



FedFin Weekly Alert

Monday, March 7, 2022

❑ THE FOG OF WAR

As [we anticipated](#) last week, the focus on the Fed usually transfixing Congressional hearings with the central bank's chairman shifted to the grievous global geopolitical situation. As Mr. Powell [told HFSC](#) and [then Senate Banking](#), the Fed plays no official role in deciding whom the White House chooses to sanction and Members were too tactful to ask for a public description of the Fed's formidable behind-the-scenes role on these critical decisions. Even the discussion of whether the U.S. should have a CBDC was cloaked in how doing so might affect U.S. economic hegemony. Still, Congress always has time for a political brawl and the fight that most directly involves the Fed is the one swirling around the Biden Administration's nominees to join its Board of Governors. Key take-aways are:

- Although it's rare for the State of the Union Address to target Fed nominees, [President Biden did just that](#) on March 1. This is, though, a sign of how challenging this has proven to be rather than necessarily how much difference the appeal will make.
- Although he didn't want to say so, Mr. Powell had to concede that the Fed is functional despite his somewhat-empty board room and his own pro-tempore status. Without a crisis, Congress is even slower to act.
- Well into the first quarter of 2022, critical transaction and regulatory decisions remain in permafrost. Small-scale M&A is advancing, but any larger deal to which Ms. Raskin might object is on hold, as are all the decisions on which she would play a pivotal role.
- This won't end soon unless Senate Majority Leader Schumer (D-NY) decides he has the time to spare for a floor fight, in which he now has the votes to advance Ms. Raskin's nomination now that Sen. Luján (D-NM) is back. Votes on some nominees might be easier to slip onto the crowded schedule if Democrats are willing to separate Ms. Raskin from the others, but there's no sign of a willingness to do so because doing so surely ends her chances.

Headlines From the Past Week's Daily Briefings

February 28

No news of note.

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March 1

- **HFSC Readies for Powell Testimony** - Apart from a macroeconomic overview, much of the HFSC staff [memo](#) ahead of Chairman Powell's appearance tomorrow details recent Fed actions to enhance diversity, and Fed-official trading problems and resulting policies.
- **Gruenberg Worries re Risks to Come** - The FDIC released its usual quarterly [report](#) on IDI conditions, showing considerable strength in the fourth quarter. Still, Acting Chairman Gruenberg's [remarks](#) expressed considerable caution about industry resilience under growing macroeconomic and geopolitical stress.
- **Reach of U.S. Sanctions** - Building on our report on new sanctions ([see FSM Report SANCTION16](#)) and Karen Petrou's [memo](#), we here address a frequently-asked questions as the Ukraine conflict rages and sanctions increase: the extent to which foreign banks without a U.S. presence must adhere to U.S. sanctions.
- **FRB Tries Anew re Payment-System Access** - Responding indirectly but importantly to the controversies swirling around Sarah Bloom Raskin ([see Client Report FEDERALRESERVE69](#)), the FRB released a [supplement](#) to its earlier proposal about the extent to which novel entities are granted Reserve Bank master accounts ([see FSM Report PAYMENT17](#)).
- **Congress Poised to Tighten Russia's Financial Noose** - Signaling that the U.S. Congress will add new sanctions to pending Ukraine relief, Senate Finance Chairman Ron Wyden (D-OR) [called for an array of financial actions](#) to circumvent Russian finance.

March 2

- **Senate Banking Tackles Crypto Sanctions Compliance** - Reflecting ongoing developments, Senate Banking Chairman Brown (D-OH) and several of his Democratic colleagues [wrote](#) to Secretary Yellen heightening their longstanding crypto concerns to specific questions about the extent to which digital assets and exchanges are appropriately captured in AML, sanctions, and CFT regulation.
- **HFSC Powell Hearing Focuses on Monetary Policy, Geopolitical Risk** - As [anticipated](#), HFSC hearing with Fed Chair Powell was almost exclusively focused on Ukraine and the decisions ahead for the FOMC at its mid-March hearing.

March 3

- **LIBOR Transition Rescue Advances** - Advancing a long-delayed effort to clarify the LIBOR transition, a bipartisan group of Senate Banking Members [introduced legislation](#) dictating replacement rates for legacy contracts.

- **Powell Defends Fed's Institutional Legitimacy, Continuing Function as Nominations Stall** - Senate Banking hearing with Chairman Powell featured continuing partisan wrangling over stalled Fed nominations showed no sign of resolution after Republicans essentially forced Mr. Powell to concur that his powers to act pro tem ensured continuing central-bank function.

March 4

No news of note.

This Week

Tuesday, March 8

HFSC Hearing entitled: "The Inflation Equation: Corporate Profiteering, Supply Chain Bottlenecks, and COVID-19." [10:00am, 2128 RHOB] Witnesses not yet available.

Senate Banking Hearing entitled: "Examining Mandatory Arbitration in Financial Service Products." [10:00am, Dirksen Senate Office Building 538] Witnesses: **Mr. Paul Bland**, Executive Director, Public Justice; **Mr. Remington A. Gregg**, Counsel for Civil Justice and Consumer Rights, Public Citizen; **Professor Todd J. Zywicki**, George Mason University Foundation Professor of Law at George Mason University Antonin Scalia School of Law; **Professor Myriam Gilles**, Paul R. Verkuil Research Chair and Professor of 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](#).

- **[SANCTION16](#)**: In this report, we address many of the questions we've received about U.S. policy in the wake of Russia's invasion into Ukraine.
- **[GSE-022422](#)**: As noted late [yesterday](#), the CFPB has gotten a jump on FHFA and the banking agencies with the first step towards a long-delayed AVM rule demanded in the [Dodd-Frank Act](#).
- **[CRYPTO25](#)**: Despite fierce partisan fighting over pending Fed nominations, today's Senate Banking hearing on stablecoin regulation was considerably more bipartisan than last week's HFSC session ([see Client Report CRYPTO24](#)).
- **[GSE-021022](#)**: Moving far ahead of the banking agencies [Al](#), FHFA [today](#) released a series of supervisory AI/ML standards for Fannie, Freddie, and CSS, perhaps leaving the FHLBs alone

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because none so far does much within this arena or nobody cared.

- [**GSE-020922**](#): Continuing her very different vision of Fannie and Freddie, FHFA Acting Director Thompson [today](#) has released a new strategic plan for the agency emphasizing the importance of both equitable and sustainable housing finance.
- [**CRYPTO24**](#): Today's HFSC hearing on stablecoins makes it clear that the bipartisan legislation Chairwoman Waters (D-CA) prefers is at best a long way off.
- [**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**](#)).