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Washington, DC 20515

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May 18, 2022

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue NW
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Chairman Powell:

We appreciate the Federal Reserve's (Fed) work on a U.S. Central Bank Digital Currency (CBDC) and the issues raised by its discussion paper, "*Money and Payments: The U.S. Dollar in the Age of Digital Transformation*."[1] As the Fed considers its next steps, we believe it is necessary to first understand the problems a CBDC would solve. Moreover, we believe the Fed should understand whether the benefits of a CBDC outweigh the risks to commercial banks, the existing payments system, and consumers. Last year, Committee Republicans released a set of principles to guide our review of a potential CBDC. These principles coalesce around many of the questions to which the Fed is seeking comment. As the Fed moves forward, we believe it should focus on the issues outlined below.

1. *Identifying the inefficiencies in the U.S. payment system, and whether a CBDC solves them, including whether a CBDC increases greater access to banking services for traditionally unbanked and underbanked communities.*

In its paper, the Fed suggests that a CBDC could provide a safe, digital payment option for households and businesses, particularly as the payments system continues to evolve and results in faster payments across national borders.[2] However, the paper fails to identify the current payment system inefficiencies a CBDC will address. We believe the Fed should first identify the challenges presented by the current payment system infrastructure and whether those challenges are best addressed by a CBDC. Separately, the Fed should analyze the intended scope of uses and potential users of a CBDC, including any barriers preventing prospective users from access and intended use. The analysis should also include a comparison of a CBDC to the forthcoming FedNow Service and the current and anticipated private sector payment mechanisms.

In a speech delivered earlier this year, Vice Chair Lael Brainard discussed critical changes and advancements within the U.S. financial system. These advancements are largely a result of private sector innovation. Specifically, Vice Chair Brainard emphasized that "some of these innovations hold considerable promise to reduce transaction costs and frictions, increase

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[1] *Money and Payments: The U.S. Dollar in the Age of Digital Transformation,* Federal Reserve Discussion Paper, (Jan. 20, 2022) *available at* https://www.federalreserve.gov/newsevents/pressreleases/other20220120a.htm.
[2] *Id.*

competition, and improve financial inclusion."[3] As part of the Fed's next steps, it should closely examine how a CBDC removes inefficiencies in cross-border payments and understand how these solutions compare to existing and anticipated alternatives.

Separately, some stakeholders have advocated for the Fed to issue a CBDC to foster greater financial inclusion in the United States. To that end, the paper alludes to the difficulties unbanked individuals may experience paying minimum balance fees or distrust of banking institutions so much so, they avoid them altogether. However, it is unclear how a CBDC solves this problem.

As the paper acknowledges, the share of unbanked individuals has recently declined in the United States and without a CBDC. Moreover, the share of adults without a smartphone is nearly three times higher than the unbanked rate for U.S. households.[4] Please explain how a CBDC would increase financial inclusion. We are particularly interested in how financial inclusion would be broadened given the current levels of technological adoption and the outlays required by individuals to use a CBDC.

2. *Private Sector Must Lead the Way in Innovation*

The Fed has historically supported responsible private sector innovation. Future digital currency policies must continue to promote private sector innovation and foster competition. Potential regulations for emerging payment technology should seek to target the specific uses and activities and mitigate discrete, identified potential risks. Policies should not disallow or regulate the underlying technology.

Committee Republicans believe stablecoins, if issued under a clear regulatory framework, hold promise as a potential cornerstone of a modern payment system. Transacting in stablecoins has the potential to be a more efficient, faster, and less expensive payment option than what currently exists. These benefits would extend to the very consumers and small businesses a CBDC purports to help. Thus, we request the Fed provide a detailed analysis on any potential impact to the stablecoin market of a CBDC. The analysis should cite to any impact on competition and innovation that may result from a CBDC. This information will help Congress evaluate whether a CBDC and privately issued stablecoins can coexist within the payment system and ensure that innovation within our payments system continues apace.

3. *Impact on Monetary Policy Implementation and the Role of the Federal Reserve*

The Fed ensures that the United States has a safe, flexible, and stable financial system. As noted in the paper, a CBDC could impact monetary policy and interest rate control by altering the supply of reserves in the banking system and the long-term size of the balance sheet. A CBDC could also impact credit markets and involve the Fed in products and services that are traditionally reserved for retail banking institutions. Furthermore, expanding central bank activity

[3] *Preparing for the Financial System of the Future,* Federal Reserve Vice Chair Lael Brainard, (Feb. 18, 2022) *available at* https://www.federalreserve.gov/newsevents/speech/brainard20220218a.htm.
[4] Pew Research Center: Mobile Fact Sheet (Apr. 7, 2021), *available at* https://www.pewresearch.org/internet/fact-sheet/mobile/.

into retail banking is likely to result in increased politization of the Fed. This in turn raises serious concerns with respect to the Fed's ability to effectively perform its monetary and regulatory functions.

We request a detailed analysis on the possible impact of a CBDC on the Fed's monetary policy tools and decision-making. The analysis should evaluate whether a CBDC could result in adverse unintended consequences for monetary policy implementation; assess whether a CBDC facilitates the use of unconventional monetary policy tools (including negative interest rates) that the Fed has previously rejected or require a balance sheet that is politically unsustainable. We also request that the Fed examine any implications for financial stability through bank runs that may result from transfers of commercial bank deposits into CBDC accounts, as referenced in the paper.

4. *Ensure Privacy and Security*

The paper states "the analysis [completed] to date suggests that a potential U.S. CBDC, if one were created, would best serve the needs of the United States by being privacy-protected, intermediated, widely transferable, and identity-verified."[5] The Fed has acknowledged that ensuring adequate security for a CBDC would be challenging. Further examination is needed regarding how the Fed will balance privacy rights and transparency, particularly as it relates to deterring criminal activity and when anti-money laundering concerns are present. It is critical that we fully understand the potential impact a digital currency will have on Americans' civil liberties and privacy rights before any legislative action is considered.

Chair Powell, we understand this is the first step in an extensive discussion with Congress, the public, and other stakeholders. We look forward to continuing to work with you as Congress contemplates both the risks and benefits of a potential CBDC.

Sincerely,

Patrick McHenry
Ranking Member
Committee on Financial Services

Ann Wagner
Vice Ranking Member
Committee on Financial Services

[5] *See* Federal Reserve Discussion Paper, Money and Payments: The U.S. Dollar in the Age of Digital Transformation, supra note 1.

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cc: The Honorable Lael Brainard, Vice Chair, Federal Reserve
The Honorable Michelle W. Bowman, Governor, Federal Reserve
The Honorable Christopher J. Waller, Governor, Federal Reserve