



# *FedFin Daily Briefing*

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Monday, November 28, 2022

## **Fed Staff Paper Counters CBDC First-Mover Arguments**

Supporting the Fed's decision not to move quickly on CBDC ([see FSM Report CBDC10](#)), a new Fed staff [paper](#) found little evidence of any national first-mover advantages, running counter to many lawmakers' concerns about the US falling behind China or Europe ([see Client Report CBDC13](#)). The paper argues that the speed of technological innovation, the ability of large economies to dictate technology standards, and the ability of subsequent movers to improve on the design of first movers minimizes any early advantages gained in international payments. It also reiterates the Fed's view that the dollar's position as the global reserve currency is not at risk, citing the slow nature of historical financial transitions. The study concludes that central banks should focus on exploring all technical designs and identifying risks rather than on timing their entry.

## **Basel Turns Focus To NBFi Interconnectedness, Leverage-Ratio Risk**

Continuing the global-regulatory focus on nonbank financial intermediation ([see Client Report NBFi2](#)), the Basel Committee last week [concluded](#) that continued NBFi sector growth poses financial-stability concerns and highlighted interconnectedness risks and inadequate management practices. Specific concerns center on due-diligence failures, margining practices, and limit frameworks. The Committee also identifies regulatory arbitrage regarding the leverage ratio, providing no explanation of what this might entail. Additional areas of concern include NBFi counterparty exposure through derivatives and securities financing, leveraged lending, prime brokerage, and cryptoasset services. Key bank risks stemming from these activities include counterparty-credit exposures, liquidity and often-opaque concentration risks when margin calls and asset fire sales induce sudden market stress. Though NBFi supervisory infrastructure is deemed sufficient, Basel will nonetheless focus on closing data gaps and understanding bank-NBFi interconnectedness.

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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](#).

- [CONSUMER44](#): Reviving what it calls "dormant" authority, the CFPB has finalized a proposed "procedural rule" expressly reiterating its right to govern an array of nonbanks and establishing procedures for making supervisory orders public.
- [GSE-112122](#): As came out into the open [last week](#), FSOC will finally turn to rewriting the Trump era [rewrite](#) of the Obama Administration's FSOC protocols regarding systemic financial institutions and activities.
- [FINTECH31](#): As [promised](#), this report provides an in-depth analysis of [Treasury's report and resulting recommendations](#) to the President's Competition Council on the impact of new nonbank consumer-

finance entrants from a competition, consumer-protection, and financial-stability perspective.

- **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.
- **NBF12:** 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.