

September 7, 2022

The Honorable Lael Brainard
Vice Chair
Board of Governors of the Federal Reserve
System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

Vice Chair Brainard:

Thank you for your testimony during the House Committee on Financial Services' (Committee) hearing this past May examining the potential implications of a Federal Reserve (Fed) issued U.S. Central Bank Digital Currency (CBDC). The hearing provided the Committee with an opportunity to discuss important issues as the Fed continues its research of a U.S. CBDC. These issues include the impact of a CBDC on the Fed's monetary policy tools; potential risks to our existing payments system; and the impact on the digital asset ecosystem, specifically stablecoins.

Most importantly, Committee members raised questions regarding the Fed's current authority under the Federal Reserve Act to issue a CBDC. As the deadlines from the Executive Order on Ensuring Responsible Development of Digital Assets, focused on a U.S. CBDC, quickly approach, it is critical that you clarify the following statements:

1. **The motivation for the Fed to issue a CBDC.** During the hearing, you emphasized the need for consumers to have "direct access to a safe central bank issued digital currency" and the potential risk of "stablecoins becom[ing] the dominant form of U.S. digital dollar." At the same time, you indicated, "any future evolution of the financial system with digitalization is going to lead to some diminished use of cash and some diminution of bank deposits." Is the Fed's objective with a U.S. CBDC to curtail the use of digital assets and other private sector innovative payment methods? If not, please provide the context for your testimony.
2. **The need for Congress' support for a Fed-issued CBDC.** During the hearing, you stated "the Federal Reserve would not move ahead [with a CBDC] without support by the executive branch and by Congress. And ideally, that would take the form of authorizing legislation." In your opinion, does support mean an explicit law from Congress authorizing the Fed to issue a digital currency?
3. **The Fed's position on individual retail accounts at the Fed.** Despite the Fed's position that individual retail accounts at the Federal Reserve are not authorized by law, there was some discussion on individual "Fed accounts." Specifically, you testified, "the Federal Reserve does not have the authority, for instance, or is precluded from individual accounts." Is the Fed limiting its CBDC analysis to an intermediated model for a U.S. CBDC?

4. **The need for Congress to authorize an intermediated CBDC model.** The Federal Reserve Act provides the Fed with the authority to issue “Federal Reserve notes,” at the discretion of the Board of Governors for the purpose of “making advances to Federal Reserve banks.”¹ Based on the text of the Federal Reserve Act and the supporting historical context, it is evident that “Federal Reserve notes” are paper currency. Is it your view the Federal Reserve may not establish an intermediated CBDC model without direct authorization from Congress?

5. **The need for strong support from the Executive Branch.** You testified that the Fed must “have strong support from both the executive branch and Congress.” Please describe what “strong support” from the executive branch looks like? Is it in the form of a letter or Executive Order?

Please respond in writing no later than September 30, 2022. We appreciate your attention to this critical issue. We look forward to continuing to work with the Fed as Congress contemplates both the risks and benefits of a potential CBDC.

Sincerely,



Patrick McHenry
Ranking Member
Committee on Financial Services



Ann Wagner
Vice Ranking Member
Committee on Financial Services



Frank Lucas
Committee on Financial Services



Pete Sessions
Committee on Financial Services



Bill Posey
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Blaine Luetkemeyer
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¹ 12 U.S.C. § 411



Bill Huizenga
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Andy Barr
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