



FedFin Weekly Alert

Monday, June 7, 2021

❑ SPOTLIGHT ON CBDC

Following Chairman Powell's announcement that [CBDC analysis will advance](#) and [FRB Gov. Brainard's speech](#) late last month advancing CBDC's inclusion and stability benefits, Congress is stepping in to make the critical decision – if CBDC is legal – and a host of others that will dictate the course of a new U.S. digital currency. Vice Chair Quarles told Congress the day after Gov. Brainard's speech that he believes that express statutory authority is needed for even a CBDC pilot ([see Client Report REFORM206](#)). Chair Powell differs, saying that, while he would prefer new law, it is not required for CBDC as he likes it – i.e., something based on banks without "FedAccounts" ([see FSM Report CBDC](#)). Even so, FedAccounts will be front and center in the Senate, where the hearing will be held by the Economic Policy Subcommittee chaired by Sen. Warren (D-MA), likely to be sympathetic to an early version of FedAccounts [from her own political organization](#). At this hearing and the one the following week in HFSC's Fintech Task Force, we'll also be listening for:

- whether Congress wants to give the Fed authority to take deposits, limit participants to banks, or expand it to nonbanks, perhaps along lines under consideration for payments-system access ([see FSM Report PAYMENT22](#));
- if recently introduced bipartisan legislation ([see FSM Report CBDC4](#)) will advance to preserve the dollar's reserve-currency status. Although the bill does not expressly accelerate CBDC work, it does demand reporting on the Fed's CBDC work as well as analysis of other central bank – read China – CBDC efforts and the risks these create to the U.S.;
- how Congress contemplates enabling CBDC to reach the un- and under-banked, including through FedAccounts and/or postal banking;
- how to set the degree to which CBDC would allow anonymity; and
- whether Democrats plan to reintroduce [legislation](#) cosponsored by HFSC Fintech Task Force Chairman Lynch (D-MA) to govern stablecoins. Although not directly on point regarding CBDC, Rep. Lynch has emphasized the need not to "outsource" currency creation to private entities.

Headlines From the Past Week's Daily Briefings

May 31

- No news of note.

June 1

- **FSB Ramps Up Cross-Border Payment Reform** - Advancing a G20 priority, the Financial Stability Board continued its work on cross-border payments, asking for views on quantitative targets for its cross-border reform objectives.
- **Biden Budget Sidesteps Key Financial Policy Questions** - Although the Biden Administration's first official federal budget includes many controversial and specific proposals, it is as always a wish list, not a guide to what Congress is likely to do nor even necessarily what individual agencies will undertake apart from actions directly germane to funding.
- **Quarles Throws Doubt into Prospect of SLR Rewrite** - Taking a less certain stance than Chair Powell in March, FRB Vice Chair Quarles said that changes to the SLR are "likely," but there are also other ways to address deposit growth.
- **BIS Study: U.S. Deposit Scarcity Subdues Small-Business Lending** - A new BIS staff study uses both empirical evidence and models to find that U.S. income inequality adversely affects the ability of banks to intermediate deposits into small-business loans for very small entities, thus hindering small-business job creation.
- **BoE's Bailey: No Case for Climate Capital Requirements** - Tackling a question also bedeviling the Federal Reserve, Bank of England Governor Andrew Bailey opposed incorporating climate change into capital requirements, emphasizing instead the central bank's work to improve climate disclosures, scenario analysis, and risk management.

June 2

- **Fed Proposes to Ensure That Instant Payments are Indeed Instantaneous** - Following on its August plans to seek additional comment on FedNow operational issues notice, the Board is now seeking comment on changes it believes necessary to ensure that payee banks will provide instant funds availability.
- **U.S.-China Relations Face CBDC Challenge** - A readout shows no trace of disagreement between Secretary Yellen and Chinese Vice Premier Liu He beyond the usual reference to "frank" talk of points of difference.
- **FRB Eliminates Distinction Between Interest on Required, Excess Reserves** - The FRB finalized changes to Reg D eliminating separate references to interest on required reserves (IORR) and interest on excess reserves (IOER), replacing them with a single interest on reserve balances (IORB) rate.
- **Democrats Demand Climate Stress Tests, Capital Constraint** - Continuing Democratic pressure on the Fed to focus on climate change, Rep. Casten (D-IL) and

Sen. Schatz (D-HI) have reintroduced a bill requiring the Fed to conduct climate stress tests by directing the Fed to establish an advisory group of climate scientists and economists to develop climate scenarios and then to conduct tests for CCAR BHCs.

- **FSB Presses LIBOR End, Endorses U.S. Strategy** - The FSB issued a global transition roadmap for ending LIBOR, highlighting actions firms should already have taken to prepare for LIBOR's year-end cessation as well as those needed this year.
- **CBDC Enhances Odds of Reserve-Currency Status, Reduces Risk** - The European Central Bank's in-depth report on the international role of the euro includes a chapter on CBDC highlighting its ability to realign a currency's "global appeal" – i.e., its reserve-currency status.

June 3

- **AML Policies Accelerate Following Presidential Illicit-Finance Order** - President Biden issued a National Security Study Memorandum directing departments and agencies to review and report on their efforts to combat corruption at home and abroad within 200 days.
- **Quarles Vigorously Defends His Supervisory Record** - Following sharp attacks by Sen. Warren (D-MA) and others, FRB Vice Chairman Quarles defended recent regulatory changes on grounds that they improve efficiency without adversely affecting bank resilience.

June 4

- **Powell: Stress Tests Look Appealing, but Not Ready for Use** - While other central bankers espouse an activist stance on climate risk, Chairman Powell reiterated his view of the Fed's narrow mandate in responding to climate-related financial risk, deferring to elected policymakers to address climate change more broadly.

This Week

Wednesday, June 9

Senate Banking Subcommittee on Economic Policy hearing entitled: "Building a Stronger Financial System: Opportunities of a Central Bank Digital Currency" [2:30pm, Remote] Witnesses: **Dr. Neha Narula**, Director, Digital Currency Initiative, MIT; **Mr. Lev Menand**, Academic Fellow And Lecturer In Law, Columbia Law School; **The Honorable J. Christopher Giancarlo**, Senior Counsel, Willkie Farr & Gallagher; & **Dr. Darrell Duffie**, Adams Distinguished Professor Of Management And Professor Of Finance, Stanford University Graduate School of Business.

Friday, June 11

FSOC Open & Executive Sessions [TBD, Videoconference] Preliminary Agenda for Open Session: Money Market Fund Reform and Transition from LIBOR. Preliminary

Agenda for Executive Session: Money Market Mutual Fund Reform and Preliminary Updates Regarding Council Priorities.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing info@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [**CBDC4**](#): Members of Congress have launched an initiative to secure continued dominance of the dollar as the globe's reserve currency, focusing on the extent to which China could over time threaten this via its own CBDC along with strategic financial activities such as its Belt and Roads initiative.
- [**GSIB19**](#): Although the GSIB CEOs got another earful at HFSC's marathon hearing yesterday, it – like the Senate Banking session that preceded it ([see Client Report GSIB18](#)) – generated more anger than clear action plans.
- [**CRYPTO18**](#): Following an array of actions by the OCC, the FDIC has begun its consideration of the rules governing insured depository institutions (IDIs) engaged in digital-asset activities.
- [**GSIB18**](#): As anticipated, Senate Banking progressives today excoriated big-bank CEOs for what Chairman Brown (D-OH) describes as their preference for profit over public welfare.
- [**ACCESS**](#): The Federal Reserve's latest wellbeing survey provides important, new insights into how Americans view their financial-services firms at a time of heightened focus on access and equity.
- [**REFORM206**](#): In the one-two punch [we anticipated](#), Senate Banking Chairman Brown (D-OH) convened today's hearing with FRB Vice Chairman Quarles not only to lambast supervision and regulation under Mr. Quarles' watch, but also to reiterate the malign role [he believes](#) big banks play in the U.S. economy ahead of tomorrow's hearing with GSIB CEOs.
- [**GSE-052521**](#): President Biden has issued an executive order (EO) setting in motion a series of administrative actions designed to reduce both climate risk in the financial sector and in any way financial companies make it worse.
- [**GREEN8**](#): President Biden has issued an executive order (EO) setting in motion a series of administrative actions designed to reduce both climate risk in the financial sector and in any way financial companies make it worse.
- [**GSE-052021**](#): Using its formidable trove of non-public data, the Federal Reserve Bank of New York has released a series of staff reports assessing the status of mortgage

forbearance.

- [**REFORM205**](#): Although the banking agencies today tried to make as little news as possible in their appearance before the House Financial Services Committee, Members made it hard for them to leave the witness table without providing important insight into regulatory policy as a new agency line-up takes shape.
- [**INTERCHAGE8**](#): Leaving its interchange-fee restrictions intact – at least for now – the Federal Reserve is proposing to expand on its existing requirement that all debit-card transactions must be enabled for processing on at least two unaffiliated payment-card networks for card-not-present (e.g., online) transactions.
- [**GSE-051821**](#): As we noted [yesterday](#) in our initial assessment of FHFA's annual CRT report, its assessment of the critical 2020-21 period shows an unbending determination to quash all but the best-capitalized credit-risk transfers no matter the pressure from Congress and other quarters to relent on grounds that risk transfers reduce GSE risk and thus spur recapitalization and privatization.
- [**DEPOITINSURANCE112**](#): Although federal law expressly bars misrepresentation of FDIC-insurance status, the FDIC has observed increasing instances that might at the least be described as confusing, many of which led to informal enforcement actions.
- [**GSE-051221**](#): A new [Fed staff paper](#) sharply questions an axiom of mortgage securitization: the sanctity of the TBA market.
- [**SYSTEMIC91**](#): In this report, we assess the details of the Fed's most recent financial-stability report, focusing on policy and regulatory ramifications with near-term strategic impact.