



FedFin Client Report

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HFSC Presses Powell on Rules, CBDC, CRA, LIBOR

Client Report: **FEDERALRESERVE61**

Executive Summary

At today's HFSC hearing, Chairman Powell not only delivered the same testimony, but faced many of the same questions to which he provided the same answers. He would not, for example, commit to ending the SLR exemption ([see FSM Report LEVERAGE23](#)) or to condition any continuing exemption on capital-distribution restrictions. He similarly endorsed the general concept of CBDC, but said the Fed will move cautiously to implement it. However, he now also says that CBDC may need legislative authorization, an issue highlighted in [recent research](#) about the importance of ensuring that CBDC is legal tender. HFSC did bring up CRA reform ([see Client Report CRA30](#)), leading Mr. Powell to say that an inter-agency rulemaking is likely. LIBOR also came up, leading the Fed chairman to urge federal legislation to smooth many transition hurdles.

Analysis

Opening Statements

Chairwoman Waters (D-CA) urged the Fed to cease all deregulatory rulemakings and to do more to eliminate racial gaps in unemployment. She also demanded that the Fed take account of impacts on consumers and small businesses in merger applications. Acknowledging that the Fed has taken some steps to account for climate change, Rep. Waters still pressed the Fed to move more quickly to integrate climate risk into supervision.

Ranking Member McHenry (R-NC) praised Chairman Powell for protecting Fed independence, arguing also that innovative solutions are essential to economic recovery.

Monetary Policy Subcommittee Chair Himes (D-CT) said the pandemic underscored the continued need for Fed emergency intervention. Subcommittee

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Ranking Member Hill (R-AR) agreed that the Fed's extraordinary actions and emergency facilities were needed, but said these were rightly closed.

Q&A

- **Digital Dollar:** Ranking Member McHenry called this is a national security issue, urging the Fed to move quickly and asking when further details will be released; Mr. Powell highlighted ongoing work on technical issues and with other central banks, again underscoring the importance of not introducing instability. If the Fed determines it should issue a digital dollar it may then seek legislative authorization to do so. Rep. Stivers (R-OH) asked the chairman if he is committed to working with private financial institutions on the digital dollar; he is. Rep. Budd (R-NC) asked if the chairman is concerned that the U.S. may be falling behind other countries in the development of a digital currency; Mr. Powell is not, again noting the gravity of the decision and importance of looking at all potential pitfalls and privacy concerns.
- **Climate:** Reps. Luetkemeyer (R-MO) and Barr (R-KY) raised concerns about the Fed injecting climate scenarios into stress tests, with Rep. Luetkemeyer accusing the chairman of weaponizing regulatory systems against banks that do not agree with its climate agenda and Rep. Barr urging the FRB to stay within its mandate. Rep. Barr also asked about the importation of NGFS standards that might harm businesses; Mr. Powell pledged not to import any standards into the U.S. that it does not think will be beneficial to financial institutions. Reps. Velázquez (D-NY) and Casten (D-IL) asked about the importance of climate change to the FRB; Chairman Powell noted its mandate to ensure the safety and soundness of financial institutions, which includes taking climate change into account. The Fed is nonetheless in the early stages of assessing financial risk, working closely with the Bank of England on climate scenarios.
- **SLR relief:** Reps. Wagner (R-MO), Perlmutter (D-CO), Hill, and Budd all pressed Chairman Powell to extend SLR relief; as yesterday, Mr. Powell did not comment, noting only that a decision will soon be made. Rep. Perlmutter asked if the Fed would consider allowing banks to increase capital distributions; Mr. Powell said decisions will be made quarter-by-quarter.
- **CRA:** Reps. Velázquez and Cleaver (D-MO) asked Chairman Powell about a coordinated interagency approach to CRA reform; Mr. Powell indicated a harmonized rule is likely, noting ongoing, but early, work with the OCC and FDIC. Rep. Loudermilk (R-GA) asked if the agencies will take increases in mobile payments into account; Mr. Powell confirmed they will.

- FedNow: Rep. Sherman (D-CA) demanded Fed engagement on working to prevent wire fraud through FedNow; Chairman Powell said it is looking into ways to do so, but disagreed that payee matching is the appropriate mechanism.
- LIBOR: Rep. Sherman also asked if federal legislation is needed for a smooth transition from LIBOR; Mr. Powell said it is, arguing that this is a better solution than a private-sector synthetic LIBOR.
- Inequality: Rep. Tlaib (D-MI) urged Mr. Powell to take a lead addressing racial and social disparities; Rep. Velázquez asked how changes in FOMC’s monetary policy framework will benefit women, minorities, and younger workers. Mr. Powell said that the FOMC will not tighten monetary policy just because of a strong labor market. Rep. Stivers asked if the Fed is paying attention to the racial gap in home ownership; Mr. Powell said the Fed is happy to look at this to ensure that there is no lending discrimination
- Bubbles: Reps. Perlmutter, Huizenga (R-MI), and Davidson (R-OH) raised concerns about potential bubbles; Mr. Powell acknowledged that some asset prices are elevated, but downplayed the possibility of a bubble. Rep. Davidson urged the chairman to pay attention to monetary inflation, saying that the Fed has done a “horrible job” at predicting asset bubbles in the past.
- Guidance: Noting a recent EO on agency guidance, Rep. Luetkemeyer asked if the FRB intends now to enforce guidance as rule; Mr. Powell said it will not.
- Municipal Bond Markets: Rep. Garcia (D-TX) inquired about steps to avoid further disruption in the municipal bond market; Chairman Powell responded that the municipal bond market has continued to function well even after the closure of the MLF and other support does not fall under his purview.
- Diversity at the Fed: Reps. Cleaver and Beatty (D-OH) inquired about a recent *New York Times* [article](#) about the lack of diversity at the Fed; Mr. Powell acknowledged that it is not where the Fed wants to be on the issue, but that it is something he is personally committed to.