



## MEMORANDUM

**TO:** Federal Financial Analytics Clients  
**FROM:** Karen Petrou  
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Anyone looking for even a scintilla of a clue buried in a hint of an intention in the Fed's CBDC discussion [draft](#) hunted in vain for guidance on the most consequential strategic inflection point for the U.S. financial-services industry, the financial system, the global payment system, and even the future of money. Once, we all would have had to wait for augers from the on-high Fed to see the fate the imperium decreed. Now, the Fed still thinks it rules all it surveys even though it doesn't. Soon, it may find out the hard way that fast-moving companies crafting digital money care as little for the central bank's wishes as they did for those of the media, hotel, and retailing magnates they have already supplanted.

This is not to say that we must necessarily have a central-bank digital currency. As I noted in my [book](#), a democracy must ensure privacy and competition in ways China, for one example, disregards. Rather, it's to say that the U.S. will not have a secure store of value or sound medium of exchange without a payment system on which the economy stands firm. Payment-system finality, accessibility, ubiquity, and cyber-security are all at risk if the Fed cedes the CBDC field without first and fast establishing the new framework it knows we need.

Nor am I saying that CBDC is inevitable because stablecoins are a certainty. Libra's ignominious demise is ample evidence of the power regulators still have to set the terms of payment engagement. Even if it weren't the case, the sharp drop in cryptocurrency valuation this week surely reminds many crypto speculators that, while fiat currency isn't cool, it lasts.

But, as Cicero pointed out when taking on another imperium, nature abhors a vacuum. Most paradigm-busting inventions – think the telephone or incandescent light bulb – went through a lot of failed prototypes before redefining not just the market, but also the economy. Stablecoins may be dented, but they are still clinking in lots of pockets.

Smaller banks thus already fear that their future lies only in accommodating the payment-access ambitions of nonbank "partners." Larger banks have their own faster payment system via The Clearing House, but its currency is the dollar and, if the Fed plans another, then critical infrastructure will require a rapid reboot to retain viability as government benefits and many other transactions migrate either to the Fed or God knows where.

At the very least, the Fed must state who has access to the payment system on what terms so that banks know the fate of this vital plank of their franchise value. Chairman Powell acknowledged the critical importance of this question answering Sen. Lummis when she asked him whether a Wyoming crypto depository had a right to payment-system [access](#), but also gave no clue as to where the Fed will land on it.

At some point, if the Fed doesn't define payment-system access and justify its decision, Congress will act if only because so many constituents need to know. Nothing humbles the central bank as decisively as Congress might soon come to remind it.

Yes, the Fed has a proposal outstanding on [payment-system access](#), but the comment period on it closed July 12, 2021. I know things are busy about the halls of power, many of which are echoing to the lonely footsteps of the few confirmed appointees left to mind the shop. Still, a nation without a modern, final, stable, and certain payment system is one resting its economy on a thin reed. CBDC may not be a necessary part of the evolution of the U.S. payment system, but knowing whether there is or isn't one is.