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Washington Wrap — Regulators flag LIBOR concerns; House to hold hearing on CECL

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The Washington Wrap is a weekly look at regulation, news and chatter from the Capitol. Send tips and ideas to polo.rocha@spglobal.com and declan.harty@spglobal.com.

At the regulators

The transition away from the London Interbank Offered Rate is becoming increasingly worrisome for financial regulators.

For decades, the widely used reference rate commonly known as LIBOR has served as the benchmark reference rate for banks, while also underscoring countless financial products, mortgages and loans.

But after a rate-rigging scandal in 2012 and regulatory pressure, banks will stop using LIBOR in 2021. U.S. regulators have since selected the Secured Overnight Financing Rate, or SOFR, as LIBOR's successor. The new rate indicates the cost of borrowing cash overnight collateralized by Treasury securities.

Yet, two of Wall Street's top regulators have recently expressed worries about the impending transition to SOFR.

"The forward course of the U.S. markets is clear — it is away from LIBOR toward SOFR," Commodity Futures Trading Commission Chairman Chris Giancarlo said in a Nov. 29 speech. "There is a lot yet to be done. But it is worth the effort."

A week after Giancarlo's comments, SEC Chairman Jay Clayton named the transition toward SOFR as a key risk ahead of 2019. During a Dec. 6 speech, Clayton expressed worries that market participants have not appropriately calculated the amount of work still needed to ensure a smooth transition in the coming years.

The Office of the Comptroller of the Currency warned in a Dec. 3 report that banks need to be monitoring the possible impacts from the discontinuation of LIBOR. Banks should be assessing their current exposure to LIBOR to determine whether they need to renegotiate certain contracts, the OCC said, adding that banks should consider the discontinuation of LIBOR when entering into new financial contracts.

On Capitol Hill

House Republicans appear to be listening to banking industry groups' concerns over the current expected credit loss standard, or CECL, and have scheduled a hearing next week on the issue.

Banks have repeatedly criticized the current version of the accounting standard, which is scheduled to take effect in less than 13 months and overhauls how they record losses on their assets. They have asked regulators to delay the implementation of CECL and said the standard would increase volatility in regulatory capital.

The House Financial Institutions and Consumer Credit Subcommittee will hold a hearing on CECL on Dec. 11. Rep. Blaine Luetkemeyer, R-Mo., the subcommittee's chairman, hosted a CECL-focused roundtable with industry groups and regulators in September.

Luetkemeyer was among the Republicans who questioned Fed Vice Chairman for Supervision Randal Quarles on CECL during his most recent appearance before the House.

When he testified at the Senate, Quarles also got questions from Sen. Doug Jones, D-Ala., about potential unintended consequences from CECL. Quarles responded that there is plenty for regulators to learn about how CECL will play out, which is why the Fed has proposed an elective phase-in for the initial capital impact over three years.

CECL

The current expected credit loss model is a forward-looking impairment approach that impacts the way banks and credit unions record losses on their assets. It requires institutions to book the expected lifetime losses of the loan on the first day of origination. It goes into effect in 2020 for some institutions and 2021 for others.

In contrast, the current system records losses when it becomes probable that a loan will be impaired. CECL will also impact the way financial institutions account for securities and assets such as purchase-impaired credits.

At the CFPB

The Consumer Financial Protection Bureau is set to get a full-time director now that the Senate has confirmed Kathleen Kraninger to the post.

Kraninger will get a five-year term leading the agency, which was created under the Dodd-Frank Act. But the partisan split over the CFPB's current direction was on display during the Dec. 6 vote, in which Democrats broadly opposed Kraninger. The Senate still approved her nomination in a 50-49 vote.

She will take over for Mick Mulvaney, who has been the CFPB's acting director since November 2017 and is also director of the White House's Office of Management and Budget. Kraninger has been one of Mulvaney's top deputies at OMB.

Mulvaney's leadership at the CFPB has been contentious, with Democrats saying he is ignoring the agency's mission to protect consumers but industry groups saying Mulvaney has taken important steps to make the CFPB more transparent.

Rep. Maxine Waters, a California Democrat who will likely be the next chair of the House Financial Services Committee, said Kraninger should "put consumers first by rolling back the anti-consumer actions taken by her predecessor."

Other news

A push from some Democrats to get the U.S. Postal Service into the banking business has earned a new skeptic.

The Treasury Department released a task force report recommending ways to improve the Postal Service and boost its revenues. But postal banking was not among the suggested options, with the report saying the USPS "does not have a demonstrated competency or comparative advantage" in financial services.

"Given the USPS's narrow expertise and capital limitations, expanding into sectors where the USPS does not have a comparative advantage or where balance sheet risk might arise, such as postal banking, should not be pursued," the report said.

President Donald Trump created the task force through an executive order in April, days after saying Amazon.com Inc. has taken unfair advantage of USPS mailing services.

The postal banking idea has gained traction over the years among some Democrats, with backers arguing it would help the underbanked access critical services.

Sen. Kirsten Gillibrand, D-N.Y., revived the push in April, introducing a proposal that would allow USPS to offer products such as small-dollar loans and checking accounts. Industry groups and Republicans have repeatedly criticized such proposals.

COMING UP:

SPEECHES

- Dec. 11 — SEC Chairman Jay Clayton testifies on the agency's oversight at the Senate Committee on Banking, Housing and Urban Affairs at 10 a.m. ET.
- Dec. 11 — House Financial Services Committee holds hearing entitled "The National Debt: Washington, We Have a Spending Problem" at 10 a.m. ET.
- Dec. 11 — House Financial Institutions and Consumer Credit Subcommittee holds hearing entitled "Assessing the impact of FASB's Current Expected Credit Loss (CECL) Accounting Standard on Financial Institutions and the Economy" at 2 p.m. ET.
- Dec. 12 — SEC and National Center for the Middle Market host "Government-Business Forum on Small Business Capital Formation" at 9 a.m. ET in Columbus, Ohio.
- Dec. 12 — House Monetary Policy and Trade Subcommittee holds hearing entitled "Evaluating the Effectiveness of the International Financial Institutions" at 10 a.m. ET.
- Dec. 13 — SEC holds Investor Advisory Committee meeting at 9 a.m. ET.

ECONOMIC REPORTS

- Dec. 10 — JOLTS, TD Ameritrade IMX
- Dec. 11 — NFIB small business optimism index, PPI-FD, Redbook
- Dec. 12 — MBA mortgage applications, CPI, Atlanta Fed business inflation expectations, EIA petroleum status report, Treasury budget
- Dec. 13 — Jobless claims, import and export prices, EIA natural gas report, Fed balance sheet, money supply
- Dec. 14 — Retail sales, industrial production, PMI composite flash, Baker-Hughes rig count