for comments on additional revisions that might help to do so. Comments on the proposal are due within sixty days of *Federal Register* publication.

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.