



Thursday, November 4, 2021

Hsu: Crypto Demands Consolidated, Bank-Like Supervision

Echoing the call for consolidated stablecoin regulation in the new PWG report ([see FSM Report CRYPTO21](#)), Acting Comptroller Hsu [late yesterday](#) argued that "universal" crypto firms need comprehensive, consolidated supervision. Historically, the OCC has been averse to consolidated regulation, arguing that the Fed's overlay in a BHC adds little value except with regard to activities outside a national bank. However, the Acting Comptroller now cites an array of risks evident in cases going back to BCCI in 1991 and the ability of crypto companies with various licenses and commercial operations to engage in regulatory arbitrage. Mr. Hsu also says that these firms should be held to bank-like standards which also need to be "levelled up" for banks to advance innovation and inclusion. Regulators also must change their approach, focusing less on competition and more on cooperation and interdependence. The OCC in coming weeks will release the findings of its review of charter applications and cryptocurrency-related interpretative letters, implementing a holistic strategy setting the regulatory perimeter at which individual chartering decisions and interpretive letters will not stray from the OCC's broader strategic approach. Joint work with the FRB and FDIC is also underway to finalize interagency guidance on third-party relationships ([see FSM Report VENDOR9](#)), including fintechs.

Global Comp-Reform Effort Peters Out

The FSB today updated progress on implementation of its principles for sound compensation practices ([see FSM Report COMPENSATION21](#)), reporting that implementation by banks is more advanced than insurers and asset managers. It does not include plans to address this disparity, suggesting that global efforts at greater incentive alignment are at an end even though the report worries that clawback terms remains problematic and, while the ability of banking authorities to require bonuses be withheld is largely sufficient, this is not implemented in the other sectors. The use of severance payments to circumvent risk-compensation alignment also warrants attention. In the U.S., the rules required by Dodd-Frank remain unfinished, but SEC Chair Gensler recently told Congress ([see Client Report INVESTOR18](#)) that he intends to work with other agencies finalize them. The banking agencies have shown little enthusiasm for this effort but may well be pushed into it if Mr. Gensler persists, as we forecast earlier this year ([see Client Report INVESTOR14](#)).

Treasury Fires Crypto Compliance Warning Shots

Deputy Treasury Secretary Wally Adeyemo today [addressed](#) the growing role of digital assets in ransomware and its threat to the payment system. Detailing an array of public-private partnerships, he stated that Treasury will continue to advise the industry of emerging threats and a new feedback loop. However, Treasury will also deploy sanctions to punish bad actors and work with international organizations to set standards. Private firms are told also to comply with current and pending FinCEN rules (here likely including the controversial proposal for [convertible virtual currency](#)). Mr. Adeyemo also urged the industry to police itself, noting that many companies simply tell Treasury that they cannot comply with AML and similar rules, a stand Treasury will not tolerate if problems are not quickly remediated.

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](#).

- **[CRYPTO21](#)**: As [noted yesterday](#), the President's Working Group on Financial Markets (PWG) was joined by the OCC and FDIC yesterday issuing a report calling for prompt Congressional action to regulate stablecoins and, even in its absence, also for fast action by federal regulators and the FSOC.
- **[GSE-102821](#)**: FHFA is [proposing](#) a new disclosure regime designed to bring Fannie and Freddie into the public marketplace in a fashion analogous to large U.S. banks.
- **[CONSUMER37](#)**: As anticipated, HFSC's hearing today with CFPB Director Chopra skidded over a wide range of policy issues.
- **[GSE-102721](#)**: After years of enforcement inactivity, the OCC has [issued a tough set of restrictions](#) against one of the increasingly few large mortgage servicers still willing to be a banks.
- **[GREEN11](#)**: As we [noted yesterday](#), the Financial Stability Oversight Council has now complied with President Biden's executive order ([see FSM Report GREEN8](#)), compiling an exhaustive [assessment](#) of the financial-stability implications of climate risk and what might best be done about it.
- **[CBDC9](#)**: Shortly after the BIS and a group of central banks endorsed a construct for retail-facing central-bank digital currency (CBDC), the Group of Seven (G7) finance ministerial issued these public-policy principles to establish a still broader framework for future action
- **[SANCTION15](#)**: Today's Senate Banking hearing with Treasury Deputy Secretary Wally Adeyemo showed bipartisan concern that the Administration is failing to implement sanctions required by law, especially when it comes to China, North Korea, and Russia.
- **[MMF18](#)**: Global regulators have now finalized a framework on which national regulators may base the reforms they deemed necessary after the pandemic sparked profound disruptions in this sector.
- **[CRYPTO20](#)**: Responding to requests from the G7, G20, and FSB, this report addresses market-infrastructure considerations related to systemically-important stablecoins that do not involve multi-currency baskets (e.g., Facebook's Diem).
- **[GSE-101221](#)**: Although the majority of FHA ARMs are now LIBOR-linked, HUD has been waiting for Congress, the Fed, or forces on high to help it set a new benchmark.
- **[MERGER8](#)**: Progressive Democrats in the House and Senate have introduced legislation demanding an array of new decision factors governing bank M&A transactions and new or even revised BHC activities.
- **[INVESTOR19](#)**: As [anticipated](#), today's HFSC hearing with SEC Chair Gensler covered the full SEC agenda, although members steered clear of the SEC investigation demanded by Sen. Warren (D-MA) into recent Fed trading.
- **[CBDC8](#)**: As we [noted](#) last week, the BIS and seven major central banks have advanced global CBDC

policy with three new reports evaluating key design features.

- [GSE-093021a](#): Now that we have FHFA's comment deadline – November 26 – we expand our [initial analysis](#) of FHFA's capital rewrite into a more detailed assessment of its strategic impact.
- [REFORM209](#): In very sharp contrast to the Senate Banking session on Tuesday with Chairman Powell and Secretary Yellen ([see Client Report REFORM208](#)), today's HFSC session was largely devoted to partisan wrangling over monetary policy, the debt ceiling, and the Biden Administration's overall fiscal policy.