



FedFin Daily Briefing

Wednesday, October 5, 2022

GOP Demands AG's CBDC Ruling

HFSC Republicans today sent a [letter](#) to Attorney General Merrick Garland demanding a copy of the DoJ's assessment on whether legislation is necessary to issue a CBDC required and due on September 5 by the President's crypto executive order ([see Client Report CRYPTO26](#)). Citing both Congress' exclusive authority to coin money and Chairman Powell's ([see Client Report FEDERALRESERVE71](#)) and Vice Chair Brainard's ([see Client Report CBDC13](#)) ambiguous discussion of what constitutes CBDC "approval," the Republicans reiterate that the Fed does not have the authority to issue a CBDC under current law. They seek not only DoJ's legal opinion, but also any corresponding legislative proposal it may have by October 15. We would expect that Attorney General Garland's next visit to the House Judiciary Committee will hear questioning on CBDC should Republicans – as we would expect – fail to get their way via this letter.

Basel Blesses Counter-Cyclical Buffers

Following the FSB's [directive](#), the Basel Committee today issued a [newsletter](#) on counter-cyclical capital buffers (CCyBs) and a detailed [report](#) on capital and liquidity buffers. The FSB has posited that one reason for both bank resilience and pandemic-related credit shortages was the unwillingness of banks to dip into buffers. As we noted recently, Treasury Under Secretary Liang [praised](#) CCyBs and Basel's newsletter reaches the same conclusion. However, the detailed report finds that CCyB release had a weaker, albeit discernible, effect than express regulatory decisions to allow banks to use their capital buffers. The evidence on liquidity buffers is considerably less conclusive, although we would note that this is likely hard to discern because the initial dash-for-cash crisis, while a liquidity event, was quickly staunched by enormous amounts of central-bank intervention in most nations and especially in the U.S. The newsletter's CCyB support is based on findings that positive cycle-neutral CCyB rates can help address bank reluctance to cross regulatory buffer thresholds in times of stress, likely making banks more willing to use their capital to support lending when buffers are explicitly released. We would expect these findings in concert with Treasury's view to strengthen Vice Chair Brainard's longstanding belief in CCyBs and Fed efforts as soon as recession-risk eases to impose one. Basel's findings on capital buffers reinforce the Fed's decision to relax the SLR during the crisis, perhaps leading it to oppose further changes to the SLR not only because doing so is politically complex, but also because it eliminates a possible crisis-stabilization mechanism if the SLR is left at a lower level.

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](#).

- [CRYPTO33](#): In this report, we build on our [initial assessment](#) of FSOC's conclusion that cryptoassets now pose systemic risk and the Council's recommendations about what should be done to curtail it.
- [GSE-100422](#): Although one witness at the FHFA listening session on the Home Loan Banks took strong

issue with their mission and meaning, another who called them the “most successful program of the last hundred years” pretty much summed up today’s testimony.

- **GSE-100322:** Our take on the first two days of FHFA’s FHLB “listening session” last week is that battle lines are shaping up much as we expected with the exception of a couple of powerful groups with new ideas about how the System could be put to better use for themselves and/or the public interest.
- **MORTGAGE121:** The CFPB has asked for views on the extent to which it can facilitate certain refinancing (refi) products it believes enhance economic justice.
- **GSE-092622:** As will be evident in our forthcoming in-depth analysis, the CFPB’s fusillade [last week](#) on mortgage-finance could have far-reaching implications for the entire market based on how far it takes its new campaign for equitable housing finance and whether the market is willing to come along on at least some of the agency’s new ideas.
- **AML136:** Treasury is seeking comments on issues raised by the President’s executive order (EO) on digital assets to guide further work curbing illicit-finance and national-security risks in this sector.
- **REFORM213:** Senate Banking’s hearing with big-bank CEOs proved much more combative than HFSC’s session yesterday ([see Client Report REFORM212](#)).
- **GSE-092222:** In this report, we follow our earlier analysis of Treasury’s CBDC recommendations and [housing finance](#) with an analysis of another Treasury report in response the President’s [executive order](#) focused on the overall construct of cryptoassets in the U.S.
- **REFORM212:** At today’s big-bank oversight HFSC hearing, Committee Democrats focused on each bank’s progress on social issues, such as internal diversity, unionization, and historic roles in financing slavery.
- **GSE-092122:** In this analysis, we drill down in Treasury’s high-impact reports to the President on the future of digital assets to identify key considerations and strategic implications for housing finance.
- **CRYPTO32:** We follow our prior in-depth analysis of Treasury’s CBDC and payments report ([see Client Report CBDC14](#)) with a detailed assessment of the Department’s [assessment](#) of overall cryptoasset policy.
- **SANCTION19:** Today’s Senate Banking hearing on Russian sanctions showcased bipartisan concern that anti-Russian sanctions have yet to have meaningful impact and doubts about the extent to which oil-price caps will reverse this.
- **CBDC14:** In this in-depth report, we follow through as promised on our initial analysis of key sections in last Friday’s Treasury report on CBDC and changes to the payment system.
- **INVESTOR20:** The Senate Banking hearing with Chairman Gensler today went as [expected](#): Democrats generally praised his work while Republicans strongly opposed it on both substantive and procedural grounds.
- **INSURANCE61:** Chairman Brown (D-OH) convened a hearing today focused on the insurance industry largely focusing on the extent to which private-equity takeovers endanger insurance solvency and threaten pensioners following risk transfers.
- **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.