FedFin Daily Briefing

Wednesday, October 12, 2022

ECB Staff: Retail CBDC Success May Hang on Interest-Rate Inducements

A new paper from European Central Bank staff looks not so much at CBDC policy objectives, but at whether central banks can achieve them and still satisfy the needs of retail depositors and businesses. Based in part on two small, failed CBDC ventures, the paper concludes that CBDC adoption will prove harder than policy focused CBDC analyses suggest. It does not expressly include the Fed's discussion draft in the list of papers failing to consider this quasi-commercial consideration (see FSM Report **CBDC10**); we note that the draft in fact does not focus on whether retail depositors would be willing to overcome the frictions inherent in change to switch to CBDC and thus achieve the efficiencies the Fed acknowledges and CBDC advocates highlight. The ECB paper finds that adoption is more of an issue for central banks than depositors in that central banks have a complex set of policy objectives that may prove challenging to balance, with likely central-bank choices to advance as many policy objectives as possible likely to inhibit consumer adoptions. Given this, the paper ranks all the objectives cited by central bankers, government agencies, and academics to make clear how challenging it will prove to achieve them all with a retail CBDC, going on to challenge the assumption of immediate consumer adoption on grounds that core CBDC uses – e.g., physical-payment instrument equivalents, remote payments – are now well served by the banking system. Central banks would thus need to compete for adoption, which would likely prove difficult in the absence of interest-payment inducements also because central banks are not institutionally attuned to meeting consumer demand for payment-systems services. More of a research summary along with a statement of the authors' subjective views, the ECB staff analysis does not address policy concerns such as disintermediation or runs from bank deposits to CBDC other than to review research discussing them.

Barr Accepts Crypto Activities In Banks But Demands New Safety Rules, Consumer Standards

Although he did not adopt Acting Comptroller Hsu's attack yesterday on cryptoassets, Fed Vice Chair Barr today made it clear that the Fed believes, as it and global regulators repeatedly say, that the same risks should be covered by the same rules. Mr. Barr does believe that cryptoasset activities may be appropriate for banks if appropriate standards and internal controls are in place, noting that the Fed is now moving past its own supervisory guidance (see FSM Report **CRYPTO31**) to work with the FDIC and OCC to craft additional standards. Work so far has focused on liquidity-risk management, but the agencies are turning to regulating stablecoins, addressing the risk of tokenized bank liabilities (risks that may prove "insurmountable" in certain pending business plans), advancing customer "autonomy" (i.e., control over their own data along lines pending at the CFPB, and providing public-sector support for payment innovation (i.e., via FedNow). Mr. Barr also mentioned Fed CBDC work without giving any indication of where it stands beyond reiterating the need for Congressional and Administration "support" should the Fed decide to move forward.

IOSCO Releases Global Online Marketing, Enforcement Standards

IOSCO today increased its focus on digitalization, moving away from longstanding edicts regarding monitoring to a set of specific standards for supervision and enforcement. IOSCO urges supervisors to require firms to have online marketing-and-distribution standards as well as protocols governing online onboarding. In addition, management must bear the responsibility for accuracy in online marketing materials. Under an effort led by SEC staff, IOSCO's enforcement tool-kit includes proactive technology-based monitoring, powers to take action against illegal securities and derivatives activity on websites, and efforts addressing regulatory arbitrage.

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.

- **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.

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- **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.

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