



FedFin Daily Briefing

Friday, May 27, 2022

KC Fed: Advanced Nations Struggling to Find a CBDC Rationale

In concert with Vice Chair Brainard's testimony yesterday ([see Client Report CBDC13](#)), the Kansas City Fed released a [brief](#) assessing the reason advanced economies have so far been considerably more hesitant than emerging ones to craft retail focused CBDCs. By laying out how many advanced economies are at best lukewarm to CBDC, the brief's review illuminates reasons why the FRB is hesitant without directly addressing the U.S. The post looks at numerous CBDC rationales (e.g., financial inclusion, Payment-system speed) and differentiates them by major nations. One important factor for emerging markets (which here include China) is the benefits a CBDC affords to payment and banking systems that are largely cash dependent or include numerous points of banking friction. In contrast, advanced economies are largely studying CBDC without so far finding clear rationales for introducing them. Sweden is most advanced in work by its central bank to offer a CBDC in order to increase competition among existing digital payment systems that have largely replaced cash; Canada has already decided that a CBDC may not be necessary, although it is studying the issue in case one might be needed as are Japan and Norway. The paper also details recent decisions by the U.K. Parliament finding little benefit to a CBDC and guarded positions also in Australia and Singapore.

FRB-Cleveland: Post-1994 Bank Restructuring Improved LMI Inclusion

A new [study](#) from the Federal Reserve Bank of Cleveland offers perhaps the first literature survey of financial inclusion. It largely summarizes outstanding work, but notes that interstate banking following the Riegle-Neal Act of 1994 correlates with increased bank-branch density correlated in turn with a four percent increase in LMI household financial inclusion. This conclusion is interesting in light of the significant increase following the Act also in bank consolidation in light of continuing concern about "banking deserts" said to be due to M&A ([see FSM Report MERGER9](#)). The paper draws no conclusions about the Bank On project, postal banking, CBDC, or GPR cards, noting only that these might increase financial inclusion but that more study is required to reach any such conclusion.

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](#).

- [GSE-052722](#): FHFA has [finalized](#) its October [proposal](#) to create a new qualitative capital and governance disclosure regime, going well beyond the disclosures initially mandated in the final capital [rule](#) to instill market discipline long associated with private companies, not conservatorships.
- [CBDC13](#): Newly in place as Fed Vice Chair, Lael Brainard today made it clear at an HFSC full committee hearing that her prior statements laying out CBDC benefits are still her thinking despite the considerably more ambivalent approach outlined in the Fed's discussion draft ([see FSM Report CBDC10](#)).

- **[DEPOSITINSURANCE113](#)**: Using a new approach to issuing enforcement edicts – a circular – the CFPB has made use of its controversial decision to bring nonbanks under its ambit to bolster the FDIC's efforts to enhance consumer understanding of which funds are entrusted to FDIC-insured depositories and which may be at greater risk in other hands.
- **[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).
- **[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.