



# *FedFin Client Report*

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Tuesday, February 23, 2021

## **Powell Hints at SLR Relief, Stays Course on Payments/CBDC**

Client Report: **FEDERALRESERVE60**

### **Executive Summary**

As usual, Senate Banking's hearing today with Chairman Powell strayed from monetary policy and post-pandemic prospects to a range of financial-policy critical questions. Although Vice Chairman Quarles last year said that the Fed would not extend the SLR exemption ([see Client Report RESCUE77](#)) past its March 31 deadline, Chairman Powell was non-committal. Chairman Brown (D-OH) insisted that any SLR exemption come with a ban on capital distributions, emphasizing also his view that the FRB has played a strong role exacerbating U.S. economic inequality in concert with self-interested actions by corporate America and Wall Street. Ranking Member Toomey (R-PA) did not take the Fed on in terms of equality, but he insisted that the central bank has strayed far from its mission and should quickly normalize rates and its portfolio. Democrats and Republicans demanded faster action on instant payments, with Sen. Van Hollen (D-MD) suggesting he may well reintroduce legislation ([see FSM Report PAYMENT16](#)) to force it to do so. Under questioning, Chairman Powell also supported the general concept of a digital dollar, perhaps via the central banks, but noted numerous reasons to proceed with caution. He also confirmed that a CCP for Treasury obligations remains under review and took no stand on climate-risk regulation.

### **Analysis**

#### ***Opening Statements***

Chairman Brown said that growing inequality is the result of deliberate actions to roll back consumer protections, cut taxes, and use "Wall Street" to measure the economy. He called for investments to mitigate impacts from climate change and for banks to use capital to invest in workers and lend to their communities instead of "ginning up" stock prices via buybacks and dividends.

Ranking Member Toomey pushed back on further broad-based stimulus, arguing most sectors of the economy and households have fully recovered. The Fed must, he said, return to more normal policy, deriding the asset purchase program and ultra-low rates. The Ranking Member also argued that both climate change and racial inequality are outside of the central bank's purview.

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## Testimony

Chair Powell said that, despite recent progress, the economic path ahead remains uncertain. The FRB will thus continue to purchase securities at the current pace until more progress has been made on the Fed's dual mandate goals. He also reiterated the FRB's commitment to using its monetary policy tools for as long as needed, noting that the downturn has not impacted all Americans equally. Although the economy has partially recovered, Mr. Powell emphasized that it still has a long way to go as many workers remain unemployed, particularly among low-wage earners, minorities, and women.

## Q&A

- SLR relief: Chairman Brown and Sens. Rounds (R-SD), Hagerty (R-TN) and Daines (R-MT) pressed Chair Powell on whether the SLR will be extended; Mr. Powell said only that it is being considered and that an announcement will soon be made.
- Climate change: Sen. Smith (D-NM) asked if climate risk disclosures should be standardized; Mr. Powell said that standardized disclosures may not yet be possible.
- CBDC/Digital Dollar: Sen. Hagerty asked if the FRB should develop a digital dollar; Chair Powell said that the FRB is looking carefully at it, reiterating that the U.S. should be focused on getting it right, not on being first. He noted that, although a digital dollar could be very positive, the Fed must be careful not to unintentionally create instability.
- FedNow: Sens. Van Hollen and Tillis (R-NC) inquired about the FRB's timeline for FedNow; Powell confirmed FedNow is still on track to be up and running in 2023. Sen. Lummis (R-WY) asked about the potential for FedNow, stablecoins, and CBDCs to lead to very high monetary velocities; Mr. Powell said that the Fed does not believe these innovations will have much impact on money velocity or transmission.
- Inequality: Sen. Brown blasted Fed policy for increasing inequality, asking how the Fed could instead use its authority to fight inequality; Chairman Powell noted the FRB's fair lending responsibilities, as well as its ability to attract private resources around initiatives to address issues of low-income communities. He reiterated that the pandemic has had a disproportionate impact on minorities and women, cited the negative impact of a K-shaped recovery on economic growth, and pointed to the ability of fiscal policy to target relief towards specific groups. Sen. Warren (D-MA) asked about a wealth tax; Mr. Powell indicated that the issue does not fall under the purview of the FRB.
- Negative Rates: Sen. Daines asked Chair Powell about the potential for negative rates. Mr. Powell said that the Fed has tools to keep its policy rate in the preferred range if additional downward pressure arises.
- Treasury Clearing: Sen. Lummis asked if a CCP to clear Treasuries should be established; Chair Powell indicated the Fed is looking into this but no decision is imminent.

- FRB Asset Purchases: Sen. Toomey asked about the implications of continued purchases, contending that Fed policy is contributing to asset bubbles. Conceding that monetary policy may be a contributing factor to asset valuation increases, Chair Powell nonetheless said that increases are due in large part to the economic outlook, citing optimism around vaccinations, reopenings, and potential fiscal stimulus.