Federal Financial Analytics, Inc.

MEMORANDUM

TO: Federal Financial Analytics Clients

FROM: Karen Petrou

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As our in-depth reports detailed, Treasury took the President's policy edicts to heart when crafting a new digital-finance policy for the U.S. Treasury could have ducked some hard decisions via laudatory rhetoric, but it chose instead to recommend specific policies that cut a new path to a U.S. CBDC and crypto regulation. Our reports detail key policy decisions and what's soon to be done with them, but one warrants even more immediate attention: Treasury's decision to adhere not just to the President's executive order on crypto-finance, but also to another on increasing financial sector competition. This puts banks on notice that not all have yet taken.

Overlooked in much analysis of Treasury's sweeping reports is its call to break up what Treasury clearly sees as the monopoly banks have long enjoyed over payment-system access. Treasury for example argues that many banks have exited retail remittances even though these are critical to financial inclusion and leaves the market ill-served. Indeed, it wants nonbanks to obtain overall instant-payment access, saying:

> Network effects support the adoption of instant payment systems: Widespread use makes it more likely that a payor can use an instant payment system to make a payment to a payee, increasing the system's value. ... Broadening the range of financial institutions that are eligible to participate in instant payment systems, as certain foreign jurisdictions have done, could help to enhance speed and efficiency, competition, and inclusion in payments, including for cross-border payments.

The problem with Treasury's call for payment-system network events achieved by way of open access is that open access could be a wild west if payment-system finality depends on entities exempt from all the rules that govern banks ensuring that their word is good and, if it isn't, then the Fed steps in. Treasury doesn't deal with this non-trivial risk, let alone counter it. Instead, it focuses largely on what might be gained – which is indeed a good deal – if the payment system served all those in need of payment services.

In the absence of a well-considered set of conditions for payment-system access, there are two near-term policy – and perhaps also political – implications to the link between payment-system access and a competitive, inclusive, efficient financial system.

First and for sure, the Fed will be under still more pressure to go farther than its ambivalent opening to nonbanks in the final version of its payment-system access standards. Will eligibility depend on bank-like rules or something better or worse? Who knows and, if even if the Board of Governors does, it's unclear if each of the Reserve Banks agrees.

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Second, the Justice Department might take another look at the extent to which the bank-owned competitor – RTP – to the Fed's someday-soon instant-payment system should be opened to nonbanks. The antitrust implications of bank-owned clearinghouses have long been settled in favor of the banks, but so was much else related to U.S. antitrust policy that is now radically revised by the White House, Justice Department, FTC, and even the CFPB. Certainty is the first casualty of this new competition campaign. Much else could crumple as it continues.