

## The Fed's Take on CBDCs

June 9, 2022

By: [Anne M. Termine](#)

On May 26, 2022, the House Financial Services Committee held hearings on central bank digital currencies, or CBDCs, featuring testimony from Dr. Lael Brainard, vice chair of the Federal Reserve Board of Governors. Sam Folb, a summer associate at Bracewell, sat through the hearing and discusses some of the key takeaways with [Anne Termine](#) on this episode of Bracewell Crypto Bits.

### Highlights:

#### **What is a CBDC, at least as the Federal Reserve sees it?**

The Board of Governors and the Fed defines a CBDC as a digital liability of a central bank that is widely available to the general public. It's easy to differentiate a CBDC from a cryptocurrency. Some of the things that differentiate a CBDC from a general cryptocurrency is that it's regulated by the monetary authorities of a nation, it's supported by the reserve assets of the country, and it's pegged to the value of the country's fiat currency.

#### **So, the Fed has obviously been looking at the issue of a CBDC for some time. They put out a report on it too, is that right?**

They did. On January 20, they published "Money and Payments: The US Dollar and the Age of Digital Transformation." The main point of the report was to identify potential benefits and risks of a CBDC.

#### **Did they talk about any of the benefits and risks of what a CBDC would look like in the United States?**

The Fed thinks that a CBDC can improve cross-border payments, support the international standing of the dollar, help achieve financial inclusion and extend public access to safe central bank money. They're basically just trying to move the dollar into the age of technology that we're in today.

#### **The Fed also mentioned some new product that it's working on that may impact the development of a CBDC. Can you tell me a little bit about that?**

The Fed has been working on a more efficient transaction system called Fed Now, and it's been in the makings for a few years from my understanding. And it is likely to come out in 2023, and from the sounds of it, it sounds like it is trying to do a lot of the same things that a CBDC would do, just minus creating the actual digital currency and issuing it from the Fed. The goal of the Fed now is to enable financial institutions of various sizes in geographic locations across the United States to provide safe and efficient instant payment services in real time every day of the year. It sounds very comparable to what a CBDC would do in bringing in those cryptocurrency undertones of being able to interact at all times and being a quicker mode of transaction.

**In terms of CBDCs being developed around the world, did we learn anything about that at this hearing?**

85 percent of central banks worldwide are researching, piloting or in the advanced stages of developing a CBDC, which was something that surprised me. I didn't realize it was taking such hold across the world. And I know there's the flashy ones of China issuing the CBDC during the Winter Olympics. And I know some banks across Europe are also looking into the matter. So it's something that's taking hold, and I think it's something that's interesting and it's well worth the time that the Fed is putting into it to research it.

**In terms of some of the other key takeaways from Dr. Brainard's testimony, what else did you hear during this hearing?**

She made it very clear, again, that no decision as to whether CBDC will be issued is being made today, and there's nothing to indicate that it will be coming, but she did harp on a few issues that have been occurring in our financial system, specifically fragmentation risk within the financial system. She brought up multiple times that there's been a one-third decrease in hard fiat transactions in the past five years. As we know, and most things are going on, there's Venmo and Cash App. Many of these peer-to-peer transactions are being done in these private applications now and away from the banking system. That was something that she thought that a CBDC could potentially fix.

One of the things that was really interesting to me was she was selling the CBDC as a neutral settlement layer that could be used within the cryptocurrency space. The way that I was thinking about it was you have all these different currencies, and there isn't a whole lot of standardization.

*Have questions about the issues facing the cryptocurrency and blockchain communities? Email [Anne Termine](#).*