

I: BORED

Transitioning Away From LIBOR: Understanding SOFR's Strengths and Considering the Path Forward

remarks by Nathaniel Wuerffel, Senior Vice President, Federal Reserve Bank of New York, at the Bank Policy Institute's Credit-Sensitive Benchmark Symposium (delivered via videoconference), 18 September

<https://www.newyorkfed.org/newsevents/speeches/2020/wue200918>

"The transition away from LIBOR is arguably one of the most significant and complex challenges that financial markets will ever confront. In the face of this daunting task, it is important to remember why we are transitioning in the first place, and to ensure that we never have to do it again. With that in mind, I will start by explaining why the world needs to move from LIBOR to robust alternative reference rates. I will also explain some of the reasons the Alternative Reference Rates Committee chose the Secured Overnight Financing Rate (SOFR) as its preferred alternative to U.S. dollar (USD) LIBOR. I will conclude by highlighting efforts to understand transition challenges for commercial loan products, in line with the focus of today's symposium."

ARRC Releases the SOFR Starter Kit, Factsheet Series Provides Key Information on Transition to SOFR

press release, Alternative Reference Rates Committee, 7 August

https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Press_Release_SOFR_Starter_Kit.pdf

"The Alternative Reference Rates Committee (ARRC) today released the SOFR Starter Kit, a set of factsheets to inform the public about the transition away from U.S. dollar (USD) LIBOR to the Secured Overnight Financing Rate (SOFR), the ARRC's recommended alternative reference rate. The SOFR Starter Kit includes background on the impetus for the transition and the ARRC's work to select a preferred rate, facts and figures about SOFR, and next steps market participants can take."

INTERESTED / SELF-INTERESTED

New Economic Challenges and the Fed's Monetary Policy Review

speech by Jerome H. Powell, Chairman of the Board of Governors of the Federal Reserve System, at "Navigating the Decade Ahead: Implications for Monetary Policy," an economic policy symposium sponsored by the Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming (via webcast), 27 August

<https://www.federalreserve.gov/newsevents/speech/powell20200827a.htm>

The revised Statement on Longer-Run Goals and Monetary Policy Strategy is available at:
<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200827a.htm>

“Overall, our new Statement on Longer-Run Goals and Monetary Policy Strategy conveys our continued strong commitment to achieving our goals, given the difficult challenges presented by the proximity of interest rates to the effective lower bound. In conducting monetary policy, we will remain highly focused on fostering as strong a labor market as possible for the benefit of all Americans. And we will steadfastly seek to achieve a 2 percent inflation rate over time.”

US Treasuries: the lessons from March's market meltdown

article, the Financial Times, 29 July

<https://www.ft.com/content/ea6f3104-eeec-466a-a082-76ae78d430fd>

“For a brief period in March, the US Treasury bond market seemed as if it might collapse. With conditions now stable, the authorities are working out how to buttress the bedrock of the global financial system.”

Money Markets Have a \$750 Billion Problem in Zero-Rate World

article, Bloomberg, 8 September

<https://bloom.bg/2R9SJ1J>

“Prime money-market funds – a long-time favorite for anyone seeking a cash-like investment with a little extra yield – are facing an existential challenge, just four years after a regulatory overhaul to restore confidence in the wake of the global financial crisis. Assets in these vehicles dropped 20% in just six weeks earlier this year, spurring talk of new reforms. But some of the industry's leaders are opting for another solution: Shutting them down.”

ETFs are the canary in the bond coalmine

article by Gillian Tett, Financial Times 30 July

<https://www.ft.com/content/6bdc7747-3ab9-4410-a4b2-ba9acbe204e8>

“What the Covid-19 shock has shown is that while the banks played a starring role in the previous big financial crisis, non-bank financial structures, such as ETFs, matter much more now, and not just in the corporate bond world. That means EFFS deserve more scrutiny and debate—from politicians, as well as investors.”

An Inconvenient Fact: Private Equity Returns & The Billionaire Factory

Working Paper, University of Oxford, Said Business School, 15 June

https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3623820

“...the estimated total performance fee (Carry) collected by these PE funds is estimated to be \$230 billion, most of which goes to a relatively small number of individuals. If all vintage years are included to 2015, Carry collected is \$370 billion, with a performance similar to that of small cap indices, but higher than that of large cap stock indices. The number of PE multibillionaires rose from 3 in 2005 to 22 in 2020. Rebuttals from the big four and the main industry lobby body are provided and discussed.”

DIGITIZED & AUTOMATED

Federal Reserve highlights research and experimentation undertaken to enhance its understanding of the opportunities and risks associated with central bank digital currencies

press release, Federal Reserve, 13 August

<https://www.federalreserve.gov/newsevents/pressreleases/other20200813a.htm>

“Technological innovations inspire new ways to think about money. Consistent with its role in promoting a safe, accessible, and efficient U.S. payment system, the Federal Reserve is engaged in ongoing research and experimentation with the latest payment technologies. The Federal Reserve Board’s Technology Lab (TechLab) is expanding experimentation with technologies relevant to digital currencies and other payment innovations. The TechLab conducts hands-on research to further the Federal Reserve’s understanding of payment technologies and support development of policy views. The TechLab is a multidisciplinary team composed of Board and Federal Reserve Bank staff with expertise in payments, economics, law, information technology, and computer science.

In addition, the Federal Reserve Bank of Boston is collaborating with researchers at the Massachusetts Institute of Technology on a multiyear effort to build a hypothetical digital currency oriented for central bank use.”

Design choices for central bank digital currency (CBDC)

abstract and position paper, Brookings, 23 July

<https://www.brookings.edu/research/design-choices-for-central-bank-digital-currency-policy-and-technical-considerations/>

“We believe there are rich opportunities for innovation in a CBDC. Some derive from the unprecedented transparency a CBDC would afford regulators, including a panoramic yet fine-grained view of global spending in an economy.”

Trust in robo advice: evidence from an experimental study

press release and paper, Italy Commissione Nazionale per le Società e la Borsa (CONSOB), 21 September

http://www.consob.it/web/consob-and-its-activities/news-in-detail/-/asset_publisher/kcxlUuOyjO9x/content/fintech-paper-no-7/718268

“The seventh FinTech Paper is part of a broader survey on the FinTech phenomenon that Consob launched in 2016, in collaboration with several Italian universities, with the aim of exploring opportunities and risks arising from the application of technological innovation to the offer of financial services.”

AI ethics groups are repeating one of society's classic mistakes

article, MIT Technology Review, 14 September

<https://www.technologyreview.com/2020/09/14/1008323/ai-ethics-representation-artificial-intelligence-opinion/>

"Too many councils and advisory boards still consist mostly of people based in Europe or the United States."

Reinventing the wheel (with more automation)

speech by Andrew Bailey, Governor of the Bank of England, at the Brookings Institution, Virtual Event, 3 September

<https://bit.ly/2DMEYTB>

"We have reached the point in the cycle of innovation in payments where it is essential that we set the standards and thus the expectations for how innovation will take effect. It should not happen the other way round, with the standard setting playing catch up."

Rise of the central bank digital currencies: drivers, approaches and technologies

press release and summary, Bank for International Settlements (BIS), 24 August 27 Weekly Bulletin, 28 July-2 September 2020 Page 6

<https://www.bis.org/publ/work880.htm>

"Central bank digital currencies (CBDCs) are in the limelight. But the reasons for issuing them vary between countries, as do the policy approaches and technical designs. This paper looks at the economic and institutional motives behind current CBDC projects and asks how they might shape the design of such currencies."

DTCC Outlines Steps to Achieve Complete Dematerialization of Physical Securities in the U.S.

Press release, Depository Trust and Clearing Corporation, 29 September 2020

<https://www.dtcc.com/news/2020/september/29/dtcc-outlines-steps-to-achieve-dematerialization>

"The Depository Trust & Clearing Corporation (DTCC), the premier post-trade market infrastructure for the global financial services industry, today issued its latest whitepaper, "From Physical to Digital: Advancing the Dematerialization of U.S. Securities," outlining the necessary steps to reduce, and ultimately eliminate, certificated U.S. securities. Dematerialization, the transition from physical certificates to electronic records, would reduce the risks and costs associated with manual processing and human touchpoints, as well as increase efficiency and resiliency across the industry at a time when automation is more important than ever. Today, less than 1% of assets serviced by DTCC, through the firm's subsidiary The Depository Trust Company ("DTC"), are still in physical form, but they represent \$780 billion dollars in value."

COVID

Is the Coronavirus Rocking the Foundations of Capital Markets?

Results of a membership survey conducted by CFA Institute, June 2020

<https://www.cfainstitute.org/-/media/documents/survey/cfa-coronavirus-ec-report-2020.ashx>

“How the economic crisis induced by the coronavirus is impacting capital markets, investment management and the authorities’ response.”

FSB sets out action to maintain financial stability during COVID

press release, letter and report, Financial Stability Board, 15 July

Press release: <https://www.fsb.org/2020/07/fsb-sets-out-action-to-maintain-financial-stability-during-covid/>

The Financial Stability Board (FSB) today published a letter from the FSB Chair, Randal K. Quarles, to G20 Finance Ministers and Central Bank Governors, ahead of their virtual meeting on 18 July 2020. The FSB also delivered to the G20 a report on the financial stability implications of, and policy measures taken in response to, the COVID-19 pandemic. The Chair’s letter sets out a number of areas of focus for the FSB during the COVID Event.

Covid-19 Won't Stop New Shadow Banks

article, Wall Street Journal, 14 July

https://www.wsj.com/articles/why-covid-19-wont-stop-the-new-shadow-banks-11594639940?mod=itp_wsj&mod=&mod=djemITP_h

“Funds that extend loans directly to companies face some trouble, but the big players will likely use the crisis as a chance to expand.”

How Companies Are Accounting for Covid-19

article. Bloomberg, 10 July

<https://www.bloomberg.com/news/articles/2020-07-10/would-you-like-those-earnings-with-or-without-covid-quicktake>

“Some companies are adopting an innovative approach to accounting for the impact the coronavirus pandemic has had on their earnings: they’re leaving it out. At least eight borrowers have tweaked the figures in recent months to show investors how healthy their business would be if it weren’t for the damage wrought by Covid-19. Investors and market watchdogs have spoken out against the practice, warning that turning the commonly used Ebidta (earnings before interest, depreciation, taxes and amortization) into Ebidtac (c for coronavirus) can give a misleading impression.”

CCPS Again Demonstrate Resilience in Times of Crisis

press release and report, the Global Association of Central Counterparties (CCP-2), 1 July

https://ccp12.org/wp-content/uploads/2020/07/CCP12- PR_CCPs-again-demonstrate-stong-resilience-in-times-of-crisis.pdf

“Today CCP12 - The Global Association of Central Counterparties – publishes “CCPs again

demonstrate resilience in times of crisis – a CCP12 Paper”, which emphasizes the exceptional handling of crises by CCPs despite unprecedented volatility, record clearing volumes and long-term implementation of Business Continuity Plans.”