



FedFin Daily Briefing

Tuesday, July 27, 2021

Partisan Divide Deepens Over Regulating Crypto

Senate Banking's cryptocurrency hearing today unsurprisingly showed that partisan divisions continue, with Democrats urging quick action on a regulatory framework while Republicans argued that innovation should continue unfettered. Although not now suggesting legislative solutions, Chairman Brown (D-OH) led Democrats in calling for investor- and consumer-protection rules to separate crypto innovators from "extortionists," also blasting DeFi as a "scheme" aimed at creating an alternative, parallel financial system free of rules, oversight, and limits. He also worried that risks emerging in the parallel, crypto-based financial system can migrate to the traditional, regulated one due to the growing number of links between the two. Sen. Warren (D-MA) agreed, arguing that – although what she called the current, big-bank dominated system requires improvement – swapping it for one dominated by an opaque group of crypto coders and miners would not be better. She also highlighted a [letter](#) she sent yesterday to Secretary Yellen urging a coordinated, cohesive regulatory strategy across all FSOC agencies to address cryptocurrencies' risks. FSOC should also review whether the growing cryptocurrency market poses systemic risk worthy of designation. Democrats also continue to worry about crypto's impact on monetary-policy transmission, its threat to U.S. Dollar supremacy, and its use in ransomware attacks.

Ranking Member Toomey (R-PA) noted that there are legitimate concerns in the crypto arena, sharing Democratic concerns regarding its use in illicit activities and ability to impact monetary-policy transmission. However, he argued that the potential benefits of allowing private innovation to proceed may outweigh these risks, pointing to benefits such as being a hedge against inflation and greater financial inclusion while pushing back on the notion that cryptocurrencies present systemic concerns. Committee Republicans echoed this wait-and-see approach, with Sen. Lummis (R-WY) suggesting that Congress may be able to provide certainty surrounding definitions but should otherwise refrain from legislating policy at this juncture. Republicans also pushed back on the notion that cryptocurrencies facilitate illicit activities compared to fiat currency, noting that almost all crypto transactions are recorded on unalterable ledgers and thus provide law enforcement with a trail when investigating such activity.

OCC Goes Green

[Following the FRB's lead](#), the OCC [today](#) announced it has joined the Network for Greening the Financial System (NGFS) and appointed former Deputy Comptroller Darrin Benhart as its Climate Change Risk Officer. Acting Comptroller Hsu says the moves accelerate robust climate risk-management practices, particularly at the largest banks. The OCC will also continue the two-pronged approach to climate change [announced when Mr. Hsu took on the acting comptroller role](#), seeking stakeholder views while also developing standards for climate risk-management practices.

Brown: CFPB Must Address Fintech Risk

Chairman Brown (D-OH) [today](#) asked the CFPB to detail its plans for addressing risks from fintechs and other nonbanks, citing recent reports that one fintech, Chime, closed customers' accounts without their permission. [As previously noted](#), funds consumers place at fintechs and thus outside of the regulated banking system are not subject to the same regulatory protections as those applied to bank accounts despite many of these products advertising themselves as similar to bank accounts. Sen. Brown cited concerns related to privacy, fraud, data breaches, and disclosure. He asks the CFPB to detail any gaps in the regulatory framework, asking also for guidance on how best to remedy them if needed via new law.

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](#).

- **[CBDC7](#)**: Today's HFSC National Security Subcommittee hearing on CBDC featured bipartisan concern over China's threat to U.S. Dollar supremacy and the effectiveness of U.S. sanctions without a U.S. CBDC.
- **[ACCESS2](#)**: At a very well-attended HFSC Consumer Protection Subcommittee hearing, Democrats strongly supported government-led solutions to increase financial inclusion.
- **[VENDOR9](#)**: The banking agencies have proposed sweeping standards that would hold all of the banking organizations they govern responsible for the safety and soundness, consumer compliance, and perhaps even diversity of a wide range of third-party business arrangements ...
- **[GSE-071621](#)**: Later today, we'll provide clients with a summary of key provisions in the [housing-infrastructure package](#) released earlier today by HFSC Chairwoman Waters.
- **[FEDERALRESERVE63](#)**: Signaling a tough challenge for a second Powell term, Senate Banking Chairman Brown (D-OH) today said, "It's time to try something different," also joining Sen. Warren (D-MA) lambasting Mr. Powell's role in what they characterize as risky big-bank regulatory relief.
- **[FEDERALRESERVE62](#)**: Although much of today's HFSC hearing with Chairman Powell was preoccupied by hot debate over the extent to which inflation is "transitory," key financial-policy questions also surfaced for substantive discussion.
- **[GSE-071221](#)**: On Friday, former FHFA Director Calabria [suggested](#) that the Administration's [new competition policy](#) powers up his proposal for authorizing multiple GSE charters just as a bank charter is granted to all qualified comers.
- **[MERGER6](#)**: In an [executive order \(EO\)](#) that truly deserves to be called "sweeping," President Biden today announced a "whole-of-government" initiative aimed at reducing market concentration, enhancing consumer choice, reducing prices, and enhancing economic equality.
- **[GSE-070821](#)**: Our recent in-depth analysis details the range of options proposed by the Financial Stability Board for MMF reform. Here, we assess what this means for Fannie, Freddie, and the FHLBs.
- **[GSIB20](#)**: The House Financial Services Committee has approved legislation introduced by a progressive Democrat, Rep. Ayanna Pressley (D-MA), requiring GSIBs to disclose many quantitative and qualitative matters.
- **[MMF17](#)**: As promised late last year when it addressed nonbank financial intermediation (NBF), the Financial Stability Board is seeking comment on ways to reduce the risk that money-market funds (MMFs) succumb to runs under stress or, as occurred in both 2008 and 2020, require taxpayer backstops.
- **[GSE-070121](#)**: Continuing to act with awesome dispatch on its new director's racial-equity and economic-equality agenda, [FHFA today](#) issued a final policy statement setting new anti-discrimination standards for Fannie, Freddie, and the FHLBs.

- **[GSE-063021](#)**: With numerous modifications designed to make its [proposal](#) less onerous, the CFPB on Monday issued a [final rule](#) providing temporary foreclosure protection without the *de facto* moratorium that, had the Bureau [heeded](#) some on the Hill, would have prolonged nonpayment, possibly precipitating a flood of borrower requests which servicers could not reasonably be expected to handle with justice for all.
- **[FCRA30](#)**: Today's HFSC hearing on credit reporting laid the foundation for legislative action on measures that will prove highly controversial.