FedFin Daily Briefing

Menendez Blasts FRB-Chicago Choice

[Continuing](#) his campaign for increased diversity and transparency at the Federal Reserve, Sen. Bob Menendez (D-NJ) issued a fiery statement criticizing the Federal Reserve Bank of Chicago's decision to name a non-Latino president. Sen. Menendez holds the Federal Reserve Board responsible for this lack of diversity, yet another indication that Democrats will join with Republicans in the next Congress to press redesign of Reserve Bank governance and [transparency](#).

Fed Revises PSR to Prepare for FedNow

The FRB today [finalized](#) changes to its Policy on Payment System Risk (PSR) to expand access to collateralized intraday credit. These reduce the administrative steps associated with requesting collateralized capacity, action the Fed says would improve intraday liquidity management and payment flows while also assisting the Reserve Banks managing intraday credit risk. The eligibility standards detail the circumstances under which an institution may remain eligible for uncollateralized capacity if its holding company or affiliate is assigned a low supervisory rating. Other changes modify the PSR to support FedNow's launch (i.e., by redefining business day). Changes germane to FedNow will go into effect at its launch; others are effective sixty days after *Federal Register* publication. Preparing for the eventual deployment of FedNow ([see FSM Report **PAYMENT20**](#)), the Board also proposes changes to its Overnight Overdraft policy to align it with a 24x7x365 payment environment. If finalized, the Overnight Overdraft policy would be incorporated as a new part of the FRB's overall PSR policy because of the close relationship between daylight and overnight overdrafts. Comments are due sixty days after *Federal Register* publication.

GOP Expands CBDC Attack to Project Hamilton

Readying an inquiry intended to block CBDC when the GOP takes over the house next year, Ranking Member McHenry (R-NC) and six other HFSC Republicans sent a [letter](#) to FRB Boston President Susan Collins demanding answers to allegations that private companies are abusing their work on Project Hamilton to position themselves for product sales to financial companies once a CBDC begins. The letter thus asks the Boston Fed to list firms engaged in this work and the extent to which it presents conflicts. Ms. Collins is also asked to respond to a Cato Institute [report](#) finding that over two thirds of the letters responding to the Fed's discussion draft ([see FSM Report **CBDC10**](#)) expressed concern about CBDCs. Rep. McHenry and others also note in the release announcing this letter that they remain concerned that CBDC would come to threaten U.S. privacy as it has clearly done in China. No deadline is given for a response.

Fed Finally Outs Climate-Risk Principles

As long anticipated and likely late on Friday in hopes of avoiding critical GOP scrutiny, the Federal Reserve Board today [released](#) proposed climate-risk principles. These are "high-level" as is also the case for global edicts in this contentious arena ([see FSM Report **CLIMATE14**](#)), also tracking the OCC's longstanding like-kind proposal ([see FSM Report **GREEN12**](#)). The Board's standards would thus cover only large banking organizations, here defined as those with over $100 billion in

assets. Even so, Gov. Waller opposed the proposal on grounds that climate risk has yet to mount to "serious" proportions and banks are resilient by virtue of stress testing. Gov. Bowman agreed to proposing the principals for comment, but she also noted concerns that added supervisory benefit may not be worth the cost of additional requirements. The final vote to issue the proposal was 6-1. We will shortly provide clients with an in-depth analysis of the NPR; comment on it is due sixty days after *Federal Register* publication. There is as yet no sign of a similar proposal from the FDIC.

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.

➢ **CRYPTO35:** In the first Congressional review of crypto since the collapse of FTX, Senate Agriculture leadership largely defended the bill they produced, S.4760.

➢ **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.

➢ **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.