FedFin Daily Briefing

Friday, October 6, 2023

Chopra Has Big Plans for Payments

Likely assuming the coast is clear after the Supreme Court seemed reluctant to undo its charter earlier this week, CFPB Director Chopra today announced a series of steps designed to give the Bureau considerably more control over the payment system. First, the agency plans to issue supplemental orders to "certain" bigtech companies – doubtless PayPal – to ascertain stablecoin plans and how this affects consumer data. The Bureau will also explore whether it should provide additional guidance to market participants on the applicability of the Electronic Funds Transfer Act to virtual currencies as well as its authority to supervise nonbanks operating consumer payments platforms, here looking in particular at entities providing payment services to large banks on grounds that the Bureau has authority over key service providers. Mr. Chopra also called for FSOC to designate stablecoins as a potentially systemic payments, clearing, and settlement activity. The Bureau is also considering providing guidance on whether credit-card rewards should be considered funds. The agency will also release its data privacy rule later this month, building on the outline released in October (see FSM Report **DATA3**).

Waller Still Sees Little Need for CBDC

Governor Waller today continued his skeptical CBDC stance, noting that Fed work on the product is largely motivated by preparedness concerns. Nonetheless, any US CBDC will be two-tier with direct retail CBDC requiring Fed master account access not permitted under current law. Mr. Waller also strongly disputed claims that CBDCs such as those in China pose a threat to the US dollar and countered suggestions that FedNow is a CBDC-precursor, emphasizing that its primary purpose is to speed payments. Countering suggestions earlier in the program that FedNow is flailing, the Fed governor said that bank take-up of FedNow will increase as the requisite infrastructure is developed, somewhat countering optimistic Fed assertions earlier this year that FedNow is up and running. Gov. Waller also questioned private stablecoin business-model viability, highlighting the low spreads associated with sufficiently liquid products and noting that few banks are interested in stablecoins. Separately, he noted that nonbank stablecoins face run-risks akin to MMFs and could someday pose financial stability risks, but did not elaborate on these concerns. Gov. Waller also defended banks and the current payments system on grounds that customers already have sufficient choice and flexibility to change accounts, implying that lagging rates on demand deposits are fair because these accounts offer services in lieu of interest.

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.

- **REFORM228:** As we noted yesterday, the Basel Committee's October meeting concluded not only with plans for new disclosure consultations, but also a report on lessons learned from the 2023 crisis.
- **GSE-100223:** As we noted earlier today, the FRB has issued a seemingly technical FAQ liberalizing the treatment of certain credit-linked notes.
- **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.

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