



FedFin Weekly Alert

Monday, May 23, 2022

❑ SEEING CBDC

When HFSC takes up digital assets later this week, its ostensible focus will be on whether the U.S. should have a CBDC. However, given distress across the virtual-currency landscape, the focus will surely be broader. Democrats will use the session to press hard for stablecoin standards, perhaps prompting Rep. Josh Gottheimer (D-NJ) to advance his draft before measures such as one pending from Sen. Toomey (R-PA) take precedence ([see FSM Report CRYPTO27](#)). House Republicans will surely press the CBDC principles they reiterated [last week](#) to argue that stablecoins should be given far more of a chance than Democrats think sound. We expect Members also to push and pull at the assumptions embedded in the Fed's discussion draft ([see FSM Report CBDC10](#)) and at the benefits CBDC might or might not provide to financial inclusion and for cutting big banks down to the size progressives prefer. Democrats will also urge speedy action in line with the Administration's strong preference for CBDC and Commerce's inquiry into its [international-competition impact](#). Nothing at this hearing or elsewhere in Congress will change the course of Fed action by virtue of new law, but much of what is said defines the political climate in which the Fed will make each of its CBDC decisions. We'll thus provide clients with an in-depth analysis of the session assessing not only what's said, but what it means about what's next for stablecoins and CBDC in the United States.

Headlines From the Past Week's Daily Briefings

May 16

- **When the Fed Goes from Whatever-It-Takes to Anything-We-Can-Think-Of** - The *Washington Post* included an article on all the ways in which inflation hurts middle-income [families](#), the acute shortage of [baby formula](#), and the [cooking-oil](#) shortage's cost impact in places ranging from a D.C. shop selling doughnuts to sub-Saharan Africa.
- **CFPB Warns Wayward Mortgage Servicers** - The CFPB released a [report](#) showing that only a relatively small number of homeowners – about 330,000 – are struggling with mortgage modification after forbearance ended late last year.
- **White House Recasts Old Housing Policy for New Political Problem** - Reflecting continuing political pressure from [rising costs](#), the White House announced what it calls new programs to increase housing supply in ways it says would lower costs.

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- **CFPB Takes to Circulars to Extend, Expand Jurisdiction** - Following up on his announcement ([see Client Report CONSUMER40](#)) that the CFPB plans to rewrite consumer-protection standards promulgated by other agencies, Director Chopra took the unusual step of describing processes by which the CFPB will determine key enforcement criteria via circulars to promote enforcement consistency and fair competition.

May 17

- **Chopra's Call for FDIC Insurance Revocation Gains Strength** - Although Republican Members of Congress last week sharply criticized Rohit Chopra's suggestion that FDIC coverage be denied banks that violate consumer-protection standards, the proposal has picked up [support](#) among at least some Democratic state legislators.
- **FDIC Advertising Rule Sets New Course for CFPB Fintech Enforcement** - The FDIC finalized its proposal ([see FSM Report DEPOSITINSURANCE112](#)) to increase the penalties when advertising or other actions mislead consumers as to the extent to which FDIC insurance covers deposits or deposit-like placements.
- **SEC Turns to Systemic Standards** - In [remarks](#), SEC Chairman Gensler expanded his campaign against market concentration related to payment-for-order flow to a broader set of systemic-risk concerns due to increased concentration of key securities-market infrastructure activities in a small number of very large firms.
- **Hsu Sounds Alarm re Risk Concentrations, Consumer Fragility** - In [remarks](#), SEC Chairman Gensler expanded his campaign against market concentration related to payment-for-order flow to a broader set of systemic-risk concerns due to increased concentration of key securities-market infrastructure activities in a small number of very large firms.

May 18

- **ILC Restrictions Hit Speedbump** - The House Financial Services Committee attempted to markup H.R. 5912 (Garcia, D-IL), a bill that would subject ILCs and their parent companies to BHC regulation ([see FSM Report ILC13](#)).
- **Barr Highlights Crypto Rules, Equity Ahead of Hearing** - Although we will provide clients with an in-depth assessment of his confirmation hearing, Michael Barr's [testimony](#) confirms that he will take a different approach to financial regulation than his predecessor, Randy Quarles.
- **Bill Requiring Cash Acceptance Reported to House** - The House Financial Services Committee reported H.R. 4395 (Payne, D-NJ), a bill that requires all businesses to accept cash payments for transactions under \$2000, by a vote of 32-17.

May 19

- **BIS Finds New Shadow Crypto Finance, Risks in Spotlight** - The BIS released a [paper](#) concluding that, while bank exposures in this high-risk sector are small in aggregate, digital assets nonetheless pose systemic risks.

- **Commerce Asks About CBDC, Payment System** - Following the direction of the President's digital asset executive order ([see Client Report CRYPTO26](#)), the Department of Commerce released a request for comment on enhancing US competitiveness in this sector.
- **Barr Breezes By** - Senate Banking confirmation hearing with Michael Barr showed the Fed vice-chair nominee in careful form likely to assure him confirmation despite strong GOP opposition.
- **CFPB Tells States to Flex Their Enforcement Muscles** - Turning again to actions outside the direct reach of public notice-and-comment requirements, the CFPB issued an interpretive rule essentially encouraging states to enforce federal consumer-protection standards.
- **Fed Finalizes FedNow Framework** - The Fed issued a final [rule](#) laying out the legal framework governing the FedNow instant payment service it is racing to roll out ([see FSM Report PAYMENT20](#)).

May 20

- **G7 Presses for Global Crypto Action** - Preoccupied though it was with Ukraine, the G7 ministerial [communiqué](#) advances and hones global work on digital assets. Most notably, it calls on the FSB to advance and implement comprehensive cryptoasset regulation.
- **Global Regulators Press for Harmonized, DeFi Cross-Border Payments** - The BIS and CPMI today issued to papers supporting their work to build out the cross-border payment system advocated by the FSB ([see FSM Report PAYMENT23](#)).

This Week

Tuesday, May 24

HFSC Subcommittee on Diversity and Inclusion Hearing entitled: "Diversity Includes Disability: Exploring Inequities in Financial Services for Persons with Disabilities, Including Those Newly Disabled Due to Long-Term COVID." [12:00 pm, 2128 Rayburn House Office Building]. Witnesses not yet available.

Wednesday, May 25

HFSC Subcommittee on Housing, Community Development and Insurance Hearing entitled: "Reauthorization and Reform of the National Flood Insurance Program." [12:00 pm, 2128 Rayburn House Office Building]. Witnesses not yet available.

SEC Sunshine Act Meeting. [1:00pm, webcast]. Matters to be considered: Proposing amendments to the Investment Company Act rule regarding misleading investment company names; 2. Proposing ESG amendments regarding disclosures to investors and to the Commission.

Senate Banking Subcommittee on Housing, Transportation, and Community Development Hearing entitled: "Examining the U.S. Department of Agriculture's Rural Housing Service." [2:30 pm, Dirksen Senate Office Building 538]. Witness: **The Honorable Xochitl Torres Small**, Under Secretary For Rural Development, U.S. Department of Agriculture.

Thursday, May 26

HFSC Hearing entitled: "Digital Assets and the Future of Finance: Examining the Benefits and Risks of a U.S. Central Bank Digital Currency." [12:00 pm, 2128 Rayburn House Office Building]. Witnesses not yet available.

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](#).

- **CRYPTO27**: Sharp disruptions in cryptoasset markets, and especially those for stablecoins, have energized calls for rapid U.S. statutory and regulatory action along lines initially laid out by the President's Working Group on Financial Markets (PWG). The most comprehensive stablecoin legislative proposal so far is the Stablecoin TRUST Act, a discussion draft released by Senate Banking Ranking Member Toomey (R-PA).
- **CRA32**: Following much talk about the need to update Community Reinvestment Act (CRA) rules since this was last done in 1995, federal banking agencies have finally agreed on a proposed redesign of standards essential to banks that wish to expand or acquire as well as those seeking strong community ties and the policy and political benefit these afford.
- **GSE-051622**: As we [noted](#) last week, the federal banking agencies sighed a mighty sigh and heaved up a massive inter-agency [proposal](#) rewriting decades-old standards detailing which activities earn the Community Reinvestment Act (CRA) points essential for any bank's strategic objectives and national reputation.
- **FSOC27**: With stablecoin markets even more distressed than earlier in the week, today's HFSC hearing with Secretary Yellen was even more emphatic than senators two days before on the need for action ([see Client Report FSOC26](#)).
- **FSOC26**: Today's Senate Banking Committee hearing with Secretary Yellen renewed calls for federal legislation based on recent algo-coin losses and resulting digital-currency market volatility.
- **SYSTEMIC93**: In this report, we assess the new Federal Reserve financial-stability [report](#).
- **CRA31**: The FDIC today led the way with release of a long-awaited inter-agency [proposal](#) updating decades-old CRA regulation.
- **CLIMATE13**: The FSB's report is aimed at establishing global standards that prevent fragmentation along national or regional lines as well as ensuring that regulatory and supervisory actions mitigate climate risk to the greatest extent possible in the face of an array of data and

measurement challenges.

- **[INTERCHANGE9](#)**: As anticipated, bankers and card networks squared off with merchants at today's Senate Judiciary hearing addressing credit-card interchange fees.
- **[GSE-042822](#)**: In this note, we expand on our analysis of the CFPB's new campaign against [nonbank financial institutions](#) to look more deeply at its impact on residential-mortgage finance.
- **[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.