



# *FedFin Daily Briefing*

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Tuesday, October 11, 2022

## **FSB Slow-Walks Global Crypto Action**

As promised, the FSB [today](#) released preliminary recommendations for global cryptoasset regulation and questions for consultation. The FSB's overall findings differ from those of the U.S. FSOC ([see Client Report CRYPTO33](#)), failing to find systemic risk and instead focusing on data and analytical challenges regulators face in trying to assess it. The FSB does agree that cryptoassets need to be far better regulated, especially when it comes to identifying asset ownership and issuer accountability. The FSB also concludes that cryptoassets require "comprehensive cross-sectoral regulation," failing then to go on and say how best to do so. FedFin will shortly provide clients with an in-depth analysis of this paper and the questions it poses, with FSB planning to finalize a global regime by mid-2023, with comments due by December 15.

## **FSB Demurs on Crypto Systemic Risk**

In its latest [letter](#) to the G20, the FSB today leaves its prior global-risk [assessment](#) largely unchanged, but refines its action plan. This now includes a progress report on strengthening the resilience of non-bank financial intermediation to be released in November, with the Board giving no indication of what will be found re open-end funds, asset management, margining, CCPs, and its other priority concerns. In 2023, the FSB plans to release its final climate-disclosure standards and will focus its crypto-related work on improving data, operationalizing recommendations, and furthering policy work on DeFi and "implementation." The FSB also released today cryptoasset regulation recommendations, which we noted earlier and will analyze.

## **Hsu Hunts for Reasons to Tolerate Crypto**

In two speeches today, Acting Comptroller Hsu has [again reiterated](#) his concerns that cryptoassets pose an array of risks, a view of course echoing the FSOC's findings ([see Client Report CRYPTO33](#)) and those in recent Treasury reports ([see Client Report CBDC14](#) and [Client Report CRYPTO32](#)). Emphasizing Treasury's damning conclusion that cryptoassets have minimal – if any – useful purposes, the Acting Comptroller stated that financial stability is threatened by inter-connections with banking and called for significant improvements in data and monitoring on these points of possible contagion risk. Extending his views also to fintech, Mr. Hsu also argued against trying to bring crypto into the regulatory perimeter because of many opportunities for regulatory arbitrage. Instead, he wants to focus on regulating bank crypto exposures to reduce contagion risk, focusing initially on liquidity risk management with particular attention to stablecoins, finder activities, and custody. Inter-agency standards on the first two of these priorities is forthcoming and, Mr. Hsu says, likely to disappoint crypto firms; there is no indication of what may be in store for custody.

## **FRB KC: Better Data, Research Needed to Guide Payment Inclusion**

A new [research briefing](#) from the Federal Reserve Bank of Kansas City calls for more research and data collection on underserved populations excluded from the payment system as well as more systematic research into public and private payment inclusion initiatives. The briefing

reviews persistent payment inclusion barriers for LMI, minority, and rural communities, noting findings that initiatives to address these barriers such as pre-paid cards and fintech accounts have failed to attract and retain customers due to high fees and lack of digital access. It thus argues that a better understanding of underserved populations is necessary for successful payment-inclusion strategies. Significantly, it also argues that the unbanked rate is an inadequate proxy for payment inclusion because it overstates the extent of payment exclusion by failing to consider consumer adoption of nonbank transaction accounts such as PayPal, CashApp, and even crypto wallets. The briefing also calls for research evaluating past and current payment inclusion efforts such as the extent to which MDIs, CDFIs, and LICUs affect payment inclusion and overlap in their functions.

## HFSC Republicans Press Hsu on Bank-Fintech Partnerships

HFSC Ranking Member McHenry (R-NC) and four other House Republicans today sent a [letter](#) to Acting Comptroller Hsu demanding clarification on the OCC's treatment of bank-fintech partnerships. They do so on grounds that these partnerships promote financial inclusion, technological innovation, and competition. The letter poses numerous questions in areas such as regulatory scrutiny and burden, OCC staff technological expertise, and crisis risk, demanding answers by October 31.

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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](#).

- **[INTERCHANGE11](#)**: Leaving its interchange-fee restrictions intact – at least for now – the Federal Reserve has finalized its proposal expanding on its existing requirement that all debit- card transactions must be enabled for processing on at least two unaffiliated payment-card networks for card-not-present transactions.
- **[GSE-100622](#)**: FHA's [request for input](#) on small-dollar loans could mean much for this equality-essential product or little beyond a lot more public debate.
- **[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.