



FedFin Daily Briefing

Tuesday, June 15, 2021

HFSC Preparing Sanctions-Evasion Review

We have reviewed HFSC's [committee memorandum](#) for tomorrow's hearing on sanctions evasion, which lays out various sanctions-evasion schemes and includes several draft bills for consideration. All of these are preliminary governmental responses focused on studies and structure, not causes or direct remedies. Reflecting this, no governmental witnesses are slated, with witnesses instead coming from private industry and academia. We will be monitoring the hearing and will advise clients on how these initial bills are positioned and if Members surface any other action plans.

DIF Premiums Remain As Is

Although the Deposit Insurance Fund (DIF) slipped to 1.25 percent at the end of March, the FDIC nonetheless decided today not to increase premiums to speed restoration to the statutory 1.35 minimum. The [staff memo](#) accompanying this decision notes the expectation that deposit growth will "eventually" slow and recent deposit inflows ebb. This process conforms to the agency's ability to delay DIF restoration for as long as eight years because staff expect DIF ratios to improve well before then. The significant increase in FDIC premiums resulting from higher deposits will also remain in the DIF, further improving the odds for organic restoration that does not necessitate a premium increase. These projections, combined with the strong condition insured depositories, persuaded the board, with staff also committed to continued monitoring should conditions change.

FinTech Task Force: Privacy, Inclusion Essential for CBDC Success

Although Chairwoman Waters (D-CA) made it clear that the HFSC Fintech Task Force hearing today is an initial foray into HFSC's CBDC and digital-dollar work, Task Force Members used the session not only to engage in fact-finding, but also to detail in general terms the criteria they believe essential to a successful CBDC. A fundamental question raised by Chair Lynch (D-MA) is whether Congress should set policy ahead of CBDC development so that Congressional intent informs CBDC's architecture; witness responses varied about what the policy should be and only one of the five urged new, explicit statutory authority.

Although Rep. Sherman (D-CA) strongly opposed CBDC anonymity and Democrats also generally agreed with Republicans that CBDC should protect privacy, several Republicans including Ranking Member Davidson (R-OH) went further, seeking a decentralized, blockchain operated, permissionless CBDC – i.e., a token-based digital dollar. There was also bipartisan agreement on the need to protect the dollar's reserve-currency status, with Rep. Hill (R-AR) noting his legislation with Rep. Himes (D-CT) to ensure this ([see FSM Report CBDC4](#)).

Members on both sides of the aisle also worried that CBDC would not be an inclusion panacea, with Rep. Lawson (D-FL) questioning the accessibility of a CBDC for the elderly and those without broadband internet or smartphones. There was thus bipartisan agreement that cash should not be fully replaced and should operate alongside CBDC. Republicans remain wary of FedAccounts ([see FSM Report CBDC](#)) and other proposals that would allow the Fed to provide retail banking accounts, with Rep. Davidson arguing these would turn the Fed into a centralized clearing house that doubles as a consumer data center. Rep. Luetkemeyer (R-MO) also slammed proposals to offer services through the post office, saying history shows

it cannot successfully do so. He also reiterated concerns that congressional authorization is needed for digital-dollar issuance.

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](#).

- **[CRYPTO19](#)**: Advancing some of the most controversial ideas in a 2019 discussion paper, the Basel Committee has now formally proposed capital, liquidity, risk-management, and supervisory standards it believes nations should apply to bank cryptoasset exposures.
- **[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.