FedFin Daily Briefing

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McHenry Highlights New PayPal Stablecoin, Legislative Progress

In response to PayPal's announcement this morning of a new payment stablecoin, HFSC Chairman McHenry today championed the new product, emphasizing that there has been bipartisan progress toward legislative action on his bill and touting strong state regulatory regimes such as New York's. This is the venue PayPal has selected in concert with working with Paxos Trust, also New York State licensed but a firm sanctioned this year for prior stablecoin activities. The new PayPal stablecoin reflects aspects of the McHenry bill by, for example, backing from a reserve account the firm says consists entirely of dollars, short-term Treasuries, and cash equivalents. The firm will also issue a monthly reserve-account balance backed by independent-third party attestation. Although PayPal is at pains today to emphasize that its new coin has been amply vetted with regulators who are comfortable with it, we expect federal and state regulators – especially the CFPB – to remain deeply concerned with an instant-payment network outside the regulated banking system subject to numerous potential conflicts and risks (e.g., those related to PayPal's crypto activities).

IMF: Fed Should Focus on Corporate-Bond Risk

A new study from the IMF on corporate bond shocks and commercial bank lending urges the Fed to limit its market maker of last resort function and focus future policy interventions on mitigating corporate-bond dealer vulnerabilities and increasing investment-fund resilience. It bases these recommendations on findings that corporate bond market shocks can generate significant contagion to the commercial banking sector that reduces bank lending and increases prices and that commercial banks cannot be expected to shore up corporate bond markets. The study is based on Call Report microdata and an extended vector autoregression model accounting for several commercial banking variables, which the authors also use to show that banks with high exposure to the corporate bond market reduce lending more aggressively than banks with low exposure.

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.

- **CAPITAL231:** In this report, we proceed from our assessment of the proposed regulatory capital framework to an analysis of the rules governing credit risk.
- **GSE-080323:** As we plow on with our in-depth analysis of the new capital proposal, we will continue to advise of key provisions in the massive rewrite with important implications for residential-mortgage finance.
- **CAPITAL230:** In this in-depth report, we begin our analysis of the 1089-page capital proposal released by the U.S. banking agencies not only to make U.S. standards more consistent with Basel's 2017 "end-game" rules, but also to correct failings in the current capital framework the agencies believed were laid bare by recent bank failures.
- **GSE-072823:** We've much more to do to determine the strategic and policy impact of the new credit-, market-, and operational-risk capital rules singly and collectively – a complex task given the 1,087-page

rulemaking made harder by some extremely-arcane language that may either mask what the agencies mean or differ from what they meant to mean.

- **CAPITAL229:** As promised, we plan in-depth coverage of the Fed and FDIC meetings tomorrow as well as of the capital rewrites they are set to propose no matter all the warning shots from Congressional Republicans.

- **MERGER12:** Building on a request for comment, the Department of Justice (DOJ) and Federal Trade Commission (FTC) have now proposed specific revisions to U.S. merger policy that significantly redirect the manner in which M&A transactions – even if only for minority positions – will be considered.

- **DEPOSITINSURANCE121:** In the wake of today's Senate Banking deposit-insurance reform hearing, it seems certain that there will be no legislation in the near term and most likely in this Congress to increase FDIC-insurance thresholds.

- **CLIMATE16:** As anticipated, Republicans continued their campaign against ESG at today's HFSC Financial Institution Subcommittee hearing on climate risks, reiterating arguments that a regulatory focus on climate risk signals financial institutions to cease lending to carbon intensive industries.

- **MMF20:** The SEC has significantly revised its proposed MMF-reform standards, eliminating a controversial swing-pricing approach to reduce first-mover advantage in favor of new redemption fees at institutional prime and tax-exempt funds.

- **GSE-071823:** Reuters is reporting today and other sources are echoing three regulatory sources saying that the impending capital rewrite will propose risk weighted assessments (RWAs) between 40 and 90%, up from the minimum 20 and 70% Basel standards.

- **GSE-071123:** As we detailed yesterday, FRB Vice Chair Barr laid out what he called a holistic view of bank capital standards that encompasses end-game rules, stress testing, post-SVB lessons, GSIB restrictions, and resolvability.

- **CAPITAL228:** FRB Vice Chairman Barr's speech today outlines near-term U.S. regulatory-capital policy, confirming our earlier assessment that a sweeping proposal will soon be released.

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