# *FedFin Daily Briefing*

**Monday, June 14, 2021**

## G7 Leaders Emphasize Big Goals, Also Tackle Green, Infrastructure, Illicit Finance

The G7 communique this weekend from the heads of state of course addresses top-priority pandemic, foreign-policy, and taxation questions, including also what has by now become boilerplate language about the importance of economic inclusion. In the absence of former President Trump, the communique was also able to return to emphatic commitments to net zero by 2050 and stronger support for the IMF. Notably, the communique includes rhetoric reminiscent of the Biden campaign about "building back better," also adopting a strong tone in support of worker rights echoing much in the new infrastructure debate. The leaders are now also working towards a "trusted, value-driven digital ecosystem" meeting an array of often competing values spelled out in the communique. There is now a statement in strong support of "harmonized principles" on data collection, addressing discriminatory algorithms and transferable electronic records. Work is also under way ahead of a summit later this year focusing only on AI.

With specific regard to financial services, the communique calls for "green finance”, emphasizing mandatory disclosures over time based on recent global initiatives. The communique now also includes global commitments to changing the infrastructure-finance model and to central-bank as well as fiscal contributions to global development. However, the communique does not take up all of the decisions made earlier in the week by G7 finance ministers on issues such as cryptoassets. Many of these are intended for finalization by the G20, while others – e.g., re green finance – are indirectly incompletely advanced by heads of state. However, the heads-of-state communique does focus on anti-corruption finance, echoing the finance ministers on the need to end shell companies and take other action.

## Anti-Bigtech Bills Pack Big Fintech Punch

Although aimed at bigger market and policy targets, the sweeping, often bipartisan bills aimed at giant tech platforms introduced late Friday will also have far-reaching financial-sector impact. The measures target Amazon, Facebook, Apple, and Google, thus placing them – at least so far – outside HFSC's jurisdiction. The measures follow extensive investigations in the last Congress (see Client Report **BIGTECH**) and will move quickly through hearings in the Judiciary Antitrust Subcommittee to a complex and uncertain path towards enactment.

Covered companies are generally those with at least $600 billion in market capitalization. As a result, even the largest U.S. bank (JPMorgan) and retailer (Walmart) are not governed. Instead, the giant tech platforms would be barred from many of the conflicts of interest highlighted in a 2019 FedFin report focusing on their financial sector impact. For example, H.R. 3816 and H.R. 3825 prohibit "self-preferencing," i.e., offering the platform company’s goods and services in favored or even exclusive positions.

This could thus make it harder for Facebook to force transactions on to its own digital currency and for all of the platform companies to offer incentives to use cobranded or their own financial products and payment systems as well as their own financial services (e.g., small business loans, insurance). H.R. 3849 also requires platform offerings to be inter-operable; while this is principally intended to make it easier for consumers to switch to another platform, it also has significant financial-sector impact, especially with regard to payment systems. H.R. 3826 would also make it still more challenging for a covered platform company to enter new financial sectors via acquisition. The measures do not address other top-priority financial concerns with far-reaching tech-platform impact (e.g., consumer data ownership), but may come to do so as they advance. Small tech firms and other ancillary issues (e.g., use of AI) will also surely surface as targets for possible legislative action.

# Senate Banking GOP Rejects Climate-Disclosures RFI

In a letter released today, Senate Banking Ranking Member Toomey (R-PA) led all committee Republicans rejecting SEC Commissioner Lee's request for public input on the need for climate disclosures. Senate Banking Republicans also say that additional securities regulations addressing global warming are neither necessary nor appropriate while discouraging public registration. Noting also the array of current SEC disclosures, Republicans also say that information relating to any material impact from global warming is already disclosed. Reflecting concerns about possible financial disclosures, the letter also argues that calls for additional climate disclosures are politically motivated and may require Congressional authorization. We doubt that this will stay Gary Gensler's hand (see Client Report **INVESTOR15**).

# Fintech Task Force Highlights CBDC Infrastructure, Privacy, Inclusion Concerns

Ahead of its hearing on CBDC tomorrow, the HFSC Fintech Task Force's hearing memo does not include any legislation on the discussion agenda. Instead, it lays out the current state of CBDCs in both the U.S. and global contexts, going on to identify areas of concern Task Force Democrats will highlight including options for CBDC custody and payment infrastructure, looking at questions such as likely CBDC users, DLT applications, and interoperability with FedNow (see FSM Report **PAYMENT20**) and/or FedAccounts (see FSM Report **CBDC**). CBDC privacy implications are also targeted, with staff noting that anonymity is unlikely but that U.S. CBDC must nonetheless provide key protections (contrasting this to China). Task Force Democrats also want to examine ways to increase financial inclusion with CBDC, again noting the FedAccounts proposal as one way to do so. However, Democrats also worry that CBDC could reduce cash use and thus decrease inclusion, particularly among the elderly and less educated. Witnesses include Neha Narula, who heads MIT's collaborative CBDC work with the Boston Fed, ensuring that much questioning will also assess progress on the Fed's work to advance CBDC. We will provide clients with an in-depth analysis of tomorrow's hearing.

## 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.

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- **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.