



FedFin Client Report

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Warren Launches Fiery Anti-Powell Fight; Brown Non-Committal, But Critical

Client Report: REFORM208

Executive Summary

Although today's Senate Banking hearing with Chairman Powell and Secretary Yellen was largely taken up by the debt ceiling, Sen. Warren (D-MA) made it very clearly that progressives will mount an aggressive campaign against Mr. Powell, calling him a "dangerous" man. Chairman Brown (D-OH), whose position is perhaps [most important](#), said nothing about the renomination even as he blasted the Fed under Mr. Powell for what he called his pro-Wall Street policies. Sen. Brown also criticized the Fed for "rubber-stamping" mergers and market-friendly policies. Ranking Member Toomey (R-PA) may have changed his view on CBDC, now expressing interest in a "properly-designed" CBDC. Responding to Sens. Brown and Warren, Mr. Powell resisted all suggestions that stress tests have been weakened but said that changing current rules is "fair game" going forward. Asked to name her top systemic-risk worry, Secretary Yellen cited open-end funds and shadow banks.

Analysis

Opening Statements

Chairman Brown criticized the Fed for pandemic efforts he believes have been more focused on helping markets than families and highlighted a bill he has banning members of Congress from buying or selling individual stocks, noting that he will introduce a similar bill for the Fed. On the other hand, Ranking Member Toomey raised concern about both the Fed and Treasury exceeding their authorities by weighing into "politically-charged" areas such as the climate and racial justice.

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Testimony

Chairman Powell highlighted a strengthened economy and improved labor market conditions, also noting disparate impact of the pandemic on low-wage workers and minorities. Reiterating his belief that current high inflation will subside, he nonetheless acknowledged that the effects have been both larger and longer lasting than anticipated.

Secretary Yellen noted Treasury's work to expedite rental assistance, also urging Congress to address the debt limit and warning of a "catastrophic event" if it is not adjusted.

Q&A

- **Regulation:** Bolstering her "dangerous" comments, Sen. Warren sharply censured Mr. Powell for weakening stress tests, liquidity requirements, and the Volcker rule; Mr. Powell believes the Fed did not weaken stress tests, also saying that actions regarding liquidity were in response to law requiring tailoring. However, he said that anything the Fed has done is "fair game" for re-examination.
- **CBDC:** Sen. Toomey expressed interest in opportunities he believes a properly-designed CBDC could provide, including instant, zero-cost payments, interoperability, and international competitiveness. He emphasized the need to ensure Americans' privacy, noting also that the Fed is not suited to be a retail bank and privately-issued digital currencies should coexist with CBDC. Sen. Toomey also asked about the importance of congressional authority; Mr. Powell noted that, although in some forms CBDC may be authorized under current law, authorizing legislation would be ideal.
- **China:** Sen. Warner (D-VA) worried that failing to raise the debt limit might give more credibility to China's efforts to make the renminbi a reserve currency; Secretary Yellen believes inaction on the debt ceiling would undermine the role and safety of the dollar.
- **SLR:** Sen. Rounds (R-SD) asked about the future of the SLR; Chairman Powell emphasized the need to avoid making the leverage ratio a binding constraint, noting that, with all the liquidity in the system, the SLR could again become a binding constraint. The Fed is currently looking at the SLR, providing no insight into when the review [promised in March](#) may conclude.

- **Fed Trading:** Sen. Warnock (D-GA) worried that the Fed trading scandal may tarnish the image of the central bank, asking what actions the Fed is taking to ensure its impartiality; Chairman Powell reiterated that he has directed staff to undertake a review of practices regarding investment, trading, and disclosures, and is also looking at the trading that was done to ensure it complied with existing rules and laws. He noted that there is “100 percent” a need for changes and there will be. Sen. Daines (R-MT) asked if Mr. Powell would support making Fed regional banks subject to FOIA and the Federal Record Acts; Mr. Powell needs time to reflect on this question.
- **Diversity:** Chairman Brown asked if the witnesses would like to see a Black woman on the board of governors; both agreed. Sen. Menendez (D-NJ) sharply criticized both the Fed and Treasury for its lack of diversity; both noted diversity as a high priority.
- **Systemic Risk:** Sen. Ossoff (D-GA) asked about the most significant systemic risks; Chairman Powell cited cyber risk while Secretary Yellen cited threats from the growth of activity in the shadow banking sector, including open-end bond funds and bond funds that guarantee daily redemption. Ms. Yellen also mentioned climate change, as well as hedge fund-leverage.
- **Climate Change:** Sen. Cramer (R-ND) criticized what he believes is the administration’s attempts to force private businesses to invest in specific industries; Secretary Yellen disagreed with this assessment, again describing climate change as a serious threat.
- **IRS Data Reporting:** Sens. Lummis (R-WY) and Hagerty (R-TN) expressed concern for Secretary Yellen’s support of the proposal to require banks and credit unions to report customer data to the IRS for transactions of \$600 or more, citing privacy concerns and a new regulatory burden; Secretary Yellen disagreed with this assessment, noting that banks already report directly to the IRS the interest they pay on accounts when it exceeds \$10 and that the proposal would not provide detailed transaction level data, only add aggregate inflows and outflows onto a form that is already filed.