



FedFin Client Report

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Powell Provides Clue to New SLR, CBDC

Client Report: REFORM203

Executive Summary

At today's HFSC hearing on pandemic-relief programs, Members asked also about key financial-policy questions. Although Chairman Powell initially reiterated only that a new SLR proposal would be forthcoming in the near term, he also said that the Fed is seeking to revise the requirement so leverage does not again become a big-bank binding constraint. Doing so would involve extending the exemption at the least for central-bank deposits and almost surely also for Treasury obligations, [perhaps going farther](#) also to include certain agency debt. It is thus clear that the new SLR proposal will not only be substantive, but also controversial and, most likely, one issued only by the Federal Reserve, not also the FDIC and OCC. Expanding on his CBDC [comments yesterday](#), Mr. Powell said and Secretary Yellen seconded that a U.S. CBDC would not provide anonymity in a manner akin to crypto currency or supplant bank deposit-taking. However, the "two-track" system he mentioned might nonetheless compete with it as a recent [Fed paper](#) suggested. As noted earlier today, the Fed chairman also refuted GOP suggestions that climate-risk actions are outside its mandate. Secretary Yellen also said that FSOC would play an active climate-risk role, but each also made it clear that mandatory actions or stress testing are a long way off due to the ongoing data uncertainties Gov. Brainard also discussed earlier today. Ms. Yellen also [echoed Vice Chairman Quarles](#), calling for federal legislation to facilitate the LIBOR transition.

Analysis

Opening Statements

Chairwoman Waters (D-CA) applauded Ms. Yellen's historic appointment as Treasury Secretary, praising negotiation of an increase in special drawing rights at the G7. She also thanked Mr. Powell for ending the SLR exemption, saying that strong capital requirements are essential for smart bank regulation. Ranking Member

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McHenry (R-NC) worried about the FRB's growing balance sheet.

Testimony

Chairman Powell focused on the Fed's role strengthening the economy and supporting economic and racial equality. Secretary Yellen praised Congress for the American Rescue Plan, noting Treasury's continued relief efforts for those hardest hit, including small businesses and rural/low-income areas.

Q&A

- **Climate Change:** Reps. Lucas (R-OK) and Barr (R-KY) worried that greater climate regulation could discourage banks from lending to politically-disfavored industries; Mr. Powell and Ms. Yellen agreed that they have no plans to regulate lending, with the Secretary asserting FSOC's important role in facilitating climate discussions, data, and disclosures. Rep. Posey (R-FL) asked about the purpose of climate stress tests; Ms. Yellen noted it might be better to consider them scenario analyses, explaining they help financial institutions and regulators better understand climate risk. Rep. Huizenga (R-MI) asked about materiality; Mr. Powell emphasized that the FRB is not attempting now to measure risks, but instead to establish a typology and range for it. Rep. Vargas (D-CA) asked about long-term climate investments; Ms. Yellen emphasized the need for disclosures and for financial regulators to evaluate climate risk, something she hopes to facilitate through FSOC. Chairman Powell added that the FRB is in the early stages of considering stress scenarios.
- **Digital Currencies:** Reps. Sherman (D-CA) and Himes (D-CT) commended Mr. Powell for his [recent statement](#) that the FRB will not proceed with a CBDC without congressional approval, with Rep. Sherman noting he does not believe the FRB will have that support unless "know-your-customer" provisions are applicable. Rep. Sherman also encouraged Mr. Powell to get personally involved in ensuring that a new wire transfer system resolves wire fraud problems. Rep. Foster (D-IL) asked whether a secure digital ID for a CBDC would be beneficial; Mr. Powell and Ms. Yellen agreed, with Mr. Powell highlighting a necessary balance between privacy and transparency. Mr. Powell also suggested a potential two-tiered system that would maintain a wallet outside the central bank.
- **Financial Inclusion:** Rep. Scott (D-GA) expressed interest in using the IRS's "get my payment" website and [Bank On-Certified Safe Accounts](#) to bank the unbanked.

- SLR: Rep. Lucas asked about the impact of the SLR exemption; Mr. Powell remarked that the FRB “threw the kitchen sink” after the pandemic hit, making it hard to say what effect the exemption had. Rep. Lucas also asked about a timeline for potential future SLR modifications; Mr. Powell reiterated that the FRB expects to put something out for comment soon to prevent the SLR from becoming a binding constraint.
- CRE Debt: Rep. Luetkemeyer (R-MO) asked what will happen when TDR relief and the moratorium ends; Mr. Powell noted that the Fed is monitoring the situation closely and is aware of the issue.
- LIBOR Transition: Rep. Sherman asked if federal legislation is necessary to fix legacy LIBOR contracts; Ms. Yellen agreed.