



Wednesday, April 2, 2025

ECB: Geopolitical Risk Threatens Bank Solvency

Joining a recent BIS [study](#), the European Central Bank yesterday [released](#) a study also finding that geopolitical risk has negative implications for bank solvency. Looking at 120 years of data, macroprudential risks are found to result from reduced economic activity, higher inflation, elevated sovereign risk, and capital-flow and asset-price disruptions, all of which are nonlinear risks to bank solvency. The paper notes that microprudential standards do not suffice for major geopolitical shocks, but macroprud standards such as counter-cyclical capital buffers may provide safety nets. We would note that it is hard to see how a buffer meant for business counter-cyclicality would be sufficient in an extreme geopolitical scenario. The paper's analysis also models geopolitical risk in relation to bank capital without appearing to account for crisis-related interventions such as the massive interjection of liquidity into the banking system following 9/11 (the last severe geopolitical risk incident).

Marathon HFSC Mark-Up Advances Revised Stablecoin Bill

As we write this, the HFSC stablecoin mark-up is proceeding very, very slowly, with Democrats clearly being as obstructionist as possible to create a stronger incentive for Republicans to work more closely with them on must-pass bills at least some Democrats will come to support. The thinking appears to be that, if this Democratic support comes easily, then Republicans will make only modest concessions that could be broadened if Democrats all agree to delay final action without more concessions. As we noted ([see FSM Report CRYPTO51](#)), the STABLE Act as introduced by Reps. Hill (R-AR), Steil (R-WI), and twelve Republicans also had three Democratic cosponsors and thus reflected at least some Democratic concerns in areas such as allowing payment stablecoins to pay interest or creating a separate state-regulatory framework.

Several amendments today tried to narrow the scope of these compromises, with Rep. Garcia (D-TX) seeking to bar sign-up bonuses in addition to the bill's restriction on paying interest or offering yield; this amendment was not substantively discussed and is likely to be defeated, but may well reappear in floor deliberations. Reps. Sherman (D-CA), Foster (D-IL), and Lynch (D-MA) all sought to tighten the anti-bailout language, which as we noted included several ways federal support might still be provided to stablecoin issuers. Reps. Hill and Steil agreed to work with Democrats on this issue as well as with Rep. Greg Meeks (D-NY) when it comes to giving host-state regulators greater authority over out-of-state issuers. Chair Hill also committed to work with Rep. Foster who urged that eligible demand deposits could be no more than \$250,000, because he does not think stablecoins should be backed by uninsured-funds.

The most contentious issue during the mark-up was the extent to which the bill permits the mixing of banking and commerce; as our analysis makes clear, the bill as introduced and likely reported governs only issuer activities, not those also of owners. Ranking Member Waters (D-CA) and panel Democrats pressed hard for stronger limits not only to address concerns they share with many banks, but also because they believe that President Trump's family business activities create grave conflicts of interest. While refusing to concede on the President's ownership interests, Chair Hill did seem open to considering at least some additional parent-company restrictions in either this bill when it comes to the floor or when HFSC takes up additional legislation defining federal regulation over all forms of digital assets.

At this point, Democrats are still forcing Republicans and their colleagues to go slowly through at least twenty more amendments. At some point, they will finish and then all the voice votes rejecting what they requested

will proceed through a lengthy series of recorded votes tonight or even tomorrow. The panel must also approve the final bill. Key changes in the amendment in the nature of a substitute include clearer coverage by sanctions requirements, new provisions elaborating on how stablecoin issuers will be subject to the BSA while allowing for exemptions and tailoring, and an express indication that the bill takes no stand on stablecoin payment-system access, presumably leaving this to the Fed.

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](#).

- **REFORM237**: In a series of [letters](#) to federal financial regulators, HFSC Chair Hill and varying groups of GOP-only Members today sent a barrage of demands to federal financial regulators jointly and singly.
- **CRYPTO51**: The chair of the House Financial Services Committee, Rep. French Hill (R-AR), the Digital Asset Subcommittee's chair, Rep. Bryan Steil (R-WI), eight other Republicans and three Democrats have introduced House legislation to create a long-awaited federal framework for dollar-denominated payment stablecoins.
- **PAYMENT37**: As [noted](#), the President yesterday issued two executive orders demanding significant change to the federal payment system
- **GSE-032425**: In this report, we do our damndest to make sense of what's been wrought at Fannie, Freddie, and FHFA in the few days since Bill Pulte took charge and Treasury Secretary Bessent [mused](#) about folding the GSEs into the sovereign wealth fund.
- **GSE-031725**: An intriguing op-ed in today's *Financial Times* [posits](#) a solution to the GSE-privatization problem: including them in the sovereign wealth fund (SWF) already being established by the White House.
- **CRYPTO50**: Working off a revised version of the Hagerty GENIUS Act ([see FSM Report CRYPTO48](#)) and a managers' amendment reducing partisan differences, the Senate Banking Committee today reported S.919 by a vote of 18-6 over strong objections from Ranking Member Warren (D-MA).
- **CBDC15**: Following President Trump's strong opposition to a U.S. central bank digital currency (CBDC), House Republicans have begun work to block any future efforts by the Federal Reserve to establish one even though the Fed for now has decided against pursuing a CBDC.
- **CRYPTO49**: At today's HFSC hearing on stablecoins and CBDC, Chairman Hill (R-AR) framed the discussion as a guide to further changes to draft stablecoin legislation, while Ranking Member Waters (D-CA) made clear that she and other Democrats are not ready to support a bill that is materially different than the framework negotiated with former-HFSC Chair McHenry.
- **DEBANKING4**: Senate Banking Committee Chair Tim Scott (R-SC) has brought all his panel's Republicans to support legislation barring federal banking agencies from making regulatory or supervisory judgments based on reputational-risk considerations.
- **FEDERALRESERVE81**: At its first hearing, the HFSC task force covering the Federal Reserve and Treasury reviewed an array of issues instead of focusing on key policy issues the panel might address legislatively.