FedFin Daily Briefing

Friday, July 28, 2023

FSOC Considers Nonbank Systemic Risk, Credit-Based LIBOR Replacements

At today's FSOC meeting, participants as usual said nothing about the closed-door agenda, which notably featured more discussion of the systemic risk that may be posed by nonbank mortgage servicers. Different agencies presented their work to address this risk, which was also flagged when FSOC finalized its new approach to identifying systemic risk (see FSM Report **SYSTEMIC95**). Whether FSOC as a whole is satisfied with FHFA and Ginnie actions and even if these agencies think their work to date suffices will determine the extent to which FSOC intervenes, but the session reinforced the systemic importance accorded to nonbank mortgage firms and the potential for additional action. Fed Vice Chair Barr as anticipated stated that market participants will need to reevaluate their use of credit-sensitive LIBOR replacement rates in light of IOSCO's announcement that these do not follow its principles. SEC Chairman Gensler was more forceful, saying that BISBY rates and similar credit-sensitive rates have significant structural deficiencies and raise financial-stability concerns. FSOC also reviewed the Climate-related Financial Risk Committee's progress report, which carefully avoided any language suggesting FSOC agencies are climate regulators. Chairman Gensler defended the Commission's climate disclosure proposal but gave no indication of when it will be finalized.

Agencies Take Action to Enhance Emergency Liquidity, Whitewash Discount Window

As presaged at Chair Powell's press conference earlier this week, the banking agencies today issued liquidity-planning guidance designed both to ensure adequate preparation for acute liquidity stress and take the stigma off discount-window draws. The guidance deals only with liquidity planning and thus does not alter the treatment of discount-window funding for purposes of the LCR, admonishing banks to take account of the hard lessons of the March bank failures and prepare for runs and other extreme-stress scenarios. A key goal is also to avoid the confusion over whether collateral was pledged to the Fed or Home Loan Banks as proved the case in Signature's collapse (see *Client Report* **REFORM222**). Interruptions in access to repos and/or resulting from repo-market stress must also be taken into account – a key lesson from the fall of 2019 just now being officially taken into account.

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-072823:** We've much more to do to determine the strategic and policy impact of the new credit-, market-, and operational-risk capital rules singly and collectively – a complex task given the 1,087-page rulemaking made harder by some extremely-arcane language that may either mask what the agencies mean or differ from what they meant to mean.

- **CAPITAL229:** As promised, we plan in-depth coverage of the Fed and FDIC meetings tomorrow as well as of the capital rewrites they are set to propose no matter all the warning shots from Congressional Republicans.

- **MERGER12:** Building on a request for comment, the Department of Justice (DOJ) and Federal Trade Commission (FTC) have now proposed specific revisions to U.S. merger policy that significantly redirect the manner in which M&A transactions – even if only for minority positions – will be considered.

- **DEPOSITINSURANCE121:** In the wake of today's Senate Banking deposit-insurance reform hearing, it seems certain that there will be no legislation in the near term and most likely in this Congress to increase FDIC-insurance thresholds.

- **CLIMATE16:** As anticipated, Republicans continued their campaign against ESG at today's HFSC Financial Institution Subcommittee hearing on climate risks, reiterating arguments that a regulatory focus on climate risk signals financial institutions to cease lending to carbon intensive industries.

- **MMF20:** The SEC has significantly revised its proposed MMF-reform standards, eliminating a controversial swing-pricing approach to reduce first-mover advantage in favor of new redemption fees at institutional prime and tax-exempt funds.

- **GSE-071823:** Reuters is reporting today and other sources are echoing three regulatory sources saying that the impending capital rewrite will propose risk weighted assessments (RWAs) between 40 and 90%, up from the minimum 20 and 70% Basel standards.

- **GSE-071123:** As we detailed yesterday, FRB Vice Chair Barr laid out what he called a holistic view of bank capital standards that encompasses end-game rules, stress testing, post-SVB lessons, GSIB restrictions, and resolvability.

- **CAPITAL228:** FRB Vice Chairman Barr's speech today outlines near-term U.S. regulatory-capital policy, confirming our earlier assessment that a sweeping proposal will soon be released.

- **GSE-070523:** As an in-depth FedFin analysis today addresses (see FSM Report **REALESTATE25**), the banking agencies and NCUA late last week issued far-reaching guidance encouraging loan accommodations and even forbearance for troubled commercial real estate (CRE) projects, including multifamily obligations.

- **REALESTATE25:** The banking agencies and NCUA have agreed on a final policy statement providing guidance for how financial institutions are to handle troubled commercial real estate loans, giving banks considerable latitude to forbear when borrowers are unable to meet their obligations but are deemed to be able to pay at least some of it over time.

- **GSE-063023:** In non-public remarks ahead of a presentation by FedFin managing partner Karen Petrou, Sen. Jack Reed (D-RI) laid out what he thinks banking agencies will do next, doubtless based on what they've told him that they'll do next.

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