



## Federal Financial Analytics, Inc.

### SEEING CBDC

It is increasingly certain that, for all Powell's qualms, the U.S. will launch a CBDC in conjunction with opening its instant-payment system. However, key decisions with significant strategic impact remain unresolved as Congress begins work pressing the Fed to accelerate a U.S. digital currency.

The analytics below are based on in-depth reports provided to FedFin clients.  
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On May 24, FRB Governor Brainard [made it clear](#) that a central-bank digital currency (CBDC) is the most likely outcome of Fed-policy deliberations. At about the same time, two influential Members of the House [introduced legislation](#) laying out their fear that, if the U.S. doesn't have a CBDC, the Chinese will get a jump on the dollar's status as the globe's reserve currency. This may seem alarmist, but it's not [unreasonable](#). Indeed, a [new study from the European Central Bank](#) found that currencies that don't go digital are currencies of nations with a smaller chance of retaining their reserve-currency status and higher odds that tech-platform companies – not banks – will redefine the payment system.

Clearly, the Fed wants none of this. And, there's one more thing it doesn't want, at least under current management: "FedAccounts." This [Democratic proposal](#) has yet to resurface in the current Congress and won't be enacted if it is. But, not getting just what one wants doesn't mean one still can't get something – that's why Senate Banking is starting off with a hearing next week on CBDC.

First up: legislation solving the Fed's problem that it can't have CBDC without new law expressly authorizing it. The new law won't, though, stay silent on other key questions – it will not only allow CBDC, but also define it. Here are just a few of the questions Congress will ponder as it advances CBDC's statutory authority and the shape it should take:

- Would CBDC be bank-centric? The Fed so far says yes, but it's also looking at opening the [payment system to nonbanks](#) under the terms and circumstances that might make them bank-like enough to satisfy the central bank not only about payment-system access, but also CBDC deposit-taking authority.
- What does the Fed mean when it says CBDC must be "inclusive?" Gov. Brainard doesn't define this express Fed objective, but suggests that CBDC at the least must be low-cost and accessible to un- and under-banked households. Would the Fed open a window just for them? Democrats would like that a lot – banks and perhaps the Fed, not so much. Karen Petrou's forthcoming memo will address precisely what "inclusiveness" might mean. Will CBDC alter the Fed's portfolio? Current law combines with Fed inclination – at least so far – to keep its trillions of assets limited to Treasury and agency obligations. However, as we've [noted](#), there's strong demand for the U.S. central bank to

join the ECB and many others as a "green bank," buying up bonds issued by the climate deserving. The big push of the U.S. into infrastructure finance could also combine with CBDC to pressure the Fed to monetize this about-to-be-huge part of Treasury's direct or – increasingly likely – indirect obligations. This would make the Fed not just a lender of last resort, but also a financial intermediary with formidable market clout.

- What to do with depositor data? The Fed is focused on ensuring it has the data it needs to ensure AML compliance, but this means it will also have troves of personal and proprietary data on everyone holding CBDC. Will it abjure all use of that or might Congress demand it hand over names to the authorities when it comes to tax evasion, sanctions compliance, or other bad behavior? CBDC may be crypto in name, but it surely won't be crypto in terms of secrecy.
- What other services might the Fed offer? CBDC is still more potent if it's linked to a payment system and then provides smart information – e.g., contracts, invoices – along with the digital cash. Each step the Fed takes or is told to take to make CBDC more successful also makes it more of a competitive juggernaut.

And, that's just for starters. In an era of ultra-low rates, would CBDC be essentially a prime MMF? Would the Fed use CBDC's on-offer rates to set monetary policy and, if so, would it go negative? How would the U.S. CBDC interact with the global payment system and the evolutions now underway via the Financial Stability Board to be analyzed in a forthcoming FedFin report?

And, this is just the tip of a very big iceberg. To traverse it with us, reply by return email or call 202-589-0880 and ask for Arezou Rafikian.

To learn more about Karen Petrou's book, *Engine of Inequality: The Fed and the Future of Wealth in America*, click [here](#)

To read Karen Petrou's latest speech, click [here](#)

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