



FedFin Daily Briefing

Monday, January 23, 2023

BIS: How Low Can Central-Bank Equity Go?

An historical examination of central-bank negative equity was published [last week](#) by the BIS. Doubtless undertaken as central banks such as the Fed record losses, the paper assesses how low central-bank equity can fall before it adversely affects confidence in fiat money. Noting as Karen Petrou's [book](#) does that money is a "social convention," the paper describes wide fiat-money acceptance depends in part on central-bank credibility based largely on the collapse of the Bank of Amsterdam in 1820. This has limited application to the Federal Reserve and other modern central banks in that the Bank of Amsterdam largely lacked fiscal backing and thus could not print money to rebuild equity. Still, the paper notes this challenge, countering that its model solves for this and then finding that central banks can maintain negative equity for extended periods of time but fiat-currency credibility suffers as equity drops when macroeconomic conditions are weak. In emerging economies, the loss of fiat-currency credibility is evident in dollarization; in advanced ones, it may be seen in what the paper calls "crypto-zation." While this is of course evident in the U.S., it occurred while central-bank equity was strong; further, fiat-currency credibility in the U.S. appears to be rebounding even as the Fed's losses mount. The paper explains this by noting the vital importance of fiscal backstops; in the U.S. this is evident by the Fed's ability to operate despite no longer sending funds to Treasury essentially by issuing IOUs accepted by the Treasury Department. Further, even with fiscal backing, the paper's model suggests that fiat-currency suffers in a rapid, precipitous fashion if central-bank credibility is severely impaired.

Bank Big-Bank Merger Opponent Joins Justice Antitrust

With Jeremy Kress now in place as senior counsel to Jonathan Kanter in the Department of Justice's Antitrust Division, it seems likely that pending big-bank mergers will get still more skeptical scrutiny. It is also possible that Mr. Kress was brought on to press Justice to finalize long-promised bank-merger guidelines that have been on hold since 2020 ([see Client Report MERGER5](#)). Mr. Kress is also a former colleague of Fed Vice Chairman Barr, who has indicated concern with larger-bank consolidation both [directly](#) and indirectly via the Fed/FDIC super-regional resolution proposal ([see FSM Report RESOLVE48](#)). Within government, it will be easier for Mr. Kress also to play a role in Fed decisions as well as in bank-merger guidance also long in the works at the Federal Reserve.

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](#).

- [GSE-012323](#): Under Director Thompson, FHFA's top policy priority is [equitable housing](#).
- [CONSUMER48](#): Building on its proposed nonbank registry related to enforcement orders, the CFPB is now also proposing a public registry requiring posting of provisions in consumer-finance contracts the agency believes threaten consumer legal or free-speech rights when issued by supervised nonbanks.
- [GSE-011923](#): We will shortly send clients an in-depth analysis of the CFPB's latest controversial [proposal](#) which would establish a public registry on which supervised nonbanks would file a lot of data on any form contracts they require which includes covered provisions the Bureau thinks unfairly and even dangerously lead consumers to abandon important protections.
- [CRYPTO38](#): Karen Petrou's [memo](#) earlier this week and her comments to the [American Banker](#) about Silvergate have sparked many client questions.
- [GSE-011123](#): As the Fed has hiked interest rates, mortgage rates have of course also gone up, sending a sudden chill through the residential market and putting home ownership even more out of reach for all but those for whom the home equity they still have after prices correct suffices for long-term wealth accumulation.
- [GSE-010523a](#): FHFA's latest [scorecard](#) for Fannie, Freddie, and CSS reiterates Director Thompson's overarching objectives for Fannie and Freddie in the new era of equitable finance, CRT, and capital compliance.
- [GSE-010523](#): As we previously [noted](#), the U.S. banking agencies will finally, finally, finally get around to proposing their version of the Basel IV capital rules more recently dubbed the "end-game" standards.
- [CRYPTO37](#): The Basel Committee has finalized its second try at global standards governing bank cryptoasset exposures, laying out a path that U.S. agencies plan quickly to implement even as Congress continues to wrestle with this fast-changing sector.
- [DEPOSITINSURANCE117](#): In the wake of increasing instances in which customers are confused and even misled about the extent to which fintech and cryptoasset holdings are insured deposits, the FDIC is proposing new standards addressing this problem as well as ways to modernize IDI representations of their own FDIC-insured offerings in branches and through the fast-changing array of retail banking delivery channels.
- [LIBOR9](#): Shortly before its statutory year-end deadline, the Federal Reserve finalized its proposal defining legacy-contract benchmarks when there is no clear, practicable contractual fallback rate.