FedFin Daily Briefing

Thursday, July 9, 2020

Global Supervisors Try to Kickstart LIBOR Transition

In concert with a pending FRB-NY/Bank of England push early next week to speed benchmark-rate transition, global banking and insurance regulators today issued supervisory recommendations for moving away from LIBOR by the end-2021 deadline. Recommendations for both banking authorities and insurance supervisors are similar, telling them to issue both public statements and send letters to CEOs identifying risks both within a specific institution and across the financial system. Supervisors should also establish formal transition strategies supported by adequate resources. Authorities should also promote industry-wide coordination, maintaining domestic and international discussions on adopting fallback language and considering legislative solutions where necessary. Prior to the onset of the COVID crisis, HFSC Investor Protection Subcommittee Chairman Sherman (D-CA) asked both Treasury Secretary Mnuchin and FRB Chair Powell if U.S. legislation is necessary (see Client Reports **FSOC24** and **FEDERALRESERVE53**), leading Mr. Mnuchin to say that it may be but Mr. Powell to disagree. No response is requested from either bank or insurance supervisors, but global regulators will monitor implementation of these recommendations and provide an assessment of the transition progress early next year.

Biden-Sanders Task Force Calls for Fed Accounts, RTP

In this alert, we analyze calls for action in the policy recommendations released last night by the Biden-Sanders unity task force which we think are likely to have bearing not just through the campaign, but also in 2021 should Democrats assume power in the White House and/or the Senate. Indeed, several of these recommendations are already featuring in Congressional debate, building a record from which Democrats could quickly act if desired next year. However, none of these platform items has yet been officially adopted by the Biden campaign.

Reflecting action already under way by Congressional Democrats, the task force recommends that bank accounts and real-time payment systems be available from the Fed and via postal banking. The "Fed Account" construct for CBDC is already being considered by HFSC (see Client Report **CBDC2**) and has been laid out in comprehensive Senate legislation (see FSM Report **CBDC**); Senate Democrats have also pushed for far faster Fed action to implement FedNow (see Client Report **PAYMENT18**). Republicans also favor CBDC, although certainly not necessarily along all of these Democratic-sponsored lines.

Reflecting legislation introduced in the House (H.R. 5332), the task force also calls for creating a public credit reporting agency as a "non-discriminatory" alternative to private credit reporting agencies, with all federal lending programs required to use the public CRA. The CFPB would also be "reinvigorated," but specifics are not provided. Arguing that banks should never be TBTF, the task force recommends working to reverse the "over-financialization" of the U.S. economy through a new approach to Glass-Steagall along the lines laid out in longstanding Warren legislation (see FSM Report **FHC21**). Criminal penalties for "reckless" executives are also suggested. Several recommendations are made to address the racial wealth gap, including directing the Fed to report on the extent of racial unemployment and wage gaps and on how the FRB is countering them.

Waters PPP Demands: Bar Large Firms, Prohibit Prioritization

While GOP participation was limited at today's HFSC Diversity and Inclusion Subcommittee hearing, Democrats turned out in force, not only demanding enactment of legislation codifying and funding the Minority Business Development Administration and State Small Business Credit Initiative, but also additional PPP changes and reporting to improve minority- and women-owned business access. Full Committee Chairwoman Waters (D-CA) also said that the next COVID-package must bar large firms from the PPP and prohibit banks from favoring what she described as their wealthy clients. As previously noted, House GOP leadership has rejected assertions that banks engaged in any PPP prioritization.

Reps. Waters, Clay (D-MO), and Subcommittee Chairwoman Beatty (D-OH) argued that the racial wealth gap is a barrier to minority PPP and credit access, with Rep. Dean (D-PA) going on to argue that women and minorities are denied credit not just due to systemic barriers, but also because of "biased" financial institutions. Rep. Gonzalez (R-OH) suggested that previous PPP changes have ameliorated access challenges; Carmen Castillo from the U.S. Hispanic Chamber of Commerce agreed. Jenell Ross from Bob Ross Auto Group argued that KYC requirements are a barrier to minority PPP and credit access. Reps. Pressley (D-MA) and Garcia (D-IL) urged greater, mandatory SBA collection of PPP demographic information, with Rep. Pressley also pushing legislation to provide small business grants. Rep. Porter (D-CA) argued that PPP loans should cover business-owner and employee childcare expenses. Ranking Member Wagner (R-MO) pushed legislation she and Rep. Clay have introduced (H.R. 7413) to require the SBA and Treasury to provide PPP borrowers with a loan forgiveness calculator.

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 requests@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about GSE Activity Reports, click: http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18

- **COVEREDFUNDS2:** The banking agencies, SEC, and CFTC have finalized a long-awaited, complex, and comprehensive proposal rolling back many of the restrictions on covered funds imposed in the 2013 rules implementing the Volcker Rule provisions of the Dodd-Frank Act.

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- **GSE-070720:** In the final version of "Volcker 2.0," the FRB, FDIC, OCC, SEC, and CFTC finalized a massive, controversial rewrite of the rules governing the funds which U.S. banks and foreign banks doing business here may hold, own, sponsor, or otherwise serve and even market across an array of asset classes.

- **DERIVATIVES36:** Reflecting strong industry pressure and growing concerns about market structure, the banking agencies have joined others with which they share jurisdiction to finalize proposed revisions reducing the capital cost of the 2015 margin rule for non-cleared derivatives.

- **PREEMPT33:** Shortly after assuming office, the Acting Comptroller of the Currency finalized a proposal with no substantive changes establishing that interest rates governing loans made by national banks are those valid when the loan is made, not based on to whom a loan is subsequently sold as recent litigation declared.

- **RESCUE76:** In this report, we assess the abbreviated HFSC session with Treasury Secretary Mnuchin and FRB Chairman Powell.

- **GSE-063020:** As we detailed earlier, the Supreme Court's CFPB decision sheds long-awaited, merciless light on Fannie and Freddie's future.

- **STRUCTURE14:** The Supreme Court decision has far-reaching and immediate impact on pending actions by the CFPB and, by inference, on the FHFA, and perhaps even on the OCC, FRB, FDIC, CFTC, and SEC.

- **GSE-062920:** As detailed in our in-depth analysis of the CFPB's proposal to remove the QM patch, we think it's here to stay for a while.

- **MORTGAGE116:** Building on an advance NPR, the Bureau of Consumer Financial Protection is proposing a permanent fix to the definition of a "qualified mortgage" eligible for the QM safe harbor and from a rebuttable presumption of protection from enforcement risk under provisions in the Dodd-Frank Act designed to enhance consumer protection in this critical sector.

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