FedFin Daily Briefing

Thursday, November 17, 2022

Warren, Durbin Demand Answers about FTX Collapse

Following FTX's collapse, Majority Whip Durbin (D-IL) and Sen. Warren (D-MA) sent a letter today to FTX founder Sam Bankman-Fried demanding a detailed accounting of the company's decisions and business practices. We doubt they will get an answer anytime soon, with this letter joining a flood of Congressional inquiries and likely hearings (see *Client Report* **REFORM215**). The letter seeks all FTX balance sheets dating back to 2019, all records of the firm's relationship with its affiliate fund Alameda Research, explanation for the reported $1.7 billion of missing customer funds, and complete copies of all of its AML/CFT and know-your-customer policies. It sets a deadline of November 28 for a response.

Jefferson Supports Limited Fed Mandate

In remarks today, FRB Gov. Phillip Jefferson disputes those – including many progressive Democrats – who believe that racial equity and economic equality are an intrinsic part of the Fed's mission. Specifically, he states that, while consumer protection, community development, and financial stability can promote inclusive growth, monetary policy cannot directly address it or why low-income households are more acutely affected by inflation. Gov. Jefferson then outlines the significance of financial participation to economic prosperity, noting how the unbanked have less financial security and less access to credit, leading to smaller financial safety nets and less economic opportunity. However, inclusion is also outside the mandate, he concludes.

Fed CBDC Survey Suggests Possible CBDC Upside

A new Fed literature review evaluating the macroeconomic implications of CBDC focuses on the financial inclusion and payment system impacts CBDC would have in the U.S. and advanced economies. As is usually the case with surveys, it reaches cautious conclusions, including that CBDC could increase financial inclusion for the unbanked. It might also reduce financial frictions in deposit markets, enhance retail payment-system efficiency, facilitate international transactions, and spur private-sector banking and payments innovation. However, risks include bank disintermediation and a resulting contraction in bank credit and increased financial instability. Expanded central-bank footprints could also carry significant implications for central bank balance sheet composition and thus monetary policy transmission. A remunerated CBDC is said to be more attractive funding and increase beneficial network effects, but could also increase bank funding costs and adversely affect bank lending.

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.

- **REFORM215:** HFSC today largely focused bank regulators on the same range of questions posed at yesterday's Senate Banking session (see *Client Report* **REFORM214**).

- **REFORM214:** At today's Senate Banking oversight hearing with the banking agencies, Chairman Brown (D-OH) generally applauded the work of regulators, emphasizing the need for tough standards, like-kind rules for bigtech companies, and an inquiry into why depositor interest rates lag Fed rate hikes along lines posed earlier by Sen. Reed (D-RI); FDIC Acting Chairman Gruenberg concurred, criticizing banks for sluggish rates.

- **TMARKET3:** Building on our initial assessment, this report goes in-depth into the Treasury assessment of the market for its obligations and reforms necessary to avert another dash for cash.

- **NBFI2:** As promised, this FedFin report provides an in-depth analysis of the FSB's latest policy on nonbank financial intermediation.

- **PAYMENT26:** Although the Fed characterized its final payment-system access guidelines as "transparent," FedFin's analysis and other assessments concluded that the Federal Reserve Banks retained considerable discretion to pick and choose those granted master accounts and there would be no ready way to identify which institutions had or lost this essential status for any provider of retail or wholesale deposit-taking services or their equivalent.

- **GSE-110822:** In its latest blast on racial equity, the Treasury Department's Office of Economic Policy has issued a blog post cataloguing racial disparities in residential-mortgage finance.

- **SYSTEMIC94:** As we noted Friday afternoon, the Federal Reserve then released its semi-annual financial-stability report in an effort not only to comply with its protocols, but likely also to attract as little attention as possible, with the release and even the report saying only as much about growing risk as the Fed thinks is essential to preserve its credibility.

- **GSE-110722:** In its latest financial-stability report, the Fed is at pains to provide dozens of pages of helpful data with the few systemic-risk conclusions the Board ventures couched in careful prose designed to assure critics that the Fed knows well what's going on without expressing any views that might suggest serious trouble looms or hint that any of what it surveys will alter the Fed's course in terms of monetary policy, regulatory actions, or systemic considerations.

- **DATA3:** Beginning a long-awaited rulemaking process on the extent to which consumers have rights to their own data and how these rights may be exercised, the CFPB is seeking views on an array of ideas and questions to guide future action.

- **OVERDRAFT11:** In conjunction with a Presidential speech and new White House initiative against "junk fees," the CFPB has accelerated its own efforts in this arena with two new policy directives.

- **GSE-102522:** As we noted yesterday, FHFA has decided not only to unbundle second and high-dollar loans from its flat-fee paradigm, but now to do the same for about one in five conventional conforming purchase loans outside these categories.

- **DEPOSITINSURANCE116:** The FDIC has finalized its proposal largely unchanged to raise base Deposit Insurance Fund (DIF) assessments by two basis points (bps) to replenish the DIF by the statutory deadline to reflect deposit inflows that the FDIC no longer expects to be temporary.

- **RESOLVE48:** The FRB and FDIC have moved beyond the resolution-planning requirements mandated in the Dodd-Frank Act then implemented over the years to what could be a new resolution regime for banking organizations considered category II or III companies under the inter-agency tailoring rules.

- **MERGER11:** As promised, this analysis focuses on the OCC and FRB approvals of the acquisition by

U.S. Bancorp of MUFG's Union Bank in California.

- **DEPOSITINSURANCE115:** The FDIC board today voted 3-0 to increase DIF assessment rates by 2bps, finalizing its proposal (see FSM Report **DEPOSITINSURANCE114**) and rejecting industry arguments on grounds that a small DIF premium increase now would make a more damaging procyclical assessment increase under adverse economic conditions less likely.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com