FedFin Daily Briefing

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Hsu Urges Collaboration, Governance Efforts for Stablecoin, AI

In a statement today, Acting Comptroller Hsu confirmed his longstanding view that stablecoins require strong governance. Adding AI to this list of innovations that also need policy attention, Mr. Hsu also urged private standard-setting efforts such as those undertaken by the Internet Engineering Task Force and the World Wide Web Consortium. To achieve these objectives, he pushed for collaboration with crypto and Web3 firms as well as academics and government officials, underscoring the willingness of the OCC to engage in these efforts. In a separate podcast aired today, the Acting Comptroller also pointed out the complex financial-inclusion challenges presented by digital assets, noting that vulnerable consumers and investors are taking risks in part because other product offerings are insufficiently inclusive.

Study Finds Benefits to Central-Bank Reserve Sanctions

In a new research paper, the Federal Reserve Bank of Minneapolis' staff concludes that seizing reserves in the course of economic sanctions is warranted in "high-risk" scenarios in which the cost to the sanctioning country resulting from a debt default by the sanctioned nation is lower than the cost of the actions being sanctioned. This conclusion is derived from a simple economics model but it is of course very timely given ongoing debate about the extent to which central-bank reserves should be fully sanctioned as the Ukraine invasion continues and related geopolitical risks loom large. The paper notes that a full sanction on central-bank reserves costs creditors in the sanctioning country and thus has second-order effects, but these are minimal for the U.S. with regard to Russia when these are the two cases run through the model. Further, the model finds that a complete reserve freeze effectively limits or even terminates the sanctioned country's ability to issue more sovereign debt and thus finance the activities targeted by sanctions. As is the case with all models of this sort, its findings are based on assumptions that draw heavily from the current example but may not extrapolate well to nations other than the U.S. or to cases beyond Russia under current economic circumstances. The model does not address the implications of a sanctioning nation not only fully freezing central-bank reserves, but also using those on which it has a claim to fund activities that injure the sanctions target. Secretary Yellen last week indicated that going beyond sanctions to expropriation raises complex questions such as the extent to which allies would concur and whether congressional authorization is required to do so. The Justice Department yesterday indicated that it will need statutory authority before expropriating oligarch assets such as superyachts.

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.

- **CONSUMER42:** Today's HFSC hearing with CFPB Director Chopra plowed much ground broken yesterday before the Senate Banking Committee (see *Client Report* **CONSUMER40**), but several new furrows were also unearthed.
- **CONSUMER41:** Using what it describes as "dormant" authority, the CFPB is seeking comment on a rule setting the procedures under which it expands its authority to nonbank financial companies it believes pose consumer-protection risk.
- **CONSUMER40:** The Senate Banking Committee's hearing today with CFPB Director Chopra was a sharply partisan session with little immediate impact on what Mr. Chopra plans to do to achieve his

sweeping new vision.

- **GSE-042122:** In our last CRT analysis, we looked at transaction viability under the Basel IV rewrite set for rapid release once key Fed nominees are finally confirmed.

- **GSE-042022:** As we noted yesterday, the IMF's financial-stability report includes a searing assessment of fintech risk.

- **CBDC11:** As promised, we turn here to an in-depth analysis of a paper from global regulators on whether CBDC contributes to financial inclusion – one of the most vital arguments from those advocating CBDC in the U.S. and in many other nations.

- **GSE-041522:** Cementing her very different vision of Fannie and Freddie, Acting Director Thompson has now finalized a new strategic plan for the FHFA emphasizing the importance of both equitable and sustainable housing finance

- **CBDC11:** Progressive Democrats in the House have introduced an alternative digital-dollar proposal ("e-cash") to the "FedAccount" construct urged by Senate progressives that mandates an electronic currency created by the Treasury Department to devise an electronic substitute for physical fiat currency.

- **GSE-040722:** FHFA has finalized new capital rules for the GSEs designed to accelerate the credit-risk transfer the agency now deems essential for a fast-acting conservatorship exit.

- **SANCTION18:** As anticipated, today's HFSC hearing with Secretary Yellen largely focused on ways to sanction the Russian Federation and its allies and associates.

- **DEFI:** As promised, this report provides an in-depth analysis of IOSCO's new paper on decentralized finance, one sure to advance the FSB's efforts to bring DeFi systems under greater regulatory scrutiny due to the findings we here detail.

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