



# *FedFin Client Report*

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Wednesday, March 8, 2022

## Red Light For Retail CBDC

Client Report: FEDERALRESERVE73

### Executive Summary

At today's HFSC hearing, Chairman Powell modulated his hawkish stance just a bit, continuing as he long has done to refuse to take a stand on fiscal policy while advocating for rapid debt-limit action. Pressed by Republicans for CBDC updates, the chairman today was the most specific of any Fed official to date, stating that a retail CBDC would require express Congressional authorization even though this may not be the case for a wholesale-focused instrument. As yesterday ([see Client Report FEDERALRESERVE72](#)), Republicans pushed hard against the Vice Chairman's holistic-capital [review](#), leading Mr. Powell to say that he hopes for Board consensus on both end-game rules and broader rewrites but cannot assure this will be the case despite the Board's consensus culture. Mr. Powell also reiterated that capital rules will be released for public comment and set to reflect bank risk without saying that all regional banks would be given less onerous capital requirements compared to those applied to GSIBs. He defended pending climate-risk scenarios as well, taking an equivocal stand on express capital charges for carbon-intensive ventures even though none is contemplated at the present time. Mr. Powell was also asked about Senate GOP [demands](#) that Vanguard and BlackRock be designated as BHCs due to their active-investment strategies as evident in ESG-focused proxy voting; Mr. Powell said only that he will need to look into this even though the Fed now appears to be doing so.

### Analysis

#### *Opening Statements*

Chairman McHenry (R-NC) focused Republican efforts on Vice Chair Barr's holistic capital review, denouncing what he called a lack of transparency and questioning its rationale if banks are well-capitalized, as Mr. Powell has often said. He also attacked the Fed's climate-related efforts, emphasizing that climate policy is the purview of Congress. Subcommittee Chairman Barr (R-KY) continued Mr. McHenry's focus on capital, calling on the Fed to consider the impact on U.S. global competitiveness. Ranking Member Waters (D-CA) highlighted the impact of inflation on the housing market and accused Republicans of doing too little to address the looming debt crisis.

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## Testimony

In an unusual move, Mr. Powell slightly altered his formal statement today from the one provided to Senate banking ([see Client Report FEDERALRESERVE72](#)), emphasizing doubtless in light of overnight markets that no rate-hike decision has been made.

## Q&A

- **Holistic Capital Review:** Chairman McHenry and Reps. Wagner (R-MO) and Meuser (R-PA) voiced concerned about the lack of transparency behind Vice Chair Barr's holistic capital review and asked if the review implies that the banking system is undercapitalized. Mr. Powell reiterated that he believes banks are well-capitalized and reassured members that Mr. Barr's review was typical of incoming Vice Chairs of Supervision and that any formal proposals to evaluate capital will be transparent and open to comment. Reps. Wagner and Williams (R-TX) also argued that raising capital requirements will limit lending; Mr. Powell emphasized the need to balance the cost and resilience benefits of capital. Rep. Barr (R-KY) asked the Chairman to commit not to implement capital changes or Basel endgame standards while there is considerable Board dissent. Mr. Powell did not commit but emphasized that he will do the most he can to build consensus. Rep. Scott (D-GA) asked Chairman Powell to clarify rumors that the banking agencies are looking to apply G-SIB capital rules to D-SIBs; Mr. Powell denied this.
- **CBDC:** Rep. Hill (R-AR) asked the Chairman if he still believes that a CBDC would need to be authorized by Congress. Mr. Powell replied that a retail CBDC would need formal authorization – as noted, a first. When asked by Mr. Hill under what circumstances a wholesale CBDC could be issued without Congressional authorization, Chairman Powell said it was a gray area which he would need to investigate. Rep. Lynch (D-MA) asked the Chairman when to expect CBDC updates; Mr. Powell replied that the Fed is still in the early stages of technology development but making steady progress. Rep. Lynch also asked if a CBDC would eliminate crypto, as the greenback did with private currencies. Mr. Powell noted that some stablecoins peg their value to dollar-based reserves and thus would coexist.
- **Crypto:** Rep. Hill asked the Chairman to reassert that he supports a broad framework for digital assets, specifically citing its regulatory certainty benefits to banks; Mr. Powell did so. Rep. Lynch asked Chairman Powell if crypto offered any payments benefits over FedNow; he replied that the advantage of FedNow is that it allows every bank to offer immediate instant payments services. Rep. Davidson (R-OH) voiced concern over Mr. Powell's comments yesterday that permissionless digital assets posed a systemic risk. Chairman Powell defended himself by saying that the Fed does not want regulation to neuter innovation and that permissionless blockchains have often been a vehicle for fraud.

- **Climate:** In response to Reps. Lucas (R-OK), Barr, Williams, and Norman (R-SC) voicing concern over the Fed wading into partisan politics on climate change, Chairman Powell stated that the Fed has a narrow role mostly regarding large bank supervision and will actively avoid becoming a climate regulator. Rep. Huizenga (R-MI) asked the Chairman to commit to opposing capital changes that punish capital allocation to carbon-intensive enterprises; Mr. Powell did not commit beyond saying that the Fed is not looking into such standards.
- **CFPB:** Reps. Luetkemeyer (R-MO) asked if the Fed has any authority over CFPB spending; the Chairman said no. Rep. Rose (R-TN) asked if the Fed has ever rejected a CFPB budget; Mr. Powell stated the Fed has not because it has no governance role in the Bureau. Rep. Norman asked if the CFPB has ever been below its statutory budget limit; Mr. Powell did not know.
- **China:** Rep. Luetkemeyer asked the Chairman if the Fed has started to think about the effects of sanctions should China invade Taiwan, to which the Chairman replied that sanctions are the purview of Congress. Reps. Luetkemeyer and Rose asked if there were any credible threats to the dollar's status as the global reserve currency, with Mr. Luetkemeyer citing actions by China and Russia to conduct international transactions without the dollar. Mr. Powell replied that he saw no viable reserve alternative to the dollar.
- **CRA:** Rep. Beatty (D-OH) and Norman asked the Chairman for updates on the CRA rewrite. Mr. Powell replied that, following Vice Chair Brainard's departure, he has asked Vice Chair Barr to take the lead and noted that the agencies are close to finalizing a rule without giving any specific timing.
- **Asset Managers as BHCs:** Rep. Huizenga asked the Chairman if the Fed is actively monitoring whether Vanguard and BlackRock are honoring their commitments in order to avoid being labeled as bank holding companies; Mr. Powell said he would have to check.
- **Repo Facility:** Rep. Davidson asked about the safety and soundness of the reserve repo facility; to which the Chairman committed to follow up as he ran out of time.
- **Protecting the Use of Cash:** Rep. Rose asked the Chairman to speak on the importance of protecting the use of cash; Mr. Powell replied that, while many people predominantly use credit cards, policy cannot ignore those that rely on cash.