



## MEMORANDUM

**TO:** Federal Financial Analytics Clients  
**FROM:** Karen Petrou  
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It's certain that Jay Powell's confirmation hearing will put him through the wringer on inflation, equality, "insider" trading, and the rules he'll foster under the new vice chair for supervision. This is enough to try even the most patient of souls, but there's another issue senators should be sure to raise: what's taking the Fed so, so long to start its CBDC deliberations, let alone conclude them?

After initially [dismissing](#) the need for a U.S. central bank digital currency, Chairman Powell [announced](#) last May that the Board would seek public comment sometime that summer. At about the same time, Gov. Brainard spoke about a possible CBDC construct and the [Boston Fed announced](#) a technical build-out project along with the Massachusetts Institute of Technology. The Federal Reserve Bank of New York's Innovation Hub also has CBDC ambitions. Although Fed officials were quick to point out that none of these nor any of the subsequent high-profile papers commits the Fed to anything, work seemed well under way to join the dozens of other central banks convinced that CBDC is essential in the quick-digitization payment future clearly emerging outside the reach of central bankers.

What's happened since the summer CBDC storm? Not much.

Mr. Powell and other Fed officials at one point promised that the CBDC paper would come in September, but autumn came and went. The Fed's certainly been busy tidying up after its "transitory" inflation goof and ongoing macroeconomic challenges, but it neglects CBDC at its and our peril.

First, whether the U.S. stands aloof from CBDC is a vital strategic question for all U.S. financial institutions. The CBDC construct quite literally determines life or death for the current U.S. banking business model and systemic risk will surely ensue if banks do not have adequate time to shape their future in their new-money destiny. The Fed has vaguely promised that it will rely on private-sector intermediaries should it come to decide on the CBDC. Without details, that promise is as binding as "I'll call you in the morning."

And, even if the Fed is as good as its word, which "intermediaries?" Only regulated ones or does the Fed's request for comment on opening [payment system access](#) presage a broader range of CBDC counterparties? Again, this is a life-or-death call if not for the entire financial-intermediation construct, then at least for the payment-system interfaces on which a regulated bank's franchise value also depends. The longer the Fed equivocates, the harder the transition.

The Fed seems to believe that its imperium might allow it to craft a banking and payment system as it desires with or without CBDC when the central bank gets around to hard thinking about it. But, at the same time the Fed slow-walks its CBDC deliberations, it's joined the President's Working

Group [report](#) decrying stablecoin's systemic risk. The Fed can't have it both ways and, indeed it shouldn't – if it's planning on CBDC, then stablecoin issuers also need to know what's in store, under what rules, and the rest of us need to ensure they know this before stablecoins become still more ubiquitous.

The Fed's imperium also presumes the U.S. reserve-currency status ensures the dollar's sanctity no matter how far behind its central bank falls on CBDC. This is the kind of pride that comes before rude surprises.

Some of these may come from the BIS's ongoing, successful cross-border payment trials with various CBDCs. Even more importantly, China's digital yuan is the global CBDC leader, leading some in Congress to fear that Fed delay also threatens U.S. [economic might](#). China clearly hopes so and, while the extent to which its wishes could actually be realized is uncertain given its CBDC's autocratic features, history is not kind to hegemonic powers who take their time wielding it in the face of concerted, capable, and economically-armed enemies.

To be sure, a U.S. CBDC is a different undertaking than China's because the central bank here cannot get what it or higher authorities want simply by demanding it. It's not even clear that the Fed has the statutory authority to issue a digital dollar should it come to decide it wants to do so. And, it's also clear that designing a U.S. CBDC is a tad more complex than launching the Bahamian "sand dollar."

Still, the longer the Fed waits to seek comment and then to determine its policy, operational, and political parameters, the longer the U.S. will remain in digital limbo. History not only teaches us that determined state actors exploit such weakness, but also that the pace of innovation is increasingly unforgiving. If the Fed waits too long to map the course of a fiat, regulated, intermediating CBDC, it will confront one with none of these attributes. I don't think that's what the Fed wants, nor should it.