



# *FedFin Daily Briefing*

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Wednesday, September 7, 2022

## **Hsu Expands on Crypto, Climate, Merger, Systemic Actions**

Acting Comptroller Hsu today [made](#) it clear that – contrary to assertions from Sen. Warren (D-MA) and [others](#) – his decision not to rescind prior OCC crypto charters and related rulings does not mean the agency is taking anything other than a cautious approach to cryptoassets. He also indicated that the slow-down in interagency action is warranted as it gives officials time to understand recent shocks to this sector. He is very cautious about fintech-bigtech partnerships, noting that what was once simple “outsourcing” has become a web of intricate connections with third-party vendors that present significant supply-chain risks to banks without sufficient capacity to handle their own digital infrastructure. This poses an array of systemic risks also detailed in this talk, which also notes numerous supervisory efforts at the OCC to address this major concern. Mr. Hsu also again called for strengthening climate risk management, warning against climate scenario tests that borrow too heavily from capital stress testing and calling for a more flexible and wider-scope approach addressing the uncertain nature of climate risk. Mr. Hsu also indicated that he remains [concerned](#) that a super-regional merger could lead to sale to a GSIB that accelerates market concentration in the absence of additional resolution requirements, noting that the banking agencies and Department of Justice are working on revised merger guidelines without indicating if large deals will advance in the absence of a new policy. He also praised large banks for eliminating overdraft fees, highlighted pending CRA standards ([see FSM Report CRA32](#)), emphasized the importance of fair lending, and noted OCC efforts to assess structural impediments to economic equality without providing any details on specific action items.

## **New Brainard Position Suggests Fed CBDC Thinking Advances**

In addition to hawkish anti-inflation [remarks](#), Fed Vice Chair Brainard today appeared to back away from her prior comments espousing an expansive view of how a U.S. CBDC might work ([see Client Report CBDC13](#)). Now calling CBDC a “neutral settlement layer” affording additional stability and opposing a consumer-facing model. While this is a retreat for Ms. Brainard, her new position suggests that ongoing discussions within the Fed are centering on supporting a limited-purpose CBDC, a stand Govs. Waller and Bowman may still resist. The vice chair’s talk also made it even clearer that the Federal Reserve believes stablecoins and other cryptoassets require regulation along lines laid out late last year by the President’s Working Group ([see Client Report CRYPTO21](#)), although Ms. Brainard emphasized run-risk and thus the need for liquidity buffers. She also indicated that FedNow will go as live as initial stages permit between May and July of next year. Ms. Brainard’s comments reinforced the Fed’s “supply-driven” view of inflation, notably including for the first time a discussion of two areas – new cars and retail goods – where market power along lines emphasized by progressive Democrats may be heightening inflation pressures.

## **Barr Takes Stage With Bold Plans For Capital, Resolution, Mergers**

In his maiden [speech](#) today, Fed supervisory Vice Chair Michael Barr made several significant announcements. Reiterating the support for holistic capital regulation noted [during his confirmation](#), Mr. Barr confirmed that the Fed will undertake a sweeping review of standards to address unintended consequences without reducing capital requirements. The Board will also

begin action on the Basel “end-game” later this fall. Mr. Barr also seconded Acting Comptroller Hsu’s [concerns](#) about large-bank resolvability, confirming that an inquiry is under way with a new inter-agency policy likely to be released for public comment. This point intersected with Fed consideration of bank mergers and merger policy; here, Mr. Barr noted only that large transactions pose an array of competing concerns. Like Mr. Hsu earlier today, Mr. Barr confirmed that the agencies are working on merger-policy guidelines. However, Mr. Barr went farther, indicating that whatever is decided upon will be proposed for public comment and that the Fed has yet to determine the best form this policy should take. Mr. Barr will, however, say more about this shortly, suggesting that at least some guidance not only on policy, but also on large transactions, may be forthcoming.

Striking an equivocal stand, Mr. Barr sees many use-cases for CBDC but no urgency in crafting one. He also went beyond recent Fed crypto supervisory standards ([see FSM Report CRYPTO31](#)) to indicate that the agencies are working on broader guidance that will adopt the global “same-risk, same rules” standards when it comes to banks. Asked about the Fed’s ability to govern nonbanks, the Vice Chair observed its limitations beyond the scope of FSOC designations, which he supports in broad terms. The Fed will indeed join the OCC and FDIC to issue climate risk-management principles ([see FSM Report GREEN12](#)), with Mr. Barr here echoing Mr. Hsu’s comments earlier today opposing application of the capital stress-test model to climate risk. He did, though, say that capital stress testing must be “stressful,” here as throughout his remarks today avoiding specific issue with decisions made by Randy Quarles, his predecessor.

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### Recent Files Available for Downloading

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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](http://www.fedfin.com) or clients may obtain the reports/analyses by e-mailing [info@fedfin.com](mailto:info@fedfin.com) giving the requested item name, firm, and e-mail address. To learn more about *GSE Activity Reports*, click [here](#).

- [GSE-090722](#): Reinforcing the sharp turn-around in housing markets evident since the Fed surprised markets with its first 75 bps hike, a new working paper from the [San Francisco Fed](#) provides the first hard evidence of how monetary-policy shocks in the U.S. hit listing prices hard and fast.
- [GSE-090122](#): As seems always the case, FHFA Director Thompson is as good as her word to Congress earlier this [summer](#), announcing [yesterday](#) a review of the extent to which the Home Loan Banks and their System meet the mission assigned to them and, regardless, if that mission still makes sense.
- [GSE-083022](#): BofA’s new no-down payment [mortgage](#) is another innovative product in which banks use their balance sheets to address their CRA obligations by offering down payment assistance or, as here, flat out nothing down.
- [CRYPTO31](#): Reflecting the concerns voiced in a recent executive order from President Biden and a subsequent request for views from Treasury, the Federal Reserve has joined the OCC in demanding prior notice from banking organizations that wish to undertake cryptoasset activities.
- [GSE-082222](#): A new Federal Reserve Bank of Cleveland [study](#) validates forbearance as a mortgage-market buffer, reinforcing the likelihood that policymakers and servicers will turn quickly to it if current mortgage-market conditions turn ugly under the combined stress of higher rates and slow to no growth.

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- **[GSE-081922](#)**: We look here at an interesting [idea](#) from three senior Fannie Mae officials: an index to measure a Single-Family MBS's social impact.
- **[PAYMENT25](#)**: Following considerable controversy surrounding how Federal Reserve Banks grant master accounts, it has finalized a somewhat more explicit set of guidelines along lines proposed the second time the Fed attempted to set guidelines via a “supplemental” proposal earlier this year amending its 2021 effort.
- **[GSE-081722](#)**: [FHFA](#) and [Ginnie Mae](#) today let loose their long, long delayed standards for eligible seller-servicers.
- **[INFOSEC28](#)**: Using another of its tools to set policy without prior public comment, the CFPB has released a circular stating that inadequate consumer-data safeguards may constitute a breach of the unfair, deceptive, or abusive acts or practices (UDAAP) protection standards subject to Bureau enforcement action.
- **[FINTECH30](#)**: Continuing its practice of setting sweeping policy by administrative action without prior notice or comment, the CFPB has issued an interpretive rule sharply curtailing the extent to which digital advertising and market strategies are exempted from the legal and compliance obligations associated with most parties directly providing consumer financial products or services and those acting as servicers to these entities.
- **[GSE-081222](#)**: [FHFA](#), [Fannie](#), and [Freddie](#) yesterday released the results of FHFA's latest stress test, focusing on the severely-adverse scenario in order – or so FHFA says – to push the GSEs to the limit.
- **[INTERCHANGE10](#)**: Two senators have reopened questions about the manner in which card-related payments are handled, tackling those applicable to credit cards with a bill mandating that merchants must be given a network choice that is not either Visa or Mastercard in order to, the sponsors argue, increase competition and lower credit-card transaction costs.