



FedFin Weekly Alert

Monday, February 7, 2022

❑ SETTING THE STAGE FOR STABLECOINS

The House Financial Services Committee this week will kick off action soon to be echoed by Senate Banking advancing the stablecoin policies set by the President's Working Group on Financial Markets ([see Client Report CRYPTO21](#)). HFSC's intentions will be announced when majority staff releases its staff memo ahead of the hearing and, as always, we'll highlight key takeaways. One of them will be the extent to which high-profile [legislation floated last week](#) by Rep. Josh Gottheimer (D-NJ) will be baseline text for legislative action. As is often the case, Senate Banking Chairman Brown (D-OH) made it more than clear that he won't miss Meta's [stablecoin](#) without also saying more about what he'll do to secure the regulatory outcome he espouses. We'll watch for Senate action and provide clients with an in-depth report on HFSC's hearing, focusing on:

- the extent to which Democrats prefer a "FedAccount" CBDC construct ([see FSM Report CBDC](#)) to private stablecoins. The Fed's CBDC discussion draft ([see FSM Report CBDC10](#)) envisions a framework in which private stablecoins interact with central bank digital currency, but it also was so uncertain of its CBDC policy that one option it might also support is private-only digital currency;
- whether enough Democrats also support the Gottheimer approach, which takes the PWG recommendation -- IDI requirements -- into a two-tiered system of bank and nonbank stablecoins;
- where Republicans stand and thus how the prospects for floor action shape up;
- the degree to which this legislative approach addresses not only basic deposit-status questions, but also all the other policy challenges a new Fed [paper](#) makes clear must also be conquered if stablecoins are to prosper for more than their founders;
- whether Congress cottons to the idea of FDIC action in the absence of legislation granting stablecoins deposit status long lines [outlined](#) by outgoing FDIC Chair McWilliams; and
- whether anyone yet has the stomach to address a critical and wholly unanswered crypto question -- how a crypto company can be resolved in extremis given the large differences between what cryptocurrency investors think they own and what the Bankruptcy Code has to [say about it](#).

Headlines From the Past Week's Daily Briefings

January 31

No news of note.

February 1

No news of note.

February 2

- **BIS Outlines Regulatory Goals for More Tech-Based Lending** - A new BIS [paper](#) approaches fintech's financial-inclusion impact from a new angle: the extent to which personal-information collateral backing consumer debt can be governed to ensure that innovation also advances inclusion without leading to undue market power and/or disintermediation.
- **BIS Chief Calls for CBDC ASAP** - The BIS released a [speech](#) late last month from Managing Director Carstens saying that the "soul of money" – i.e., its essence and purpose – is best entrusted to central banks, not DLT or private issuers.
- **CFPB Redoubles Effort Against "Junk" Fees** - The CFPB posted a [note](#) standing firmly behind its RFI seeking input on the "junk" fees the agency believes pervade consumer finance ([see FSM Report CONSUMER38](#)).
- **Senate GOP Heighten Objections to FDIC Democrats** - Senate Republicans strengthened their objections to the December effort by FDIC Democrats to release a bank-merger RFI ([see FSM Report MERGER9](#)), introducing legislation to strip the Board of the Comptroller of the Currency and CFPB director.

February 3

- **Fed Study Presages House Two-Tier Stablecoin Standards** - A new Federal Reserve [staff note recommends](#) a different approach to stablecoin innovation than that proposed by the President's Working Group on Financial Markets ([see Client Report CRYPTO21](#)).
- **Fed's Project Hamilton: CBDC Advances Payment Functionality, Outdoes DLT** - The Boston Fed and MIT published findings from Phase 1 of their CBDC research initiative "Project Hamilton," which has now successfully created a core processing engine for a hypothetical CBDC.
- **McWilliams Outlines How FDIC Insurance Could Cover Stablecoins** - Although Jay Powell delivered his all-important [annual address](#) atop a virtual Wyoming mountain, the Federal Reserve is nonetheless mired in the Big Muddy.

February 4

- **FSOC Reviews Ongoing NBFI Workstreams** - In what appeared to be a meeting largely intended to comply with statutory demands for quarterly sessions, the FSOC met to consider U.S. work on the 2021 global NBFI agenda ([see Client Report NBFI](#)).
- **Bipartisan Bill Opens Custody Services to Small Banks** - Sens. Tim Scott (R-SC) and Maggie Hassan (D-NH) have introduced S. 3562 to allow well-capitalized community banks, minority depositories, and CDFIs to accept custodial deposits without these being considered brokered under applicable FDIC rules ([see FSM Report DEPOSITINSURANCE111](#)).
- **Toomey Targets Chinese CBDC to Speed U.S. Crypto** - Suggesting that the autocratic nature of the digital yuan should spur private-sector U.S. crypto development, Senate Banking Ranking Member Toomey (R-PA) requested that both the Treasury and State Departments closely monitor and report on developments as China seeks an international rollout in tandem with the Olympics.

This Week

Tuesday, February 8

HFSC Hearing entitled: "Digital Assets and the Future of Finance: The President's Working Group on Financial Markets' Report on Stablecoins." [10:00am, webcast] Witness: **The Honorable Nellie Liang**, Under Secretary for Domestic Finance, U.S. Department of the Treasury.

Wednesday February 9

Senate Agriculture Hearing entitled: "Examining Digital Assets: Risks, Regulation, and Innovation." [10:00am, Dirksen Senate Office Building 106] Witness: **Rostin Behnam**, Chairman, Commodity Futures Trading Commission.

Senate Banking Financial Institutions and Consumer Protection Subcommittee hearing entitled: "The Role that Community Development Financial Institutions and Minority Depository Institutions Serve in Supporting Communities." [2:30pm, Dirksen SOB 538] Witnesses: **Mr. Robert James II**, President, CEO & Chairman, Carver Financial Corporation and National Bankers Association; **Ms. Jeanne Kucey**, President & CEO, JetStream Federal Credit Union, Miami Lakes, FL, on behalf of the National Association of Federally-Insured Credit Unions; **Mr. Joel Griffith**, Research Fellow, Financial Regulations, Heritage Foundation.

Thursday, February 10

Senate Banking Hearing entitled: "How Institutional Landlords are Changing the Housing Market." [10:00am, Dirksen Senate Office Building 106] Witnesses: **Mr. Michael Waller**, Executive Director, Georgia Appleseed Center for Law and Justice; **Mr. Tobias Peter**, Research Fellow And Assistant Director, AEI Housing Center.

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](#).

- [FEDERALRESERVE69](#): As this report details, all three Fed nominees before the Senate Banking Committee today emphasized the vital importance of Fed independence and their anti-inflation zeal to quell GOP opposition and cement it among moderate Democrats.
- [CONSUMER38](#): Taking action to advance President Biden's competition order, the CFPB is seeking views on fees which it believes exploit consumers by virtue of unfair competition.
- [GSE-020122](#): Nothing could do as much damage to a business based on fee revenue as a determined CFPB inquiry into fee revenue.
- [CBDC10](#): Months after initially promising to release a discussion draft on central bank digital currency (CBDC), the Federal Reserve is now seeking comment on whether and how it might create one.
- [GSE-012422](#): A new Federal Reserve Bank of Atlanta [study](#) adds another element to those [prior research argues](#) are evidence of widespread racial discrimination in U.S. mortgage finance.
- [GSE-011422](#): As noted in our in-depth analysis of Acting FHFA Director Thompson's confirmation hearing, it's clear that Democrats and Republicans are thinking hard about resurrecting statutory changes to the GSEs' charters.
- [FEDERALRESERVE68](#): At today's confirmation hearing, Gov. Brainard took a lot of the heat on inflation Republicans only mildly mentioned during Mr. Powell's Tuesday confirmation hearing ([see Client Report FEDERALRESERVE67](#)).
- [REFORM211](#): As promised, FedFin begins our 2022 forecasts with this in-depth report on bank regulation.
- [FEDERALRESERVE67](#): As promised yesterday ([see Client Report FEDERALRESERVE66](#)), we listened closely today to gauge the extent to which Chairman Powell faces a serious challenge to reconfirmation.
- [FEDERALRESERVE66](#): Many of you have asked us to forecast key policy implications ahead of two high-powered hearings this week considering President Biden's top Fed nominees.
- [GREEN12](#): Issuing the first formal U.S. climate-risk proposal, the OCC is seeking comments on high-level risk-management principles to set the context for additional, more binding action governing larger U.S. banking organizations.
- [GSE-010322](#): New [economic commentary](#) from the Federal Reserve Bank of Cleveland assesses several recent studies on homeownership from an investment perspective.