FedFin Daily Briefing

Wednesday, August 3, 2022

Senate Ag Crypto Bill Lauds CFTC, Faces Many Obstacles

As we anticipated as the crypto debate continues, the Senate Agriculture Committee has sought to claim jurisdiction with a new, bipartisan bill granting the CFTC broad regulatory, supervisory, and enforcement powers over most digital-asset platforms and the assets traded on them. Reportedly drafted by the CFTC, the bill will be introduced today by Committee Chair Stabenow (D-MI) and Ranking Member Boozman (R-AR) and go farther in favor of the CFTC than the sweeping Lummis-Gillibrand legislation (see FSM Report **CRYPTO28**). Key provisions in the Stabenow-Boozman bill would require all digital commodity platforms to register with the CFTC and adhere to its disclosure and investor protection standards. It also enables the CFTC to examine the racial, ethnic, and gender demographics of a platform's customer base to inform its future decision making. We expect action to advance the measure in the Agriculture Committee, but the measure stands little chance of enactment in part due to jurisdictional concerns by Senate Banking as well as concerns over the extent to which the CFTC would ensure effective investor and market protection.

ECB Study Favors CBDCs Over Private Crypto for Cross-Border Payments

A study released by the ECB today argues that CBDCs would be a cheaper, safer, and more effective vehicle for cross border payments for global transactions than privately-issued cryptoassets or stablecoins. Based on assessment of global, not just EU markets, the study thus has implications for those in the U.S. opposing a CBDC. It notes that, while cryptoassets and stablecoins achieve efficiency through an absence of intermediaries, its security, financial-stability, and monetary-sovereignty risks are grave. Additionally, the report warns of the implications of BigTech firms gaining undue market power across international borders, allowing them to store, use, and sell user payment data. However, an interlinked CBDC system preserves monetary sovereignty, maintains an open and competitive payments architecture, and combines technical simplicity with relatively cheap implementation. While the report clearly favors a CBDC, it does note that differences in legal frameworks, global account access, and the design of an efficient FX-conversion layer are remaining challenges.

FRB-Minneapolis Renews Attack on Big-Bank Capital Resilience

Renewing its attack on big-bank capital ratios, the Federal Reserve Bank of Minneapolis today released its own stress-test conclusions, reinforcing its president's longstanding view that the largest U.S. banks are woefully under-capitalized even though test results show considerable variance on a bank-by-bank basis as well as overall resilience. The new exercise allows users to run different scenarios on the twenty-two banks in this exercise or on individual institutions and to vary scenario criteria. The test also runs the current SCB and finds that limitations imposed by the new framework have a relatively small effects on aggregate capital-ratio declines under its stress tests, but the impact of this conclusion is difficult to assess because the methodology here is particularly unclear. Under the tests' own extreme-recession scenario, studied banks would lose $530 billion, but the banks on average would remain above their minimum six percent ratio although some fall well below this requirement and only a few would remain adequately capitalized. The rising-rate scenario is problematic for banks with large securities portfolios, such as custody banks; as we run the test, one custody bank maintains its capital adequacy and another falls well below it, but the test itself does not make clear what rising-rate scenario is used to reach this conclusion. All of the scenarios can be varied by an array of macroeconomic conditions also to reach very different results for the banks as a whole or individual institutions.

FRB Philadelphia President Touts Fintech's Financial Inclusion Potential

FRB Philadelphia President Patrick Harker today stated that fintech can increase financial inclusion, specifically citing buy-now pay-later products because they offer financial services to low- to moderate-income customers who would otherwise be locked out of traditional lending because they are more likely to be non-White, lower earning, and younger. Mr. Harker does not address the CFPB's concerns that BNPL has features that put these borrowers at considerable risk, although he does generally note that fintech can engender fraudulent transactions.

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.

- **LIBOR8:** Moving belatedly but now expeditiously to implement legislation governing legacy-contract benchmarks when there is no contractual fallback rate, the Fed has proposed a new framework for derivatives, consumer loans, certain GSE contracts, and any other legacy contracts without clear LIBOR-replacement provisions and a "determining person" to effectuate them.

- **GSE-072122:** We yesterday provided a complete assessment of Sandra Thompson's sojourn on HFSC's griddle, noting the lack of any insights into essential issues such as conservatorship's end or the full scope of CRT's new beginning.

- **GSE147:** At her first hearing as confirmed FHFA Director, Sandra Thompson made it clear to House Financial Services that she is committed to expanding credit-risk transfer (CRT), encouraging equitable finance via new GSE activities, and recapitalizing Fannie and Freddie as quickly as possible.

- **GSE-071922:** As noted earlier today, the Fed has finally brought forth its LIBOR-transition proposal specifying permissible benchmarks for legacy contracts without contractual fallback rates.

- **CRYPTO30:** As part of its response to the President's digital-asset executive order, the Department of the Treasury is seeking views on the broad policy questions on which it believes answers might guide the Administration's next steps.

- **GSE-070822:** A new Fed staff note contains startling statistics on how much the housing market has changed in just a few months at grave cost to lower income households.

- **CRYPTO29:** Global banking regulators are trying a new, but still stringent, approach to governing bank

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exposures to certain types of crypto assets, revising an initial consultation to focus more on supervisory limitations than on extremely punitive capital requirements for what are deemed to be lower risk cryptoassets.

- **CREDITCARD35:** Taking the first concrete action following its new policy on "junk fees," the CFPB has sought public comment on whether and how to govern credit-card late fees and broader practices related to late payments.

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