



FedFin Client Report

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Brainard Seeks Go-Soon CBDC Sure to Hit Powell, Political Speedbumps

Client Report: CBDC13

Executive Summary

Newly in place as Fed Vice Chair, Lael Brainard today made it clear at an HFSC full committee hearing that her prior statements laying out CBDC benefits are still her thinking despite the considerably more ambivalent approach outlined in the Fed's discussion draft ([see FSM Report CBDC10](#)). This is not to say that Ms. Brainard endorsed a CBDC nor that she has solutions for the problems laid out in the discussion draft and those posed by members on both sides of the aisle. She also made it clear that bringing forth a CBDC would be a multi-year process that should sustain the role of banks as financial intermediators and support private stablecoins under proper regulation. Still, she outlined numerous benefits and ways to overcome problems, making it clear that she thinks a CBDC may well be warranted.

The Vice Chair did, however, continue the Fed's ambiguity over whether the central bank needs express statutory authorization to offer CBDC or just "approval" from both Congress and – despite Fed independence – the Executive Branch. As previously noted ([see Client Report CRYPTO26](#)), President Biden's digital-asset order lays out numerous CBDC benefits it wants the Fed and other government agencies quickly to explore. Ms. Brainard indicated that no such consultations have yet occurred, but that these will take place at some point. Although Vice Chair Brainard's views will have a major impact on Fed CBDC action and will likely be supported by her two new colleagues, Chairman Powell continues to control the agenda and has support for a policy that is at best CBDC-cautious from Govs. Waller and Bowman.

Analysis

Opening Statements

Chairwoman Waters (D-CA) said that a "digital asset space race" is taking place, suggesting this warrants quick action on a CBDC and focusing also on the importance of the dollar's reserve-currency status.

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Ranking Member McHenry (R-NC) stated that most of the benefits of a CBDC could be realized through private-sector alternatives, stating that it is not clear what problem one would solve.

Testimony

Vice Chair Brainard's short testimony cuts a careful path between calling for change and respecting the Fed decision-making process. Much of her testimony emphasizes the need for stablecoin regulation, noting that – as new forms of money develop – CBDC could be a safe alternative much as cash is now a ready option to bank deposits or other forms of money. Although she also notes the risks CBDC may pose to bank intermediation, monetary-policy transmission, and the payment system, the testimony is generally bullish on CBDC. It notes for example that CBDC may preserve the dollar's reserve-currency status. Vice Chair Brainard thus outlines an intermediate system akin to the BIS's "two-tier" approach ([see Client Report CBDC12](#)) that might accommodate all of these competing objectives.

Q&A

- **Disintermediation:** Reps. Posey (R-FL), Foster (D-IL), and Barr (R-KY) pressed the Vice Chair on the potential harm that a CBDC could have on bank's deposit activity, with Rep. Sherman (D-CA) also citing the possibility of a CBDC hampering business lending. The Vice Chair reiterated the Fed's commitment to designing a CBDC that avoids disintermediation and upholds the role of banks. She pointed to CBDC account caps and making such accounts non-interest-bearing as two possible design choices that could preserve bank intermediation.
- **Stablecoins:** Rep. Sherman asked Vice Chair Brainard what the Fed could do to protect consumers against the volatility of stablecoins if Congress does not act. Vice Chair Brainard confirmed that legislation would be best. Rep. Foster asked about a regime in which stablecoins are issued by regulated financial institutions and backed completely by reserves, with the Fed providing application program interfaces to verify stablecoin reserve account balances. Vice Chair Brainard warned that, while entirely reserve-backed stablecoins would mitigate financial stability risks, it did not address fragmentation risks or "walled-garden" effects. Rep. Gonzalez (R-OH) prefers a well-regulated stablecoin regime over a CBDC.
- **Global Reserve Currency:** Chairwoman Waters and Rep Himes (D-CT) voiced concern that the US is falling behind other major economies in digital currencies, especially China, and thus may lose its reserve currency power, an issue addressed directly in legislation Rep. Himes introduced earlier in this Congress ([see FSM Report CBDC4](#)). Vice Chair Brainard stated that, if a number of major

economies develop a CBDC, then the US lacking a digital currency offering could harm its position.

- **Security and Privacy:** Rep. Foster asked Vice Chair Brainard if she believes legislation is needed to authorize the digital identity verification requirement explored in the Fed's CBDC Report. Ms. Brainard reiterated the Fed's commitment to balancing privacy and security, but reminded Rep. Foster that broader questions about digital identity are outside the purview of the Fed. Rep. Budd (R-NC) asked what the Fed will do to prevent the government from monitoring transactions, with Ms. Brainard replying that banks would be the parties that hold transaction records.
- **Implementation Process:** Several republican members, including Reps. McHenry, Luetkemeyer (R-MO), Barr, Foster and Loudermilk (R-GA), showed great concern about the Fed moving forward with a CBDC without authorizing legislation, with Rep. Luetkemeyer asking what constitutes "clear support from Congress" as laid out in the Fed's CBDC report. Ms. Brainard repeatedly expressed that it is the Fed's hope that Congress will legislate on the matter and added that the Fed cannot accept individual consumer accounts per its statute. Rep. McHenry said this response still left enough room for the Fed to act without legislation. Chairwoman Waters, along with Reps. Barr and Davidson (R-OH), asked Ms. Brainard about the progress of interagency discussion, with the Chairwoman asking the Vice Chair to confirm that Acting Comptroller Hsu's comments yesterday that no interagency discussion has occurred were correct. Ms. Brainard verified Mr. Hsu's statement but expects talks to be convened by Treasury soon.
- **FedNow:** Rep. McHenry asked Ms. Brainard what the differences in outcome were between FedNow and CBDC, with the Vice Chair citing the threat of stablecoins becoming the dominant form of currency and the declining use of cash as demonstrating a potential need for a Fed-issued CBDC in addition to FedNow.
- **Financial Inclusion:** Rep. Scott (D-GA) asked Vice Chair Brainard how she approached the lack of trust that under- and unbanked communities have in the financial system and how that intersected with a CBDC. Ms. Brainard replied that cost is often a barrier that prevents financial inclusion, also that a CBDC would hopefully lower transaction costs. Reps. Beatty (D-OH), Tlaib (D-MI), and Garcia (D-IL) echoed Rep. Scott's concerns, with Rep. Garcia highlighting that his ECASH Act ([see FSM Report CBDC11](#)) would not require users to have bank accounts. Reps. Beatty and Rose noted broadband-access obstacle to CBDC; Vice Chair Brainard emphasized that offline functionality would be an important component of CBDC should it be created.