U.S. Chamber of Commerce

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The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street & Constitution Ave., NW
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Chair Powell:

The U.S. Chamber of Commerce appreciates the opportunity to comment on the Federal Reserve Board's discussion paper on *"Money and Payments: The U.S. Dollar in the Age of Digital Transformation."* The discussion paper examines the pros and cons of a potential U.S. central bank digital currency, or CBDC, and the Federal Reserve Board invites comments from the public on how a CBDC could improve the safe and effective domestic payments system.

The Chamber does not offer an opinion for whether the Federal Reserve should issue a U.S. CBDC. We have long respected and advocated to protect the independence of the Federal Reserve's role in implementing monetary policy. The purpose of our comments is to provide the perspective of the broader business community as the Federal Reserve weighs the implications of a U.S. CBDC for the payments system and global economy.

It is important the Federal Reserve continues its deliberative approach, including consulting with the private sector, in determining whether it is appropriate to issue a U.S. CBDC. The discussion paper correctly recognizes the potential for far-reaching consequences if the Federal Reserve were to issue a U.S. CBDC. The decision would likely affect every U.S. citizen, U.S. businesses, and stakeholders around the globe given the Federal Reserve's central role in the global financial system and the status of the U.S. dollar as the world's reserve currency.

We appreciate that the discussion paper recognizes the role of elected officials in this process. The discussion paper notes, *"The Federal Reserve does not intend to proceed with issuance of a CBDC without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law."* Congress, and the President, could not have contemplated a digital currency in any form when the Federal Reserve Act was signed into law in 1913. The consent of elected officials, including Congress and the President, is critical to ensuring the long-term longevity of any digital currency that may be issued by the Federal Reserve.

We hope the Federal Reserve will carefully weigh the history of the private sector in payments innovation and the potential consequences to our financial system if the Federal Reserve issues a U.S. CBDC. The discussion paper rightly notes *"A crucial test for a potential CBDC is whether it would prove superior to other methods that might address issues of concern in this paper.*" As a threshold matter, the Federal Reserve should determine whether there is a specific market failure, a failure of public-private collaboration, or a shortcoming with other payments initiatives, including those led by the Federal Reserve, that a U.S. CBDC would address that cannot be addressed by, for example, a privately issued stablecoin that is backed 1-to1 by U.S. dollars.

We believe the discussion paper adequately identifies the relevant pros and cons of the Federal Reserve issuing a U.S. CBDC. We offer comment on 13 of the 22 questions for comment thoughtfully proposed in the discussion paper. We hope the Federal Reserve will provide an additional opportunity to comment on many of these questions when, or if, it establishes the specific use cases and designed features for a U.S. CBDC. Until then, our ability to comment on many of these questions is limited. This is consistent with a recommendation from the Bank of International Settlements, *"To maintain that trust and understand if a CBDC has value to a jurisdiction, a central bank should proceed cautiously, openly and collaboratively."*

1. **What additional potential benefits, policy considerations, or risks of a CBDC may exist that have not been raised in this paper?**

The Federal Reserve should be able to clearly articulate what market failure it is endeavoring to solve before issuing a U.S. CBDC and whether its objectives can be achieved by other means. This is a critical test for all public policy. To address this question, the Federal Reserve should undertake a careful analysis of stablecoins, including reserve-backed stablecoins, that are issued by private sector entities, and the potential for other participants to enter the market, before determining if the Federal Reserve should issue a U.S. CBDC.

The Federal Reserve should conduct a broad assessment of the role privately issued stablecoins and permissionless blockchains play in expanding access to new economic activity, as well as the potential for new market entrants. This information is critical to informing whether a U.S. CBDC would be addressing a specific market failure. The Federal Reserve should be prepared to specify use cases for a U.S. CBDC that are not, and cannot, be addressed by privately issued stablecoins.

A U.S. CBDC should be fungible and interchangeable at par with conventional USD. The Federal Reserve should bear in mind that fungibility could be undermined by programmability or other factors that can affect CBDC's value.

2. **Could some or all of the potential benefits of a CBDC be better achieved in a different way?**

The Federal Reserve should carefully consider alternatives to achieving the benefits of U.S. CBDC, including public-private collaboration or initiatives to improve payments led by the Federal Reserve. Again, the Federal Reserve should be able to explicitly identify market failures and offer use cases for why a U.S. CBDC would address them.

Chairman Powell has stated that CBDCs and stablecoins can coexist. When asked by Senator Patrick Toomey “If Congress were to authorize the Fed to pursue a central bank digital dollar, is there anything about that that ought to preclude well-regulated, privately-issued stablecoins from coexisting with a central bank digital dollar?” the response from Chairman Powell was “No, not at all.”[1] Therefore, it is important to understand how and where stablecoins will exist within financial markets before the Federal Reserve might issue a U.S. CBDC that somehow precludes the existence of stablecoins.

3. **Could a CBDC affect financial inclusion? Would the net effect be positive or negative for inclusion?**

It is important to state, however, that a U.S. CBDC should not be used as a backdoor for creating retail accounts at the Federal Reserve for individuals. The discussion paper appropriately states, *“The Federal Reserve Act does not authorize direct Federal Reserve accounts for individuals, and such accounts would represent a significant expansion of the Federal Reserve’s role in the financial system and the economy.”*

It is also important to remember that stablecoins promote financial inclusion. Stablecoins are being used today, for example, to decrease costs on cross-border payments.

4. **How might a U.S. CBDC affect the Federal Reserve’s ability to effectively implement monetary policy in the pursuit of its maximum-employment and price-stability goals?**

The Chamber strongly supports the independence of the Federal Reserve in implementing monetary policy. It is appropriate that Congress has set the broad objectives of U.S. monetary policy—full employment and stable prices—managing

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[1] United States Senate Committee on Banking, Housing, and Urban Affairs Nomination Hearing January 4, 2022. (117th). https://www.banking.senate.gov/hearings/01/04/2022/nomination-hearing

these goals requires deep analytics and expertise, a long view, and flexibility, all of which argue for the Federal Reserve maintaining its unique independence in this area. With this mission in mind, it is understandable why the Federal Reserve is inquiring and exploring the net impacts of a U.S. CBDC on monetary policy.

A U.S. CBDC could be a new transmission channel for monetary policy and could have a consequential impact on the velocity of money in the financial system. It should not be understated that a U.S. CBDC would be a direct liability of the Federal Reserve – this would be a major policy shift. This would likely require the Federal Reserve to increase the size of its balance sheet *"similar to the balance-sheet impact of issuing increasing amounts of physical currency."*

The answers to these questions, however, are contingent upon the design choices that could be made with a U.S. CBDC. It behooves the Federal Reserve, well prior to the issuance of a U.S. CBDC, to solicit additional public comment when the characteristics and architecture of the proposed coin are known. Such a comment process will enable the public to provide the Federal Reserve with more quantitative data and economic analysis about the net impacts of such a new offering on monetary policy.

5. How could a CBDC affect financial stability? Would the net effect be positive or negative for stability?

The Federal Reserve should study the financial stability risks of a U.S. CBDC. Our response to Question 6 emphasizes the importance of a full analysis of how a U.S. CBDC could, for example, implicate the intermediation of credit in our financial system.

The Federal Reserve should also remain focused on working within the President's Working Group (PWG) on Financial Markets, including the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and Congress, to develop a regulatory framework for privately issued stablecoins. We believe the PWG Report on Stablecoins ("PWG Report") was an important step forward in structuring a public dialogue for how to regulate stablecoins, including addressing consumer protection and financial stability risks. We were disappointed, however, about the extremely limited discussion about the potential benefits of stablecoins compared to the potential risks. The potential use cases, and benefits, of U.S. CBDC and privately issued stablecoins are theoretically identical – the primary difference being that the former is backed by the full faith and credit of the United States.

A U.S. CBDC would not have the same financial stability risks as a privately issued stablecoins, but increasing the role of the Federal Reserve in financial markets cannot be a universal solution for addressing financial stability risks. The growth of our economy depends on risk taking by private capital. In fact, most of the money the public engages with on a daily basis is created by private sector firms. The discussion paper notes, *"Over the long term, the Federal Reserve might have to increase the size of its balance sheet to accommodate CBDC growth…"* The Federal Reserve no doubt has an important role in our financial system, but it also has the potential to crowd out private capital. Crowding out private capital comes with a cost, albeit sometimes difficult to measure, but the Federal Reserve must strongly weigh whether this capital will seek economic returns elsewhere, including outside of the U.S. economy. This result could have the unintended consequence of weakening the U.S. dollar.

The PWG Report rightly points out the risks of privately issued stablecoins. The U.S. Chamber of Commerce supports appropriate prudential regulation and consumer protection regulation for stablecoins and has been encouraged by the bipartisan activity from Congress to enact a regulatory framework that provides clarity to stablecoin issuers and other market participants. We believe it is important that Congress first enact legislation for stablecoins before a decision can be made for whether the Federal Reserve should issue a U.S. CBDC. The contours of this regulatory framework, and the privately issued stablecoins that can be developed within it, need to be understood before policymakers can understand the potential role of a U.S. CBDC.

6. Could a CBDC adversely affect the financial sector? How might a CBDC affect the financial sector differently from stablecoins or other nonbank money?

A U.S. CBDC has the potential to adversely affect how the financial sector currently functions. This is not to say that the financial sector would not, or could not, adapt, but the Federal Reserve should be careful to not disrupt the provision of credit in the U.S. economy.

In a 2020 report, the Bank of International Settlements notes, *"The possible adverse impact of a CBDC on bank funding and financial intermediation, including the potential for destabilising runs into central bank money, has been a concern of central banks. Any decision to launch a CBDC would depend on an informed judgment that these risks can be managed, likely through some combination of safeguards incorporated in the design of a CBDC and financial system policies more generally."*[2]

As a threshold matter, policymakers should be concerned that small business lending by U.S. financial institutions dropped by nearly 50 percent – loans less than $1 million dropped from 2.5 percent of gross domestic product in 2001 to 1.7 percent in

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[2] Bank for International Settlements (2020). Central bank digital currencies: foundational principles and core features. Retrieved from https://www.bis.org/publ/othp33.pdf

2017, and such loans make up a smaller portion of total bank assets, dropping from 4.0 percent in 2001 to 2.1 percent in 2016.[3]

Small business loans are already treated punitively by prudential requirements imposed on banks. The effective risk weight used in CCAR for small business loans is between three and five times the Basel III risk-weight. An increase in the cost of bank's deposit funding, which is comparatively less expensive than other forms of funding, would likely have the outcome of making small business credit less available.

A 2019 Bank of Japan Working Group Paper finds that a CBDC could distort resource allocation in the economy: *"Central banks are neither destined to make loans directly to individuals and non-bank private firms, nor superior to commercial banks and other private entities in terms of the capacity to make judgment on risks and returns of various projects. Therefore, if CBDCs replace not only banknotes but also bank deposits substantially, they could distort efficient resource allocation in the economy."*[4]

Small businesses depend on depository institutions, including banks and credit unions, for the credit they need to operate and grow. It is unclear what alternative or new sources of credit would be available to small businesses if depository institutions are compelled by market dynamics to decrease the availability of, or increase the cost of, credit.

A Staff Working Paper from the Bank Policy Institute explains: *"A necessary consequence of any CBDC would be to shift money out of bank deposits and into cash – in this case, digital cash. As a result, those deposits would no longer fund bank loans, which are the primary asset of banks, as well as Treasuries and other assets. Banks' lending would decrease in supply and increase in cost as banks paid higher rates to persuade businesses and consumers to hold deposits rather than CBDC."*[5]

In its discussion paper, the Federal Reserve seems to acknowledge this problem: *"This substitution effect could reduce the aggregate amount of deposits in the*

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[3] Angel, J. (fall 2018). Impact of Bank Regulation on Business Lending. U.S. Chamber of Commerce Center for Capital Markets Competitiveness. Retrieved from https://www.centerforcapitalmarkets.com/wpcontent/uploads/2018/09/CCMC_RestoringSmallBizLendingReport_9.10.18-1.pdf

[4] Yanagawa, N. and Yamaoka, J. (February 2019). Bank of Japan Working Group Series: Digital Innovation, Data Revolution and Central Bank Digital Currency. Retrieved from https://www.boj.or.jp/en/research/wps_rev/wps_2019/data/wp19e02.pdf

[5] Baer, G. (April 2021). Bank Policy Institute Staff Working Paper: Central Bank Digital Currencies: Costs, Benefits and Major Implications for the U.S. Economic System. Retrieved from https://bpi.com/wp-content/uploads/2021/04/Central-Bank-Digital-Currencies-Costs-Benefits-and-Major-Implications-for-the-U.S.-Economic-System.pdf

banking system, which could in turn increase bank funding expenses, and reduce credit availability or raise credit costs for households and businesses." The Federal Reserve, however, does not offer any solutions or alternatives in its discussion paper.

7. **What tools could be considered to mitigate any adverse impact of CBDC on the financial sector? Would some of these tools diminish the potential benefits of a CBDC?**

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

8. **If cash usage declines, is it important to preserve the general public's access to a form of central bank money that can be used widely for payments?**

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

9. **How might domestic and cross-border digital payments evolve in the absence of a U.S. CBDC?**

Domestic and cross-border digital payments will continue to evolve with or without a U.S. CBDC. The Federal Reserve is engaged on digital payments solutions that would continue to evolve in the absence of a U.S. CBDC, including through the development of the FedNow system. The fundamental question is whether the public or private sector should be driving this evolution, and an appreciation for what direction for what a CBDC would mean for the future of payments innovation.

The U.S. government has embraced regulated stablecoins to reduce the cost of cross-border digital payments, assuming the potential risks are appropriately addressed. The White House Executive Order on Ensuring Responsible Development of Digital Assets notes, *"The United States continues to support the G20 roadmap for addressing challenges and frictions with cross-border funds transfers and payments for which work is underway, including work on improvements to existing systems for cross-border funds transfers and payments, the international dimensions of CBDC designs, and the potential of well-regulated stablecoin arrangements."*[6] Nellie Liang, the Undersecretary of the Treasury noted in a recent speech that *"They [stablecoins] have the potential to make payments faster and more efficient, but they could also*

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[6] White House Executive Order on Ensuring Responsible Development of Digital Assets (March 2022). Retrieved from https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/

pose significant concerns..."[7] And, stakeholders outside the U.S. government have recognized the potential.

10. How should decisions by other large economy nations to issue CBDCs influence the decision whether the United States should do so?

The Federal Reserve should not be influenced by decisions by other large economy nations as to whether it should issue a U.S. CBDC. The Federal Reserve should focus on the principles that make the U.S. dollar the world's reserve currency. The status of the U.S. dollar as the world's reserve currency is fundamentally underpinned by our democratic institutions and rule of law that attracts capital from around the globe. As noted above, the winning model for the U.S. has been private-sector innovation and rigorous public-sector oversight; we should not abandon this model if only for the reason other countries have.

The Federal Reserve, however, could be informed by how other large nations are designing and using CBDCs. Chairman Powell has noted, "We don't feel an urge or need to be first" and that "Effectively, we already have a first-mover advantage because [the U.S. dollar is] the reserve currency."[8] The U.S. has the benefit of studying how other nations use CBDCs, and observing how private payments solutions develop, before issuing its own U.S. CBDC.

There are also important design factors that may greatly differentiate how some choose to implement CBDCs – not all CBDCs will necessarily be the same in terms of how they digitally represent currency. Other nations, for example, may have different policy objectives than the U.S., especially if they do not share our commitment to democracy and the rule of law.

One of the characteristics that makes the U.S. dollar the world's reserve currency is the efficiency by which it can be transferred globally. The Federal Reserve should study if CBDCs issued by other central banks make it easier to internationally transfer funds. The European Central Bank, for example, notes that "The introduction of a digital euro would not necessarily be a game changer for the international role of the

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[7] Liang, N. (March 2022). Remarks by Under Secretary for Domestic Finance Nellie Liang at the Institute of International Bankers' Annual Washington Conference. Retried from https://home.treasury.gov/news/press-releases/jy0635

[8] Fed's Powell: CBDC Will Be Years, Not Months, Away. PYMNTS.com. (2021, January 14). Retrieved May 18, 2022, from https://www.pymnts.com/news/payment-methods/2021/fed-powell-cbdc-years-not-months-away/

euro, which will continue to depend to a large extent on fundamental forces, such as stable economic fundamentals, size, and deep and liquid financial markets."[9]

11. Are there additional ways to manage potential risks associated with CBDC that were not raised in this paper?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

12. How could a CBDC provide privacy to consumers without providing complete anonymity and facilitating illicit financial activity?

Consumer privacy is an important question that should be carefully weighed in the design of any U.S. CBDC. Again, this is a question of design features for a potential U.S. CBDC.

Privacy, in general, will be less of an issue if the Federal Reserve does not attempt to issue a U.S. CBDC that disintermediates the private sector financial system. For example, direct retail access to Federal Reserve accounts would certainly expose consumers to privacy risks given their government would invariably have access to payment history.

13. How could a CBDC be designed to foster operational and cyber resiliency? What operational or cyber risks might be unavoidable?

Operational and cyber resiliency must be a key consideration for the infrastructure design of a U.S. CBDC. As the Federal Reserve's February 2022 note, Security Considerations for a Central Bank Digital Currency outlines, there are several frameworks which may be applied to ensure cyber resiliency.[10] We encourage the Federal Reserve to conduct outreach to appropriate government agencies (e.g. NIST) and experts in the private sector to appropriately mitigate risk.

14. Should a CBDC be legal tender?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

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[9] The European Central Bank (June 2021). The International Role of the Euro. Retrieved from https://www.ecb.europa.eu/pub/ire/html/ecb.ire202106~a058f84c61.en.html#toc18

[10] Hansen, T. and Delak, K (February 2022). The Board of Governors of the Federal Reserve System: Security Considerations for a Central Bank Digital Currency. Retrieved from https://www.federalreserve.gov/econres/notes/feds-notes/security-considerations-for-a-central-bank-digital-currency-20220203.htm

15. Should a CBDC pay interest? If so, why and how? If not, why not?

The Federal Reserve should be cautious in designing a CBDC that pays interest. A CBDC that pays interest, depending on design features, could be analogous to direct retail bank accounts at the Federal Reserve – the discussion paper notes, "*The Federal Reserve Act does not authorize direct Federal Reserve accounts for individuals…*"

The Federal Reserve should also consider what governance it would institute to avoid policy decisions on interest rates from becoming subject to political pressure. Would the decision be made by the Federal Reserve without influence from other parts of government, including the Executive Branch? If the decision were to reside within the Federal Reserve, how would it design a decision-making process for U.S. CBDC interest rate policy?

A U.S. CBDC that pays interest could have negative implications for the banking system. Depending on the amount of interest offered, a CBDC could be a more attractive location to store funds than depositing funds with private financial institutions. As discussed, this could increase the cost of funding for these institutions, which would have knock-on effects across the financial system including for the availability of credit.

Finally, the Federal Reserve should consider that a U.S. CBDC will likely always be "safer" than a privately issued stablecoin and is therefore an inherently more attractive location to store funds. The Chamber supports a regulatory framework for stablecoins that protects consumers.

16. Should the amount of CBDC held by a single end-user be subject to quantity limits?

The amount of U.S. CBDC held by a single end-user should be subject to quantity limits. The quantity limit, however, would depend on the specific use cases for a U.S. CBDC that have yet to be articulated by the Federal Reserve. The Federal Reserve would need to establish appropriate use-cases before a comprehensive answer can be offered about end-user limits.

Limits on a U.S. CBDC holding by individuals and commercial entities would cap the amount of funds shifting to a U.S. CBDC from commercial bank deposits. However, limits on U.S. CBDC holdings by commercial entities may limit payment utility for larger payment amounts and for international holders. Both may impact the utility of the USD; this could limit the support a U.S. CBDC would provide in the USD reserve currency status.

The threshold(s) should be insulated from political influence. There should be a predefined rationale and/or mechanism for how this threshold is increased. For example, after determining the initial appropriate threshold, the Federal Reserve should consider indexing it to inflation.

17. What types of firms should serve as intermediaries for CBDC? What should be the role and regulatory structure for these intermediaries?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

18. Should a CBDC have "offline" capabilities? If so, how might that be achieved?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

19. Should a CBDC be designed to maximize ease of use and acceptable at the point of sale? If so, how?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

20. How could a CBDC be designed to achieve transferability across multiple payment platforms? Would new technology or technical standards be needed?

It is critical that, if a CBDC were to be issued, that it would be transmittable across a wide range of payment platforms. Without clear understanding of the specific use cases and architecture for a CBDC, the Chamber cannot provide a detailed response on the type of technology needed for interoperability. We appreciate the interest and commitment of the Federal Reserve to comprehensively understand the net impacts of a U.S. CBDC on existing payment and financial systems.

21. How might future technological innovations affect design and policy choices related to CBDC?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

22. Are there additional design principles that should be considered? Are there tradeoffs around any of the identified design principles, especially in trying to achieve the potential benefits of a CBDC?

We do not offer specific comments at this time, but we look forward to remaining engaged with the Federal Reserve on this topic.

Respectfully,

William R Hulse

Bill Hulse
Vice President
Center for Capital Markets Competitiveness
U.S. Chamber of Commerce