



FedFin Client Report

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Fed Comes Under Heightened Political Pressure

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Executive Summary

As we [expected](#), today's Senate Banking session with Chairman Powell is a preview of broader national debate ahead of the midterm election. Democrats generally sought to emphasize their understanding of inflation's costs without lambasting the Fed and, indirectly, the Biden Administration. Still, Sens. Ossoff (D-GA) and Warnock (D-GA) pressed Mr. Powell on the Fed's failure to begin to tighten last summer. Republicans were strongly united in lambasting the central bank and White House, forcing Mr. Powell to stress the Fed's commitment to fighting inflation without conceding prior mistakes or the prospect of an imminent recession. With Mr. Powell now confirmed and macroeconomic stress so acute, it seems likely that the Fed will face increasing political challenges to its credibility from both sides of the aisle, with Sen. Rounds (R-SD) suggesting it would come to be the White House "fall guy." This report addresses other matters before the committee, which include Chairman Brown's (D-OH) call ahead of stress-test results that the Fed stay tough on the biggest banks to ensure resilience and GOP criticism of the central bank's stand on master accounts and, more generally, Congressional accountability.

Analysis

Opening Statements

Chairman Brown emphasized that Congress must keep an eye on big banks to watch for excessive risk taking as inflation continues. He also argued that bank mergers must benefit the community and not just shareholders, alleged that banks collect billions in overdraft fees, and highlighted the importance of a strong payment system to ensure average Americans are not forced to turn to unregulated finance.

Sitting in for Ranking Member Toomey (R-PA), Sen. Tillis (R-NC) criticized the Reserve banks for blocking requests for information by Congress and called for the Fed to be subject to the Freedom of Information Act in addition to making the Presidents of the Reserve banks appointed by the White House and confirmed by the Senate.

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Testimony

Chairman Powell's [testimony](#) was brief, emphasizing the importance of fighting inflation, a hope that doing so will not lead to a hard landing, and expressing a strong commitment to tough policy despite the potential for continuing surprises.

Q&A

- **Digital Assets:** Sen. Lummis (R-WY), citing an SEC bulletin that defines digital assets as on-balance sheet liabilities and a Basel decision to consider them off-balance sheet, asked the Chairman if he thought that the US imposing bank standards beyond international levels was appropriate. Mr. Powell could not give an answer at this time, but confirmed the Fed is working on this issue. Sen. Sinema (D-AZ) asked if the Fed is tracking cryptoasset markets; the Fed is doing so and stands by calls for tougher regulation. Sen. Brown concluded by asking what the Fed's role in crypto regulation would be if Congress failed to act. Mr. Powell stated that the Fed has some authority over bank crypto activity but noted the importance of clarifying regulatory jurisdiction.
- **Master Accounts:** Referencing a provision in her bill ([see FSM Report CRYPTO28](#)) to require the Fed to grant master accounts to all eligible institutions, Sen. Lummis asked the Fed to for a list of institutions with Fed master accounts and institutions that applied but were rejected. Mr. Powell responded that the reserve banks make these decisions, but the Fed is considering a new system in its pending proposal ([see FSM Report PAYMENT24](#)). Sen. Tillis added that he will submit questions about master accounts and other transparency concerns for the record.
- **Basel G-SIB Score:** Sen. Rounds asked Mr. Powell if the recent Basel [decision](#) to recalculate G-SIB scores in the EU disadvantaged American banks; the Chairman said no because this decision affects only transactions across national borders within the EU.