



FedFin Daily Briefing

Monday, February 7, 2022

FDIC Takes New, Unsurprising Direction

Upon taking office over the weekend, Acting FDIC Chairman Gruenberg released a [new set of agency priorities](#). The inter-agency CRA rewrite already well underway tops his list, which also unsurprisingly includes climate risk. Here, it seems likely that the FDIC will quickly seek guidance on standards akin to those already released by the OCC ([see FSM Report GREEN12](#)), as well as ramp up the agency's profile and internal focus. Also unsurprisingly, Mr. Gruenberg will now advance the bank-merger work he undertook late last year with Acting Comptroller Hsu and CFPB Director Chopra ([see FSM Report MERGER9](#)). Cryptoasset standards are also a new top priority, with Mr. Gruenberg stating that banks should only engage in this sector under strict prudential and consumer-protection rules. He thus appears to differ with former [Chair McWilliams' assertion last Thursday](#) that stablecoins can be considered deposit equivalents, a decision that -- were the FDIC to adopt it -- could open bank liabilities wide to cryptoassets without any additional action. Finally, action on long-overdue Basel III/IV capital standards is on Mr. Gruenberg's list with the discussion here omitting Ms. McWilliams and former Vice Chairman Quarles concerns about the need to do so without any additional capital charges. Instead, Mr. Gruenberg speaks of the need to strengthen credit-, market-, and operational-risk capital.

Fed Lawyers Press for Regulated Crypto Prior to Payment-System Access

In sharp contrast to the economic and often then even theoretical focus of many Fed research papers, Fed lawyers last week [released a note](#) assessing the legal underpinnings of U.S. money and the issues they present for rapid evolution in tandem with increasing digitalization. The lawyers assume, with some reason, that legal certainty is essential to the low payment-system friction necessary to ensure network effects. The paper then goes on to describe considerable legal uncertainties surrounding payment, settlement, clearing, and orderly resolution for crypto currency and stablecoins. It also presents a forceful argument against granting master accounts to fintech companies. However, it provides no suggestions about how best to address these uncertainties nor does it go beyond simple mention to address the extent to which CBDC meets the criteria for legal tender under current law.

Toomey Heightens Raskin Opposition

Following up last week's contentious hearing ([see Client Report FEDERALRESERVE69](#)), Senate Banking Ranking Member Toomey (R-PA) today sent Vice Chair-nominee Raskin a formal request for information on her relationship to a fintech company that unusually obtained a Fed master account. This issue sparked controversy and, on Ms. Raskin's part, some consternation at the hearing, but Mr. Toomey's assertions go beyond questioning from Sen. Lummis (R-WY). Now, he lays out what he represents as significant gains to Ms. Raskin from serving on this firm's board and implies that the lucrative sale of these interests was to a former colleague whose motives may also warrant scrutiny. He also notes that he only received a confirmation that Ms. Raskin had directly called the Kansas City Fed in support of the firm the night before the hearing. In the absence of any more direct assertions of demonstrable wrong-doing, we do not expect this letter to alter Democratic support for Ms. Raskin, but it may make still more problematic the extent to which Democrats and any possible Republicans on the fence are willing to support her.

Fed Reiterates Anti-DLT Construct for CBDC

As we noted [last week](#), the FRB's CBDC technology team known as Project Hamilton has determined an array of significant CBDC benefits but also found that DLT is not its preferred system infrastructure. A

recent [Fed note](#) buttresses Project Hamilton's results, finding that DLT has several efficiency benefits, but these are only realized in DLT if permissionless and permissionless infrastructure is inappropriate for CBDC. Thus, existing central-bank payment infrastructure is deemed preferable for CBDC security, albeit with several upgrades based on which system is preferred by a central bank. However, since the BIS pilot CBDC cross-border payment [projects](#) rely on DLT, the Fed note also lays out additional security protocols should DLT be retained.

HFSC to Debate Stablecoins, Not Start Action on Them

Today's HFSC staff [memo](#) makes it clear that tomorrow's hearing will be a platform for both Congressional - or at least Democratic -- support for the PWG's stablecoin report (see [Client Report CRYPTO21](#)). This full-committee session will also air legislative proposals to address stablecoin policies regulators cannot on their own advance, but it will not set the record on them necessary for further Congressional action because no specific bills are cited as under consideration in the hearing memorandum. As previously [noted](#), Rep. Gottheimer (D-NJ) is planning a bill sure to be discussed tomorrow that would create a two-tier regulatory construct for stablecoins akin to one recently recommended in a Fed [study](#). In sharp contrast to all the stablecoin risks identified in the Democratic memo, Republicans will highlight the need for innovation and continuing stablecoin development. As always, we will provide clients with an-depth analysis of the hearing and our forecast of likely future action.

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.
- [MMF19](#): In the wake of noncommittal statements from global regulators on ways to address money-market fund systemic risk, the Securities and Exchange Commission has proposed sweeping changes to the 2014 standards adopted after the 2008 crisis.
- [GSE-122721](#): Late last week, the NCUA put a small addition into the Christmas stockings already stuffed by the regulator over the past few months with numerous regulatory liberalizations.
- [MERGER10](#): Just days after the FDIC chair refused to advance a request for comment on bank-merger policy, the Department of Justice released one signaling agreement with many of the concerns Democrats aired in concert with the RFI.
- [GSE-122021](#): As [noted](#) on Friday, the Biden Administration's first FSOC systemic-risk hit list reiterates Trump Administration fears about [nonbank mortgage companies](#).
- [GSE-121721](#): As [noted](#) on Thursday, FHFA continues to tread carefully through the big-bank rulebook, adopting standards said to be like-kind that aren't quite so similar when it comes to critical details.
- [MERGER9](#): Released in a highly-controversial fashion (see below) by two Democrats on the FDIC's board, this RFI posits the need for a significant review of mergers involving insured depository institutions (IDIs) due to many changes in the financial industry and, so it says, the lack of substantive competitive analysis over past decades even of the largest transactions.