FedFin Daily Briefing

Monday, September 25, 2023

IMF Report: CBDC Designs Could Boost Financial Inclusion

On Friday, the IMF released a report concluding that a well-designed CBDC could foster financial inclusion and act as an entry point for the unbanked to the broader financial system. This will strengthen Democratic demands for a U.S. CBDC, but we expect GOP opposition to remain firm and the Fed's posture to retain its current focus on wholesale CBDCs. CBDC design features that can bolster inclusion include offline capabilities, accessibility without the need for a bank account, and availability on mobile phones. CBDCs also are found to have inclusion-boosting features that other tools may not provide, including being a credit-risk free form of digital money, fast settlement, and programmability. The report thus calls for CBDCs to be interoperable with existing payment infrastructure, allowing the un- and underbanked to access financial services such as formal savings, insurance, and credit. The report notes that CBDCs could foster money laundering or exacerbate financial exclusion if poorly designed, calling for further exploration of design features.

FRB-NY: Stablecoins, MMFs Have Same Dynamic Runs

An FRB New York study today concludes that stablecoin investors behaved similarly to MMF investors in numerous recent runs. Staff found that investors consider a stablecoin to have been effectively depegged once its price drops below $0.99 which triggers a run and mirrors the dynamics of MMFs "breaking the buck." Following the runs of Terra and USDC, stablecoin investors also exhibited flights to safety, with these flights to safety often occurring within the same blockchain, drawing a parallel with MMF flights to safety in the same fund complex. However, this result does not hold for smaller and riskier blockchains, suggesting that investors assess the risk of overall blockchains in addition to the individual assets they house.

Senate Dems Target SIFI Designation, Scenarios to Curb Climate Risk

Senator Warren (D-MA) along with Sens. Sanders (I-VT), Heinrich (D-NM), Markey (D-MA), Whitehouse (D-RI), and Merkley (D-OR) today released a letter dated last Wednesday to Treasury Secretary Yellen and Climate Counselor Zindler calling on the Department to significantly increase the urgency with which it targets climate-related financial risk. The senators urge FSOC to finalize and use its proposed analytic risk framework (see FSM Report **SYSTEMIC95**) and designation guidance (see FSM Report **SIFI35**) for nonbank SIFIs to curtail climate-related financial risk. They also call on the Department to develop higher quality climate scenario analysis exercises for banks, expand OFR climate data access, and align financial institutions with the net zero transition along the lines of last week's net zero transition guidance. Questions are posed regarding the Department's plan to meet the requirements of President Biden's climate risk order (see FSM Report **GREEN8**) and improve data transparency. Responses are requested by October 12.

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-092523:** In her Congressional testimony last week, FedFin managing partner Karen Petrou focused on the unintended consequences wrought by new banking proposal based on their cumulative impact.

- **GSE-092023:** Or maybe it is, but not everyone has heard.

- **LIVINGWILL23:** Although a pending FDIC/FRB proposal imposes a raft of new requirements for resolution plans from IDIs with over $100 billion in assets, the FDIC has also issued a freestanding proposal doing the same, also setting information-filing standards for IDIs below $100 billion but above $50 billion.

- **CAPITAL235:** With HFSC Chairman McHenry (R-NC) leading the way, GOP Members of the panel's Financial Institutions Subcommittee today blasted the banking agencies' end-game proposal (see *Client Report* **CAPITAL234**).

- **LIVINGWILL22:** In conjunction with proposing a new long-term debt (LTD) requirement for categories II, III, and IV banks, the Fed and FDIC are pursuing other ways to enhance resolvability.

- **TLAC9:** Building on an advance notice of proposed rulemaking, the banking agencies have issued several proposals to enhance the resolvability of large banking organizations not covered by stringent GSIB standards.

- **GSE-083123:** As we noted yesterday, the global banking, securities, and insurance regulators who comprise the Financial Stability Board (FSB) are heading back to look again at securitization to see if the post-08 framework it crafted still works.

- **GSIB22:** As anticipated in the wake of recent bank failures, the FRB has proposed a significant revision to the current rules calculating systemic-risk scores that lead to GSIB designation.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com