



FedFin Weekly Alert

Monday, June 14, 2021

❑ SANCTIONS SCHIZOPHRENIA

Later this week, a House Financial Services Subcommittee will convene a hearing assessing the extent to which sanctions work as intended. From the Senate's perspective, they had better – as a forthcoming in-depth report will assess, the new [anti-China bill](#) rests for its economic counterpunch on an array of tough-minded sanctions against still more Chinese entities and individuals for still more things the U.S. doesn't like. However, HFSC isn't the only group wondering about sanctions – even the Treasury Department is [rethinking this longstanding weapon](#) in America's soft-power arsenal, while the Fed faces challenges to the dollar's [reserve-currency status](#) as allies who disagree with U.S. targets look for ways to evade them. We've been watching and will assess Wednesday's HFSC hearing to see:

- If the solution to sanctions evasion is said to be still greater sanctions enforcement through actions such as more certain denial of foreign financial institution access to the U.S. financial system;
- How geopolitical sanctions align with the President's new [anti-corruption action plan](#);
- Whether all this attention to sanctions really does speed up implementation of the new beneficial-ownership registry ([see FSM Report AML133](#));
- If public disclosure of the registry's results, proposed last week by [G7 finance ministers](#) advances a "name and shame" policy;
- How Members want sanctions to evolve in light of cryptocurrencies and China's fast-paced CBDC ([see FSM Report CBDC4](#));
- Whether OFAC thinks its tough sanctions policies ([see FSM Report SANCTION14](#)) are tough enough; and
- if Congress will go as far as considering a [statutory prohibition](#) on anonymous shell companies.

Headlines From the Past Week's Daily Briefings

June 7

- **Basel Refrains from New Standards, Advances Crypto Consultation** - The Basel Committee's release on its meeting signalled continuing confidence in bank resilience and ongoing queries into why banks failed to make use of the buffers Basel again reminds them to draw under stress.
- **G7 Finance Ministers Endorse Climate, Beneficial Ownership Disclosures** - As part of a major new stand on climate-risk mitigation and disclosures, the G7 financial-ministerial communique now supports mandatory climate disclosures.
- **NGFS Updates Scenarios, But Stress Testing Remains TBD** - In concert with endorsement from the G7 finance ministerial, the central banks' Network for Greening the Financial System (NGFS) released a new set of climate scenarios updated to account for national commitments to reach net-zero carbon emissions and include more granular country-level data.
- **Bank of England Goes Fast on Stablecoin Rules, Slow on CBDC** - Anticipating a Federal Reserve CBDC discussion draft later this summer, the Bank of England not only laid out its current CBDC thinking, but also that germane to broader digital-currency initiatives.

June 8

- **Richmond Fed: Fear Not Facebook** - Although a new report from the European Central Bank advances CBDC in part due to fears that tech-platform firms will co-opt fiat currency, a recent paper from the Federal Reserve Bank of Richmond disputes this, arguing that fiat currency will prevail whether via CBDC or as is.
- **Anti-China Bill Includes Tough New Sanctions** - When the Senate takes up sweeping legislation to counter China (S.1260), it will consider not just an array of supply-line and security issues, but also China's role in the U.S. and global financial sector. As anticipated, the bill contains the Brown-Toomey "Meeting the China Challenge Act."

June 9

- **BIS Paper: BigTech Finance Risk, Reward** - Although China's fast-paced development of BigTech finance is often cited as a harbinger of things to come in other nations, a new BIS paper finds that China's example provides only limited and often cautionary insight into the future of BigTech in other nations.
- **Gensler Starts SEC Retail Equity-Market Rewrite** - In remarks, SEC Chairman Gensler announced an array of cautious initiatives in response to the issues raised by equity-market gamification and resulting Congressional recommendations.

June 10

- **Basel Targets High-Risk Crypto in New Capital, Liquidity Standards** - Advancing a proposal first broached in late 2019, the Basel Committee formally proposed a tough new prudential regime for targeted cryptoassets.
- **BIS Staff Lay Out “Minimally-Invasive” CBDC** - A new paper from the Bank of International Settlements addresses a critical question as many central banks advance on CBDC: the structure needed to mimic cash and retain private-sector financial intermediation.
- **FHFA Again Tackles GSE Comp** - Shortly after a series to top-level changes at the GSEs, FHFA has again sought comments on executive compensation at Fannie Mae, Freddie Mac, and the Home Loan Banks.
- **BIS Advances Wholesale Cross-Border Digital Settlement** - Continuing the FSB’s efforts to reform cross-border payments and prepare for digital currency, the BIS launched Project Jura, a collaboration between its Innovation Hub, the French and Swiss central banks, and a private consortium led by Accenture to experiment with wholesale CBDC (wCBDC) for cross-border settlement.
- **HUD Restores Fair-Housing Definitions, Disparate-Impact Changes TBD** - The *Federal Register* includes HUD’s IFR restoring definitions and clarifications related to the way cities and other localities are judged with regard to their fair-housing obligations, but the rule is silent on fair lending.
- **Toomey Presses for Less Crypto Regulation** - Ranking Member Toomey (R-PA) expanded on the support evidenced for light-touch regulation of crypto assets.

June 11

- **BIS: CBDC Could Improve Cross-Border Payments** - A new BIS survey finds that more than 25 percent of central banks are considering whether to allow CBDC use by non-residents, while nearly 20 percent say that they may do so.
- **FSOC Slow-Walks MMF Reform, Urges Faster LIBOR Transition** - In part because MMF reform is intricately interconnected with ongoing FSOC and Fed work on broader short-term market vulnerabilities, the Council’s meeting made clear only that the SEC will take the lead on MMF reform and do so in a deliberative way.

This Week

Tuesday, June 15

FDIC Board Open Meeting [10:00, Remote] **Discussion Agenda:** Briefing: Restoration Plan Semiannual Update.

HFSC Task Force on Financial Technology hearing entitled: "Digitizing the Dollar: Investigating the Technological Infrastructure, Privacy, and Financial Inclusion Implications of Central Bank Digital Currencies." [10:00am, Remote] Witnesses not yet available.

Wednesday, June 16

HFSC Subcommittee on National Security, International Development and Monetary Policy hearing entitled: "Schemes and Subversion: How Bad Actors and Foreign Governments Undermine and Evade Sanctions Regimes." [2:00pm, Remote] Witnesses not yet available.

Thursday, June 17

Senate Banking Committee hearing entitled: "Reauthorization of the National Flood Insurance Program, Part II." [10:00am, 538 Dirksen SOB] Witness: **Mr. David I. Maurstad**, Deputy Associate Administrator, Federal Insurance and Mitigation Administration, Federal Emergency Management Agency.

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](#).

- **[CBDC5](#)**: Kicking off Congressional action on CBDC, the hearing today in Senate Banking's Economic Policy Subcommittee made it clear that, as we forecast, progressive Democrats such as Chairwoman Warren (D-MA) are strong supporters of a U.S. CBDC that not only facilitates payments, but also supplants retail banks and other private-sector consumer-finance entities.
 - **[GSE-060821](#)**: This Friday, FSOC will meet in closed session to craft its agenda for 2021 and beyond. Housing and the GSEs will figure prominently in this work plan, but not as you might think.
 - **[PAYMENT23](#)**: Continuing work on a priority set by the Group of Twenty heads of state, the FSB in consultation with other global bodies is seeking views on how best to measure progress towards the G20's goal of a faster, safer, cheaper, transparent, and inclusive cross-border payment system.
- [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.