

MEMORANDUM

To: Members of the Committee on Financial Services

From: Digital Assets Subcommittee Staff

Date: September 11, 2023

Re: Subcommittee on Digital Assets, Financial Technology, and Inclusion Hearing: “Digital Dollar Dilemma: The Implications of a Central Bank Digital Currency and Private Sector Alternatives.”

On Thursday, September 14, 2023, at 2:00 p.m., the Committee on Financial Services Subcommittee on Digital Assets, Financial Technology, and Inclusion will hold a hearing titled “Digital Dollar Dilemma: The Implications of a Central Bank Digital Currency and Private Sector Alternatives.” Testifying at the hearing will be:

- **Mr. Yuval Rooz**, Co-Founder and Chief Executive Officer, Digital Asset
- **Ms. Paige Paridon**, Senior Vice President and Senior Associate General Counsel, Bank Policy Institute
- **Ms. Christina Parajon Skinner**, Assistant Professor, The Wharton School of the University of Pennsylvania
- **Dr. Norbert Michel**, Vice President and Director, Center for Monetary and Financial Alternatives, Cato Institute
- **Mr. Raúl Carrillo**, Academic Fellow, Lecturer in Law, Columbia Law School

Background

A Central Bank Digital Currency (CBDC) is a digital representation of fiat currency issued by a central bank. A CBDC uses an electronic record or digital “token” to represent a fiat currency. It is denominated in the national unit of account and is a direct liability of the central bank. To date, the Federal Reserve’s analysis states a U.S. CBDC “would best serve the needs of the United States by being privacy-protected, intermediated, widely transferable, and identity-verified.”¹

Under a potential intermediated model, consumers would hold a U.S. CBDC in an account at a financial institution responsible for providing traditional consumer banking services or at a non-bank fintech firm to manage holdings and payments. The bank or fintech would serve as the central bank’s agent, eliminating the need for the Federal Reserve to provide consumer banking services. Private firms would be responsible for handling wallet design, customer management, customer screening, and monitoring, including implementing know your customer (KYC) and anti-money laundering and countering the financing of terrorism (AML/CFT) programs.

¹ Board of Governors of the Federal Reserve, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation*, Federal Reserve (Jan. 20, 2022), available at <https://www.federalreserve.gov/publications/money-and-payments-discussion-paper.htm> at 2.

However, the U.S. CBDC would remain a liability of the Federal Reserve.

In contrast to a retail CBDC, a wholesale CBDC would be used only by financial institutions during interbank settlement. In other words, a wholesale CBDC would serve as a way for banks to send money between themselves.

As the Federal Reserve continues to evaluate a U.S. CBDC, Committee Republicans continue to reiterate that any U.S. CBDC requires congressional authorization. On March 15, 2023, during the Committee's hearing on the Fed's semi-annual monetary policy report, Chair Powell confirmed that a retail CBDC would be subject to congressional authorization.² At the time, Chair Powell did not confirm if "potential forms of a wholesale CBDC" would require congressional authorization.

Legislative Proposals

- **H.R. 3402, the Power of the Mint Act (Auchincloss/Hill)**
Prohibits the Board of Governors of the Federal Reserve and the Secretary of the Treasury from issuing a Central Bank Digital Currency without congressional authorization.
- **H.R. _____, the CBDC Anti-Surveillance State Act (Emmer)**
Prohibits a Federal Reserve Bank from offering products or services directly to individuals, maintaining individual accounts, or issuing a CBDC to individuals. It would also prohibit the Federal Reserve and the Federal Open Market Committee from using a CBDC to implement monetary policy.
- **H.R. 3712, the Digital Dollar Prevention Act (Mooney)**
Requires the Federal Reserve to attain authorization from Congress to establish, carry out, or approve a program intended to test the practicability of issuing a central bank digital currency. This requirement would include test programs partnering with the private sector.

² House Financial Services Committee Hearing, *The Federal Reserve's Semi-Annual Monetary Policy Report* (Mar. 8, 2023), available at <https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408623>.