

May 26, 2022

***Via Electronic Submission***

The Honorable Maxine Waters  
Chairwoman  
U.S. House Committee on Financial Services  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Patrick McHenry  
Ranking Member  
U.S. House Committee on Financial Services  
4340 O’Neill House Office Building  
Washington, DC 20024

**Re: Statement for the Record – House Financial Services Committee Hearing,  
“Digital Assets and the Future of Finance: Examining the Benefits and Risks  
of a U.S. Central Bank Digital Currency”**

Chairwoman Waters, Ranking Member McHenry & Distinguished Members of the Committee:

The Clearing House Association, L.L.C. (“The Clearing House”),<sup>1</sup> appreciates Congressional efforts to examine the potential risks and opportunities presented by the possible introduction of a central bank digital currency (“CBDC”) in the U.S. and welcomes the opportunity to submit this statement for the record.<sup>2</sup> We also commend the Federal Reserve for engaging in a very thoughtful consultative process examining these same potential risks and opportunities.

As we explain in more detail below, The Clearing House has devoted a considerable amount of time to studying this issue and has concluded that the risks strongly outweigh any potential benefits, even in a scenario in which the CBDC would be “intermediated” by insured depository institutions (as recently recommended by the Federal Reserve Board). Moreover, we believe there are other, less risky, and more efficient ways to achieve the various policy objectives that have been advanced by proponents of a U.S. CBDC.

**I. Overview of Risks and Potential Benefits Presented by a Central Bank Digital Currency**

The Federal Reserve, which defines a CBDC as “a digital liability of a central bank that is widely available to the general public,”<sup>3</sup> has launched a consultative process and solicited stakeholder comments in response to its paper, “Money and Payments, The U.S. Dollar in the Age

---

<sup>1</sup> The Clearing House Association, L.L.C., the country’s oldest banking trade association, is a nonpartisan organization that provides informed advocacy and thought leadership on critical payments-related issues. Its sister company, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the U.S., clearing and settling more than \$2 trillion each day. See The Clearing House’s web page at [www.theclearinghouse.org](http://www.theclearinghouse.org).

<sup>2</sup> U.S. House Committee on Financial Services, “Digital Assets and the Future of Finance: Assessing the Benefits and Risks of a U.S. Central Bank Digital Currency” (available at: <https://financialservices.house.gov/events/eventsingle.aspx?EventID=409382>, May 26, 2022 at 12:00 p.m.).

<sup>3</sup> Board of Governors of the Federal Reserve System, “Money and Payments: The U.S. Dollar in the Age of Digital Transformation” (Jan. 2022) (available at: <https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf>).

of Digital Transformation,” which explores the potential benefits and risks of a U.S. CBDC.<sup>4</sup> More recently, President Biden issued an executive order on “Ensuring the Responsible Development of Digital Assets,” which requires that certain actions be undertaken by a variety of Executive Branch agencies relating to the possible development of a CBDC and the regulation of cryptocurrencies and other digital assets.<sup>5</sup> While neither the Federal Reserve’s paper nor the Executive Order provides much detail on precisely how a U.S. CBDC would operate in practice, the consultative paper does note that “[t]he Federal Reserve’s initial analysis suggests that a potential U.S. CBDC, if one were created, would best serve the needs of the United States by being privacy-protected, intermediated, widely transferable, and identity-verified.”<sup>6</sup>

The consultative paper identifies a variety of potential risks associated with a CBDC, including:

- Reducing the aggregate amount of deposits in the banking system;
- Exacerbating runs on financial firms;
- Complicating monetary policy implementation;
- Challenging consumer privacy and balancing anti-money laundering and terrorist financing (“AML/CFT”) concerns; and
- Increasing operational resilience and cybersecurity concerns.<sup>7</sup>

In addition to the risks outlined in the Federal Reserve’s paper, the Congressional Research Service has noted the potential for a CBDC to crowd out existing payment systems and the commercial banking system more broadly, the likelihood that the Federal Reserve would not provide the same level of innovation as the private sector, and the potential for a CBDC to jeopardize the independence of the Federal Reserve by subjecting it to increased political pressure.<sup>8</sup>

The consultative paper also identifies several potential benefits of a CBDC, including:

- Mitigating risks associated with the proliferation of private digital money;
- Improving cross-border payments;
- Supporting the dollar’s international role;
- Promoting financial inclusion; and
- Extending public access to safe central bank money.<sup>9</sup>

---

<sup>4</sup> *Id.*

<sup>5</sup> The White House, “Executive Order on Ensuring Responsible Development of Digital Assets” (Mar. 9, 2022) (available at: <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/>).

<sup>6</sup> “Money and Payments: The U.S. Dollar in the Age of Digital Transformation,” *supra* note 3, p. 2.

<sup>7</sup> *Id.* at pp. 17-20.

<sup>8</sup> Congressional Research Service, “Central Bank Digital Currencies: Policy Issues,” pp. 15-18 & 24-25 (Feb. 7, 2022) (available at: <https://sgp.fas.org/crs/misc/R46850.pdf>)

<sup>9</sup> “Money and Payments: The U.S. Dollar in the Age of Digital Transformation,” *supra* note 3, pp. 14-16. Others have suggested that a U.S. CBDC would have the potential to provide an additional tool through which the Federal Reserve could conduct monetary policy, but the Federal Reserve seems to indicate in the consultative paper that the

The risks and potential benefits of a CBDC are examined in greater detail below. In sum, the Clearing House believes strongly that the risks of a CBDC far outweigh any potential benefits, and that all, or nearly all, of the policy objectives for which a CBDC has been advanced can be achieved in less risky and more efficient ways.

## II. CBDC Risks

### A. Reducing the Aggregate Amount of Deposits in the Banking System

While few details are known about how the Federal Reserve might deploy a CBDC, it is clear that a CBDC would be a “liability of the Federal Reserve” and a new kind of “central bank money.”<sup>10</sup> As such, a CBDC would exist on the Federal Reserve’s balance sheet as a liability of the Federal Reserve owed to the holder of the CBDC, and on the holder’s balance sheet as an asset. The Federal Reserve envisions that CBDC holders would be able to store their CBDC in digital wallets provided by intermediaries.<sup>11</sup> Unlike traditional bank deposits, which are a liability of the commercial bank – so-called “commercial bank money,” a CBDC held in a digital wallet would never touch the bank’s balance sheet and could therefore not be comingled with the account holder’s other funds held on deposit with the bank<sup>12</sup>. In this regard, CBDC digital wallets are less like deposit accounts and more like electronic safety deposit boxes used to hold a digital version of cash (another kind of central bank money and a liability of the central bank). So, unlike commercial bank money, banks would hold these accounts in the form of a bailment by the bank or in trust, i.e., there would be no transfer of ownership of the CBDC to the bank.<sup>13</sup>

---

existence of a CBDC would only serve to “complicate monetary policy implementation.” (*Compare* David Andolfatto, “Fedcoin: On the Desirability of a Government Cryptocurrency,” *MacroMania* (Feb. 3, 2015) (available at: <https://andolfatto.blogspot.com/2015/02/fedcoin-on-desirability-of-government.html>) and Allen et. al, “Design choices for CBDC,” *Brookings Global Economy & Development Working Paper 140*, pp. 62-64 (July 2020) (available at: [https://www.brookings.edu/wp-content/uploads/2020/07/Design-Choices-for-CBDC\\_Final-for-web.pdf](https://www.brookings.edu/wp-content/uploads/2020/07/Design-Choices-for-CBDC_Final-for-web.pdf)), *with* “Money and Payments: The U.S. Dollar in the Age of Digital Transformation,” *supra* note 3, p. 19.)

<sup>10</sup> “Money and Payments: The U.S. Dollar in the Age of Digital Transformation,” *supra* note 3, pp. 3, 5 & 15.

<sup>11</sup> *Id.*

<sup>12</sup> That CBDC would remain a liability of the central bank and not of an intermediary is a foundational characteristic. TCH notes, however, that Securities and Exchange Commission Staff Accounting Bulletin No. 121 (SAB 121) defines “crypto-asset” as “a digital asset that is issued and/or transferred using distributed ledger or blockchain technology using cryptographic techniques” and might therefore require CBDC, if designed in such a way as to meet the definition of “crypto-asset,” to be presented by banks as a liability on their balance sheets and to be recognized as an asset at the same time in accordance with the requirements set forth in the bulletin. (87 Fed. Reg. 21015 (Apr. 11, 2022).) Because specific design elements of a CBDC are not yet determined, TCH believes it is too soon to assess the applicability of SAB 121 to CBDC. Further, characteristics of a CBDC would be markedly different from the types of assets mentioned in SAB 121 in that CBDC would be far more secure and far less volatile than the average crypto asset. (*Id.*) If, however, SAB 121 is ultimately determined to apply, it would effectively preclude banks that operate as public companies from acting as custodians for CBDC because the bank regulatory capital and liquidity requirements relating to on-balance-sheet assets would make serving as a custodian for CBDC prohibitively expensive.

<sup>13</sup> This contrasts with commercial bank money where the account holder deposits dollars with the bank and the bank provides the depositor with an account balance. The dollars that are deposited become an asset on the bank’s balance

Unless the digital wallet holder converted their CBDC into commercial bank money in a bank deposit account, similar to a customer depositing physical cash into a deposit account at their bank, it could not be used by the bank for lending or other purposes, and, therefore, would be a net drain on commercial bank deposits.<sup>14</sup> This in turn would have a knock-on effect on lending and the economy at large, drive up the cost of credit for consumers, and be felt most acutely by community banks, whose primary business model is focused on deposit-based lending.<sup>15</sup> This drain on commercial bank deposits would almost certainly be exacerbated in times of stress, during which account holders would likely seek the comparative safety of an asset guaranteed by the Federal Reserve.<sup>16</sup>

The Federal Reserve notes that a CBDC could exacerbate threats to financial stability:

Because central bank money is the safest form of money, a widely accessible CBDC would be particularly attractive to risk-averse users, especially during times of stress in the financial system. The ability to quickly convert other forms of money—including deposits at commercial banks—into CBDC could make runs on financial firms more likely or more severe. Traditional measures such as prudential supervision, government deposit insurance, and access to central bank liquidity may be insufficient to stave off large outflows of commercial bank deposits into CBDC in the event of financial panic.<sup>17</sup>

The Federal Reserve suggests that this drain on commercial bank deposits could be mitigated by the CBDC either not paying interest or subjecting holders of CBDC to caps on the

---

sheet (subject to fractional reserves and the ability to be lent out) with a corresponding liability also on the bank's balance sheet that is owed to the account holder (in the form of commercial bank money).

<sup>14</sup> See Gordon Y. Liao and John Carmichael, "Stablecoins: Growth Potential and Impact on Banking," Board of Governors of the Federal Reserve System International Finance Discussion Paper, p. 16 (Jan. 2022) (available at: <https://www.federalreserve.gov/econres/ifdp/files/ifdp1334.pdf>) (noting that with respect to the potential economic impact of a fully reserved stablecoin, in one scenario, "the commercial banks significantly contract their balance sheets to compensate for the lack of deposit funding"; and in another scenario, "commercial banks compensate for the lost deposit funding by issuing debt securities"; with the result being "reduction in bank-led credit creation" (while the paper addresses the potential impact of a narrow bank stablecoin, we believe the introduction of a CBDC would have a similar effects).) See also Rod Garratt, Michael Lee, Antoine Martin, and Joseph Torregrossa, "The Future of Payments is Not Stablecoins," Liberty Street Economics blog (Feb. 7, 2022) (available at: <https://libertystreeteconomics.newyorkfed.org/2022/02/the-future-of-payments-is-not-stablecoins/>) (noting the efficiency of the existing commercial bank deposit system).

<sup>15</sup> See Fernandez-Villaverde, et al., "CBDC: Central Banking for All?" Federal Reserve Bank of Philadelphia Working Paper 20-19, p. 26 (June 2020) (noting that "[i]f the competition from commercial banks is impaired (for example, through some fiscal subsidization of central bank deposits or . . . by changes in the structure of possible bank runs), the central bank has to be careful in its [central-bank-digital-currency-related] choices to avoid creating havoc with maturity transformation.")

<sup>16</sup> See Bank for International Settlements, Committee on Payments and Market Infrastructures, markets Committee, "Central bank digital currencies," pp. 16-17 (Mar. 2018) (available at: <https://www.bis.org/cpmi/publ/d174.pdf>) (noting that a shift from deposits to CBDC could be particularly large in times of stress).

<sup>17</sup> "Money and Payments: The U.S. Dollar in the Age of Digital Transformation," *supra* note 3, pp. 17-18.

total amount of CBDC they could hold.<sup>18</sup> We believe neither of these proposed mitigants would be effective.

While a non-interest-bearing CBDC could be less attractive than a commercial bank deposit bearing interest, that would only hold true in high interest rate environments and in circumstances where the depositor was unconcerned about the risk of financial instability and/or capital preservation. In times of stress, depositors would undoubtedly choose the comparative safety of a CBDC over commercial bank money, even if the latter were not interest-bearing.<sup>19</sup>

Holding limits (i.e., caps on the total amount of CBDC that could be held by any single depositor) are equally likely to be ineffective. First, holding limits that are too low are likely to be at odds with some or all of the policy purposes for which a CBDC has been advanced. For example, it would be highly unlikely that a CBDC subject to holding limits could compete effectively with private sector cryptocurrencies to which no such holding limits applied. Similarly, if, as some contend (but we dispute), a CBDC is necessary in order to preserve the preeminent role of the U.S. dollar in international trade and finance, holding limits would be inimical to the kinds of large dollar transactions that a CBDC would need to accommodate. Further, statistical data on the size of bank deposits indicate that the median value of transaction accounts is quite low (\$5,300)<sup>20</sup> and at least one community banker has noted that seventy percent of the deposit account balances at his institution are \$2,500 or less.<sup>21</sup> This suggests that, in order to be effective, holding limits would have to be extremely low, which would, in turn, frustrate many of the purposes for which a CBDC is being promoted.

## **B. Complicating Monetary Policy**

Some proponents have suggested that a CBDC would give the Federal Reserve another tool with which to conduct monetary policy. The Clearing House believes that such a tool would come with significant risks that would only serve to complicate monetary policy.

Because a CBDC could be programmable or involve a direct on-going relationship with the central bank, it could, in contrast to paper Federal Reserve notes, be designed to include

---

<sup>18</sup> *Id.* at p. 17.

<sup>19</sup> See “CBDC: Central Banking for All?” *supra* note 15, p. 27 (noting that the stability of a central bank during a crisis could cause depositors to “internalize” the security feature and could “attract[] all deposits away from the commercial banking sector” as the central bank becomes a “deposit monopolist”).

<sup>20</sup> See Federal Reserve Bulletin, “Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances,” Vol. 106, No. 5, pp. 16 (Sept. 2020) (available at: <https://www.federalreserve.gov/publications/files/scf20.pdf>) (noting that the conditional median value of transaction accounts in 2019 was \$5,300, but that the mean value was about \$42,000, suggesting that high-value accounts skew the mean).

<sup>21</sup> See Interview of James Reuter, CEO and President of FirstBank in Lakewood, CO, by Rob Blackwell (available at: <https://podcasts.apple.com/us/podcast/why-bankers-need-to-pay-attention-to-cbdcs-or-else/id1506774121?i=1000541221442>) (noting that 70% of FirstBank’s consumer accounts had a balance below \$2,500 at one point in a one-year period).

certain features to support monetary policy.<sup>22</sup> For example, a CBDC that pays interest might also allow the Federal Reserve to reduce interest rates to below zero (or the zero-lower bound) in the event of a deflationary spiral, and could therefore enhance the Federal Reserve’s control over interest rates. Especially if programmable, a CBDC could also be designed to accommodate rules such as defined expiration, or limited usability, which could permit more targeted monetary policy.<sup>23</sup> Negative interest rates on a CBDC, however, could generate a public backlash. Additionally, preserving the ability to apply a negative interest rate may require policymakers to limit the ability of holders of CBDC to convert to federal reserve notes, commercial bank money, or some other form of holding as doing so would thwart the ability of the central bank to impose such a negative rate. At the same time, the willingness of parties to accept a negative-interest-rate-paying CBDC for payment may be diminished, particularly where other forms of payment are available.

Additionally, a CBDC designed for monetary policy implementation could lead to rapid and very significant reductions in reserve balances (the deposits that commercial banks and other depository institutions hold at the Federal Reserve) when there is a flight to quality, driving up money-market interest rates and potentially destabilizing financial markets. To prepare for such swings in reserve balances, and to accommodate the potential demand for a CBDC, the Federal Reserve would have to maintain a much larger balance sheet in normal times than it does now, possibly more than one-third of GDP.<sup>24</sup> If investors in banks and other corporations shifted into CBDC in periods of stress (which could occur very rapidly given the digital nature of CBDC), then the Federal Reserve would need to replace the lost funding by lending potentially significant sums to banks and non-bank financial institutions, while purchasing correspondingly significant amounts of government and private securities. For these reasons, we believe that a CBDC is unlikely to be an effective monetary policy tool and agree with the Federal Reserve’s assessment that it would serve only to “complicate monetary policy implementation.”<sup>25</sup>

### C. Challenging Consumer Privacy and Balancing AML/CFT Concerns

It is unclear how one would balance goals related to privacy, which are often heightened when it comes to financial matters,<sup>26</sup> and goals related to AML and CFT concerns in the design and operation of a CBDC. Transactions that are conducted in cash are largely anonymous. Cash,

---

<sup>22</sup> See Bill Nelson, “The Benefits and Costs of a CBDC for Monetary Policy,” Bank Policy Institute, p. 1 (April 15, 2021) (available at: <https://bpi.com/wp-content/uploads/2021/04/The-Benefits-And-Costs-Of-A-Central-Bank-Digital-Currency-For-Monetary-Policy.pdf>.) Further, by incorporating an interest-related feature a CBDC system might permit interest rate-related decisions by the Federal Reserve to be rapidly effectuated. (See Federal Reserve, “Money, Interest Rates, and Monetary Policy,” FAQs (March 1, 2017) (available at: <https://www.federalreserve.gov/faqs/money-rates-policy.htm>) (providing information on how the Federal Reserve conducts monetary policy).)

<sup>23</sup> Programmability, as a design feature, means the ability to predetermine the execution of certain operations if a set of conditions is met in the future.

<sup>24</sup> See “The Benefits and Costs of a CBDC for Monetary Policy,” *supra* note 22, p. 7.

<sup>25</sup> “Money and Payments: The U.S. Dollar in the Age of Digital Transformation,” *supra* note 3, p. 19.

<sup>26</sup> See, for example, The Right to Financial Privacy Act of 1978 (12 U.S.C. ch. 35 § 3401 *et seq.*).

however, is bounded by its physical characteristics and the requirement that it be transported in physical form. A CBDC would have no such limitations and therefore raises heightened AML/CFT concerns. Further, balancing privacy and AML/CFT goals, and still making CBDC an attractive alternative to nonbank money (e.g., cryptocurrency and stablecoins), which is often preferred precisely because of the anonymity that it provides, would be difficult.

Some countries, like China, are deploying their CBDC for the very reason that it will give them the ability to monitor and collect data relating to its use, providing these governments with an effective tool to facilitate the central planning of their economy as well as facilitate government control over their citizens.<sup>27</sup> The U.S. government, on the other hand, has markedly different aspirations for a CBDC, and consumer privacy would need to be paramount.

The Federal Reserve has proposed using an intermediated model that would place AML/CFT screening and compliance obligations on the private sector, but it is unclear that the private sector would want to assume the associated risks without a clear business case for doing so, which has so far not been articulated. Holding CBDC would be a type of custodial service provided by banks, and custodial services typically operate on a very low margin. Accordingly, a significant increase in fees paid by bank customers would likely be necessary to make this custodial holding model viable, which, in turn, casts doubt on the claims that a CBDC would facilitate cheaper payments.

To ensure AML/CFT compliance, either the government or the private sector (in an intermediated model) would need to understand the nature and purposes of transactions and monitor for and provide reports on potential illicit activity. It is unclear how such information would be transmitted in a CBDC. Further, in either circumstance (government or intermediated model), users would not enjoy the same level of privacy protections they enjoy with respect to cash. Moreover, while consumers may want privacy protections factored into the design of a CBDC, those protections would not be immune from abuse and political pressure to modify or circumvent them.

## **E. Increasing Operational Resilience and Cybersecurity Concerns**

To the extent a CBDC were to replace paper currency, the U.S. would be moving its currency to a digital environment with comparatively greater operational and cyber risks. While paper currency also has operational risks, those risks are largely spread out across a diverse infrastructure in which the failure of any one part is unlikely to have a meaningful impact on the whole.

By comparison, a CBDC, unless operated on a distributed ledger, would consolidate risks in one or more operational centers. In so doing, a CBDC would exacerbate the operational risk

---

<sup>27</sup> Center for Strategic and International Studies, “How Will a CBDC Advance China’s Interests” (Aug. 20, 2020) (available at: <https://chinapower.csis.org/china-digital-currency/>) (noting that a digital renminbi would “enhance the government’s capacity to monitor and control economic activity”).

that a failure would have a more catastrophic impact on the whole and provide a more convenient and attractive target for hackers, fraudsters and cyber warfare.

A CBDC operated on a distributed ledger could be more resilient, but has accompanying operational challenges, such as payment throughput and environmental costs.<sup>28</sup> Notably, the Federal Reserve has determined that distributed ledger technology is unlikely to work as the operational platform for a U.S. CBDC.<sup>29</sup>

### III. Potential Benefits of a CBDC Can be Achieved in Less Risky and More Efficient Ways

#### A. Mitigating the Risks Associated with the Proliferation of Private Digital Money

Concern over possible widespread use of certain unregulated private sector digital currencies that are “issued” by unregulated or lightly regulated entities (in particular, stablecoins) has been suggested as a potential reason to create a CBDC.<sup>30</sup> For example, Facebook’s initial

---

<sup>28</sup> See University of Cambridge, Cambridge Bitcoin Electricity Consumption Index (available at: <https://cbeci.org/>); and Total World Production & Consumption estimates (available at: <https://cbeci.org/cbeci/comparisons>) (noting that the environmental impact of distributed ledger-based systems can be significant). See also Peter Stella, “Who Will Afford to Use Bitcoin?” (International Monetary Fund paper abstract) (2021) (comparing cost and efficiency of Bitcoin blockchain and six centralized fiat money payments systems — TARGET2, FEDWIRE/CHIPS, NACHA ACH, Hong Kong CHAPS, UK CHAPS, and Payments Canada, and concluding that although technological innovations may improve the relative efficiency of POW in cryptocurrencies and digital currencies, there are likely to remain significant differences based on a symmetrical incorporation of knowledge and party identity that will make cryptocurrencies and digital currencies less efficient).

<sup>29</sup> Federal Reserve Bank of Boston and Massachusetts Institute of Technology Digital Currency Initiative, “Project Hamilton Phase 1[,] A High Performance Payment Processing System Designed for Central Bank Digital Currencies,” p. 5 (Feb. 3, 2022) (available at: <https://www.bostonfed.org/publications/one-time-pubs/project-hamilton-phase-1-executive-summary.aspx>).

<sup>30</sup> See Speech by Governor Lael Brainard, “Private Money and Central Bank Money as Payments Go Digital: an Update on CBDCs” to the Consensus by CoinDesk 2021 Conference (May 24, 2021) (available at: <https://www.federalreserve.gov/newsevents/speech/brainard20210524a.htm>) (noting that the growing role of digital private money is sharpening the Fed’s focus on CBDC and that CBDC introduction “may increase [payment system] resilience relative to a payments system where private money is prominent”); Chiu, Sablik & Wong, “Should Central Banks Worry About Facebook’s Diem and Alibaba’s Alipay?” Federal Reserve Bank of Richmond Economic Brief, No. 21-17 (May 2021) (available at: [https://www.richmondfed.org/publications/research/economic\\_brief/2021/eb\\_21-17](https://www.richmondfed.org/publications/research/economic_brief/2021/eb_21-17)) (concluding that private digital currency can result in suboptimal consequences, and reasoning that CBDC, as a policy tool, may temper these consequences); and both Nathaniel Popper, Mike Isaac, and Jeanne Smialek, “Fed Chair Raises ‘Serious Concerns’ About Facebook’s Cryptocurrency Project,” New York Times (July 10, 2019) (quoting Federal Reserve Chairman Jerome Powell as saying that Facebook’s private digital currency proposal has a host of “serious concerns” around “money laundering, consumer protection and financial stability”) and Christine Lagarde, “The future of money – innovating while retaining trust,” as contained in L’ÉNA hors les murs magazine (Nov. 30, 2020) (available at: <https://www.ecb.europa.eu/press/inter/date/2020/html/ecb.in201130~ce64cb35a3.en.html>) (noting that stablecoins could “threaten financial stability and monetary sovereignty” if widely adopted). See also David Milliken and Tom Wilson, “BoE says ‘stablecoin’ payments need same rules as banks,” Reuters (June 7, 2021) (quoting Bank of England Governor Andrew Bailey as saying that “[t]he prospect of stablecoins as a means of payment . . . have generated a host of issues,” and reporting that the Bank of England has adopted a view that stablecoin-based payments should be regulated in the same way as other forms of payment are today).



proposal for Libra caused many central bankers concern that they could ultimately cede control of the money supply to large tech giants.<sup>31</sup> Similarly, the growth of stablecoins like Tether, which claim to be pegged to the a unit of currency like the dollar but may not be supported by sufficient liquid reserves, and algorithmic stablecoins like TerraUSD that are backed by other cryptocurrency/crypto-assets, also raise financial stability concerns.<sup>32</sup> The rise of unregulated cryptocurrencies like Bitcoin that have no issuer and may be design facilitate the circumvention of government regulation have also raised concerns, but thus far those concerns have focused more on their use for illicit activities than as a substitute for “money.”<sup>33</sup>

<sup>31</sup> The initial Libra effort has now given way to Diem. And many of the initial Libra-related concerns that were expressed by central banks are trying to be addressed in the reimaged Diem. (See Andrew Morse, “Facebook-backed crypto project Diem to launch US stablecoin,” CNET (May 12, 2021) (available at: <https://www.cnet.com/personal-finance/investing/facebook-backed-crypto-project-diem-to-launch-us-stablecoin/>) (noting that Facebook’s digital currency operations would re-brand as “Diem,” relocate to the U.S. from Switzerland, and focus on launching a stablecoin in 2021); and Peter Rudegeair and Liz Hoffman, “Facebook’s Cryptocurrency Venture to Wind Down, Sell Assets: Diem Association is selling its technology to crypto-focused bank Silvergate for \$400 million,” The Wall Street Journal (Jan. 27, 2021) (reporting that Facebook (now Meta Platforms Inc.) has a deal in place to sell assets associated with its planned stablecoin, Diem). However, and in spite of the reported sale of Diem assets, it is still too early to determine whether Diem, as implemented, will satisfy the concerns of central bankers.

<sup>32</sup> See Tether, “Digital money for a digital age” (2021) (available at: <https://tether.to/>) (describing Tether as a token-based digital currency that one obtains by converting cash into Tether token, and that is “100% backed by [Tether’s] reserves, which include traditional currency and cash equivalents and, from time to time, may include other assets and receivables from loans made by Tether to third parties...”); “Tether says its reserves are back by cash to the tune of...2.9%” Financial Times (2021) (available at: <https://www.ft.com/content/529eb4e6-796a-4e81-8064-5967bbe3b4d9>) (noting that Tether cash reserves are comprised of just under 3% of cash and cash equivalents); Marc Hochstein, “US Fed Official Calls Tether a ‘Challenge’ to Financial Stability,” Coindesk (June 25, 2021) (available at: <https://www.coindesk.com/us-fed-official-calls-tether-a-challenge-to-financial-stability>) (quoting Eric Rosengren (president of the Federal Reserve Bank of Boston) as characterizing Tether’s U.S. dollar stablecoin as a risk to the stability of the financial system, and as concerned about the stability of the assets in the underlying portfolio in times of economic stress, and reporting that CDs, Secured Loans, and Corporate Bonds/Funds/Previous Metals all make up large percentages of the portfolio underlying Tether’s U.S. dollar stablecoin); and *In the Matter of Investigation by LETITIA JAMES, Attorney General of the State of New York, of iFINEX INC., BFXNA INC., BFXWW INC., TETHER HOLDINGS LIMITED, TETHER OPERATIONS LIMITED, TETHER LIMITED, TERTHER INTERNATIONAL LIMITED*[,] Respondents, Settlement Agreement (Feb. 17, 2021) (available at: <https://ag.ny.gov/press-release/2021/attorney-general-james-ends-virtual-currency-trading-platform-bitfinex-illegal>) (banning Tether from conducting trading activities in New York and that Tether’s U.S. dollar stablecoin was unstable due to a variety of factors, including insufficient reserves backing the coins and parent company loss of access to banking services). See also Muyao Shen, “How \$60 Billion in Terra Coins Went Up in Algorithmic Smoke,” Bloomberg (May 21, 2022) (available at: <https://www.bloomberg.com/graphics/2022-crypto-luna-terra-stablecoin-explainer/>) (detailing the extreme instability of the algorithmic stablecoin TerraUSD and its sister token Luna).

<sup>33</sup> See *supra* note 31. See also Timothy B. Lee, “Janet Yellen Will Consider Limiting the Use of Cryptocurrency,” WIRED (Jan. 22, 2021) (available at: <https://www.wired.com/story/janet-yellen-consider-limiting-cryptocurrency/>) (noting that Secretary Yellen has suggested the government should “examine ways in which [it] can curtail the [ ] use [of certain digital currencies] and make sure that [money laundering] doesn’t occur through those channels”); and Harry Robertson, “Janet Yellen says ‘misuse’ of cryptocurrencies like bitcoin is a growing problem, as regulators increase scrutiny after surge in interest,” Business Insider (Feb. 11, 2021) (quoting Janet Yellen as saying that “misuse” of cryptocurrencies is a “growing problem”) (available at: <https://markets.businessinsider.com/currencies/news/janet-yellen-bitcoin-misuse-cryptocurrencies-growing-problem-tesla-2021-2-1030071724>).

The Clearing House shares concerns regarding the risks associated with unregulated or lightly regulated cryptocurrencies, including stablecoins, and supports the recommendations made by the President’s Working Group on Financial Markets, the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency in their “Report on Stablecoins.”<sup>34</sup> In particular, we believe that stablecoins should be brought within the regulatory perimeter on a national level with standards that are equivalent to those that apply to depository financial institutions when engaged in functionally similar activities.<sup>35</sup> While bringing stablecoins into the regulatory perimeter may require Congressional action, the establishment of a CBDC would also require Congressional action.<sup>36</sup>

Further, there is no evidence that a CBDC would displace the availability or use of cryptocurrencies and stablecoins, and a CBDC would face several design challenges in competing with them. Specifically, among the attributes of stablecoins that make them appealing for payment transactions are their stable value, transaction anonymity, the speed and global reach of transactions, and the ability to hold value that is beyond the reach of creditors.<sup>37</sup> A CBDC designed to compete with unregulated stablecoins, therefore, would face several design challenges and tradeoffs. It would have to be international in scope and directly available to individuals around the world. But a U.S. CBDC, backed by the Federal Reserve, could have significant destabilizing effects on foreign financial systems, as populations in other parts of the world may prefer the relative safety and security of a U.S. central bank obligation. Foreign recipients of internationally transmitted U.S. CBDC would be the beneficiaries of 100% deposit protection from the Federal Reserve – a benefit unlikely to be matched in security by the central bank in their own jurisdiction.<sup>38</sup> Second, a CBDC designed to compete with unregulated or lightly regulated cryptocurrencies would need to have the same level of anonymity as those

---

<sup>34</sup> President’s Working Group on Financial Markets, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, “Report on STABLECOINS” (Nov. 2021), p. 7 (available at: [https://home.treasury.gov/system/files/136/StableCoinReport\\_Nov1\\_508.pdf](https://home.treasury.gov/system/files/136/StableCoinReport_Nov1_508.pdf)).

<sup>35</sup> TCH has urged FinCEN as part of its modernization of the AML/CFT regime to address gaps that currently exist in the regime between obligations that are imposed on stablecoin issuers and those that are imposed on banks when engaged in functionally similar activities. (Letter from The Clearing House Association, L.L.C. to Policy Division, Financial Crimes Enforcement Network, “Re: *Review of Bank Secrecy Act Regulations and Guidance* – Docket Number FINCEN-2021-0008” (Feb. 14, 2021) (available at: <https://www.theclearinghouse.org/advocacy/articles/2022/02/02-14-2022-financial-crimes-enforcement-network-fincen/>).

<sup>36</sup> See “Money and Payments: The U.S. Dollar in the Age of Digital Transformation,” *supra* note 3, p. 3 (noting that the Federal Reserve does not intend to proceed “without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law”).

<sup>37</sup> See Gwyneth Iredale, “A Complete Guide On Facebook Diem,” 101 Blockchains (May 20, 2021) (available at: <https://101blockchains.com/facebook-diem/>) (touting these benefits); Sila, “Why You Should Embrace Stablecoin Payment” (April 29, 2021) (touting the benefits of stablecoin payments for transactions with international consumers, and “Sila’s banking [application programming interface], which allows business owners and developers an easy [software development kit] for creating a banking app, banking wallet, ACH transfer, and crypto transfer...”); and Coingeek, “Go Cashless: The Rise of Stablecoins as Payment” (2021) (available at: <https://coingeek.com/bitcoin/101/go-cashless-the-rise-of-stablecoins-as-payment/>) (touting the stability, speed, convenience, and cost of stablecoin-based payment systems).

<sup>38</sup> Tony McLaughlin, “Two paths to tomorrow’s money,” *Journal of Payments Strategy & Systems*, Vol. 15, No. 1 (Nov. 15, 2020), p. 33.

cryptocurrencies, as well as the ability to hold and transfer value that evades the reach of creditors and by-passes sanction programs. Those attributes are, however, inimical to U.S. anti-money laundering policy goals related to the prevention of terrorist financing, the effectiveness of U.S. sanction programs, and the orderly administration of legal process in the U.S. and elsewhere.

We believe that the best path forward is not the creation of a CBDC designed to compete with private cryptocurrencies including stablecoins, but instead the creation of a comprehensive regulatory framework for private cryptocurrencies, something that should be done regardless of the existence of a CBDC. Once soundly regulated and supervised, the U.S. should have the expectation that the private sector could meet all or most of the needs that a CBDC might otherwise provide.

## **B. Improving Cross-Border Payments**

A CBDC designed to address cross-border payment frictions would face challenges similar to a CBDC designed to compete with stablecoins and unregulated private sector cryptocurrency in that it would have to be designed to be international in scope and therefore could have a significant destabilizing effect on foreign financial systems. Being an obligation of the U.S. central bank, it could prove more attractive for non-U.S. persons than their home country currency, particularly in times of stress.

Further, most proposals to use CBDC to reduce frictions in cross-border payments assume that CBDC would be directly transferable and function essentially as a digital bearer instrument without depository financial institution intermediaries. The use of bearer instruments is, however, problematic from a financial crimes perspective.<sup>39</sup> Physical bearer instruments are bounded by space – there is only so much money you can fit into a suitcase. Digital bearer instruments have no such limitation. Thus, to ensure appropriate scrutiny of transactions for AML, CFT, and sanctions reasons, the CBDC would likely need to be designed for distribution through a two-tier system with regulated and supervised financial institutions or intermediaries engaged in performing AML and OFAC screening functions. But once you settle on a two-tier system, and on subjecting payments to AML and OFAC screening, you have reintroduced much of the friction that the use of a digital currency in cross-border payments could otherwise address. In addition, as discussed more fully below, a two-tier system could also severely limit the CBDC’s usefulness for financial inclusion purposes, given that the problem that financial inclusion is trying to solve is the lack of accounts at second-tier entities (i.e., banks).

It is also important to bear in mind that what currently creates friction in cross-border payments is not the underlying technology. Rather, cost and friction are the result of differing

---

<sup>39</sup> See Paul Wong and Jess Leigh Maniff, “Comparing Means of Payment: What Role for A Central Bank Digital Currency?” FEDS Notes (Aug. 13, 2020) (available at: <https://www.federalreserve.gov/econres/notes/feds-notes/comparing-means-of-payment-what-role-for-a-central-bank-digital-currency-20200813.htm>) (at “Bearer Instrument,” noting that simply holding and transferring a bearer instrument convey value).

legal jurisdictions through which the payment must travel, with different legal standards relating to payments and different AML and CFT regimes and various foreign exchange requirements, all of which must be addressed by the financial institutions engaged in the payment. Government engagement on addressing and harmonizing different legal regimes relating to payments would be more effective in terms of lowering costs and reducing friction than would a CBDC.

From a speed and efficiency standpoint, The Clearing House Payments Company, through its IXB initiative, is already working to link its real-time payments system, the RTP network, with other real-time payments systems around the world and has completed a proof-of-concept for the underlying technology and announced a pilot.<sup>40</sup> The linking of real-time payments systems across the globe will allow cross-border payments to clear and settle in near real-time. A CBDC cannot materially improve on the speed and efficiency that will be delivered through the linking of real-time systems.<sup>41</sup> In addition to IXB, improvements in international bank-to-bank wire transfers could also be facilitated through extended hours of operation (such as 24x7 Fedwire operation), broader adoption of ISO 20022 standards, more fulsome implementation of SWIFT GPI, and other current market improvement initiatives.

### C. Preserve the Dollar’s International Role

Preserving the dollar’s international role may be top of mind for many given the recent events in Ukraine and the related efforts to impose effective sanctions on Russia. While this argument has timely emotional appeal, it makes little logical sense.

First, the existence of a U.S. CBDC would do nothing to diminish access by Russia and other sanctioned parties to the digital yuan, bitcoin and other cryptocurrencies to avoid sanctions. Second, whether or not a U.S. CBDC is available is unlikely to materially influence the use of the dollar in international trade and finance and global reserves. The U.S. dollar, which is already largely digital in practice, is preeminent because of qualities underpinning its value and stability – i.e., respect for the rule of law, stable government, well-regulated and efficient markets, sound U.S. economic policies, etc.<sup>42</sup> Importantly, where studies have been undertaken to determine

---

<sup>40</sup> The Clearing House, SWIFT, and EBA CLEARING, “EBA CLEARING, SWIFT, and The Clearing House join forces to speed up and enhance cross-border payments” (Oct. 11, 2021) (available at: [https://www.theclearinghouse.org/payment-systems/articles/2021/10/10112021\\_cross-border-ixb](https://www.theclearinghouse.org/payment-systems/articles/2021/10/10112021_cross-border-ixb)); and “EBA CLEARING, SWIFT, and The Clearing House to deliver pilot service for immediate cross-border payments” (Apr. 28, 2022) (available at: [https://www.theclearinghouse.org/payment-systems/articles/2022/04/ebacl\\_tch\\_swift\\_cross\\_border\\_ixb\\_04-28-2022](https://www.theclearinghouse.org/payment-systems/articles/2022/04/ebacl_tch_swift_cross_border_ixb_04-28-2022)).

<sup>41</sup> Linking real-time systems also has the benefit of leveraging a technology that is largely already in existence. As of 2021, there were more than 60 real-time payments systems, covering 65 countries/territories, in operation, and more under development. (See Central Banking, “Real-time payment systems for the real world” (Aug. 16, 2021) (available at: <https://www.centralbanking.com/fintech/7866816/real-time-payment-systems-for-the-real-world>).)

<sup>42</sup> See Carol Bertaut, Bastian von Beschwitz & Stephanie Curcuru, “The International Role of the U.S. Dollar,” FEDS Note (Oct. 6, 2021) (available at: <https://www.federalreserve.gov/econres/notes/feds-notes/the-international-role-of-the-u-s-dollar-20211006.htm>) (concluding, among other things, that while “[a] shifting payments landscape could [] pose a challenge to the U.S. dollar’s [international] dominance ... it is unlikely that technology alone

whether the introduction of a CBDC would likely affect use of the currency in international trade and finance, those studies have shown that it would not.<sup>43</sup> The United States and most of the developed world already have a highly functioning payments system that transfers payments in digital form, supports international trade and finance, and to which improvements are rapidly being made. It is therefore unlikely that a CBDC would have sufficient additive value to advance the dollar's role.

Political risk associated with an international U.S. CBDC could also accelerate the world's movement away from using the dollar as the global reserve currency and currency of choice for international trade and finance. A substantial part of the attractiveness of the dollar today is the fact that U.S. commercial banks are generally averse to extra-judicial seizures of deposits, which gives depositors confidence in U.S. property rights and the rule of law generally. A politicized U.S. CBDC that is international in scope would presumably lower the friction to freezing assets of foreign governments, and while some proponents (national security interests, for example) may view this as a good thing, foreign countries/persons/corporations might see this as a reason to further diversify the currencies they use for international trade in order to avoid political interference with their foreign currency reserves.<sup>44</sup>

In short, a CBDC is unlikely to further the goal of preserving the role of the dollar as the global reserve currency and currency of choice for international trade and finance and could actually diminish that role. Rather than adopt a CBDC, the U.S. should do everything it can to ensure that the reasons the dollar plays the role it does continue to exist – i.e., continue to support respect for the rule of law and stable government and continue to ensure that U.S. markets are well-regulated and efficient and that U.S. economic policies are sound. Further, if programmability or the use of blockchain technology is determined to be a desired feature that is needed to preserve the role of the dollar, the private sector is well-positioned to provide that functionality in the same way that private sector payments systems and financial institutions currently play a key role in facilitating international trade and finance denominated in dollars.

#### **D. Promote Financial Inclusion**

Some argue that a CBDC would promote financial inclusion. While The Clearing House shares the goal of increasing financial inclusion, we believe those who promote CBDC as a vehicle for financial inclusion often ignore the reasons households and individuals in the U.S. are unbanked or underbanked in the first place. For example, a segment of domestic unbanked

---

[(including the introduction and growth of official digital currencies)] could alter the landscape enough to completely offset the long-standing reasons the dollar has been dominant.”)

<sup>43</sup> See European Central Bank, “The international role of the euro, June 2021,” at Box 8 (available at: <https://www.ecb.europa.eu/pub/ire/html/ecb.ire202106~a058f84c61.en.html#oc2>) (running model simulations on the impact of a digital euro on the international role of the euro and concluding that a digital euro “would not necessarily be a game changer for the international role of the euro, which will continue to depend to a large extent on fundamental forces, such as stable economic fundamentals, size, and deep and liquid financial markets”).

<sup>44</sup> Similarly, U.S. corporates and other free world economies are likely to be averse to using the digital yuan for similar reasons, in addition to the desire to avoid data leakage to and surveillance by the Chinese government.

consumers rely on cash and do not possess the tools (smartphones and devices capable of connecting to the internet, or internet access) that would be necessary to hold and use CBDC.<sup>45</sup> Moreover, CBDC, however it is designed, would not address some of the most frequently cited reasons U.S. households are unbanked.<sup>46</sup> For example, there is no obvious reason consumers who do not trust banks, or who are concerned with the privacy implications of sharing information with anyone else, whether it be a commercial or governmental entity, would trust the Federal Reserve or be willing to accept privacy-related incongruities between cash and general purpose CBDC. Moreover, if a CBDC were constructed principally as a tool for financial inclusion, then it would need to be usable offline (so as to avoid transaction records) and be constructed to have, at the very least, robust privacy protections in place – privacy protections that lessen the incongruities between cash and general-purpose CBDC but which would be in tension with U.S. concerns regarding money laundering and terrorist financing. Such a CBDC would also need to be accessible to individuals with little or no familiarity with technology and connected devices, be available to individuals with little or no access to broadband, address the challenges faced by the unbanked with respect to identification, and be structured to compliment efforts to introduce more traditional banking services, such as access to credit.

Given the broad availability of low-cost and no-cost basic accounts at financial institutions across the U.S., a CBDC would likely not be sufficiently additive in value to address

---

<sup>45</sup> See The Clearing House, *et al.*, “Delivering Financial Products and Services to the Unbanked and Underbanked in the United States - Challenges and Opportunities” (May 2021), pp. 13-16 & 37 (available at: [https://www.theclearinghouse.org/-/media/new/tch/documents/advocacy/tch\\_unbanked\\_report\\_may\\_2021.pdf](https://www.theclearinghouse.org/-/media/new/tch/documents/advocacy/tch_unbanked_report_may_2021.pdf)). See also Emily A. Vogels, “Digital divide persists even as Americans with lower incomes make gains in tech adoption,” Pew Research Center (June 22, 2021) (available at: <https://www.pewresearch.org/fact-tank/2021/06/22/digital-divide-persists-even-as-americans-with-lower-incomes-make-gains-in-tech-adoption/>) (noting that “[r]oughly a quarter of adults with household incomes below \$30,000 a year (24%) say they don’t own a smartphone” and that “[a]bout four-in-ten adults with lower incomes do not have home broadband services (43%) or a desktop or laptop computer (41%)”); and Vanessa Sumo, “Bringing in the Unbanked,” Federal Reserve Bank of Richmond (Winter 2007) (noting that many individuals and households lack documentation, including forms of identification, necessary to open bank accounts).

<sup>46</sup> When the FDIC asks households why they do not have an account with a bank, responses are numerous and varied. Of the reasons households provide, the most frequently reported reason, perennially, and by a wide margin, is not having enough money to have an account or not having enough money to meet minimum balance requirements. After concerns about having sufficient funds to open an account, the next most frequently cited reasons as to why households remain unbanked are: trust (36.3 percent), privacy concerns from banking (36.0 percent), the costliness of bank fees (fees are too high) (34.2 percent), and the predictability of bank fees (31.3 percent). (See Federal Deposit Insurance Corporation, “How America Banks: Household Use of Banking and Financial Services [-] 2019 FDIC Survey,” p. 3 (available at: <https://www.fdic.gov/analysis/household-survey/2019report.pdf>).) (See also The Board of Governors of the Federal Reserve System, “Report on the Economic Well-Being of U.S. Households in 2018-2019” (June 5, 2019) (available at: <https://www.federalreserve.gov/publications/2019-economic-well-being-of-us-households-in-2018-banking-and-credit.htm>); The Board of Governors of the Federal Reserve System, “Report on the Economic Well-Being of U.S. Households in 2019, Featuring Supplemental Data from April 2020” (May 2020) (available at: <https://www.federalreserve.gov/publications/files/2019-report-economic-well-being-us-households-202005.pdf>); and “Delivering Financial Products and Services to the Unbanked and Underbanked in the United States - Challenges and Opportunities,” *supra* note 46, pp. 11-21 (noting many reasons why U.S. households and individuals are unbanked or use non-bank financial products and services).)

the underlying challenges relating to banking the unbanked. Moreover, the overall goal of addressing the unbanked challenge should be bringing those individuals and households who are unbanked *into the banking system*, where they have the opportunity to grow their relationship with a financial institution and take advantage of the full array of services offered by the private financial sector, including access to credit, online bill payment, financial advice, and other services. A CBDC would do nothing to address these ancillary needs.

There are, however, several viable alternatives for advancing financial inclusion in the U.S., including (i) public-private partnerships that highlight low- and no-cost accounts offered by banks, such as the Bank On program, (ii) bank and fintech innovations that meet the needs of unbanked and underbanked individuals and households, (iii) upgrades to legacy systems that, if made by the government, could facilitate the rapid distribution of benefit payments through same-day ACH or existing real time payments systems, (iv) actions by the government to study and reduce barriers to individuals entering the banking system (including digital identification), and (v) expanded broadband internet access in underserved areas.<sup>47</sup> Advancing a CBDC for financial inclusion would likely introduce more costs and risks than alternative approaches to the issue.

#### **F. Extend Public Access to Safe Central Bank Money**

Some have argued that the public should be able to conduct payments in central bank money. This argument ignores the fact that cash has not been able to be used widely for many types of payments for decades as commerce has increasingly become less local in nature and increasingly Internet-based and digitized. Moreover, cash has never been practical for use in large-value payments due to its physical constraints. The narrative that the public has a right to make payments in central bank money ignores the reality that consumers have been doing so for decades without injury.

Further, given the existence of deposit insurance and the supervised nature of insured depository financial institutions, currency is not needed for such transactions. Digital payments that rely on the use of deposit accounts at commercial banks are largely equivalent to the safety that a CBDC would provide while avoiding the risks that a CBDC would introduce. Further, if a CBDC were subject to holding or accumulation limits to ensure it were not disruptive to the financial system, those limits would invariably need to be well below the deposit insurance limit, thereby potentially making a CBDC less attractive than commercial bank deposits other than in times of stress.<sup>48</sup>

---

<sup>47</sup> “Delivering Financial Products and Services to the Unbanked and Underbanked in the United States - Challenges and Opportunities,” *supra* note 46. See also PYMNTS.com, “Real Time Payments Help Underbanked Consumers Find Financial Relief” (July 7, 2021) (available at: <https://www.pymnts.com/news/faster-payments/2021/real-time-payments-help-underbanked-consumers-find-financial-relief/>) (noting that faster payments can help unbanked households better manage payments and bills, and avoid late fees).

<sup>48</sup> The Clearing House recognizes that there is potential tension between arguing that a CBDC is likely to diminish the aggregate amount of deposits in the banking system and the argument that making payments in commercial bank money is largely equivalent to payments in central bank money because of deposit insurance and the regulatory and

#### **IV. A CBDC would require significant private-sector investment and risk without the support of a clear business case.**

To be successful, a CBDC would need to achieve scale, which would require a CBDC to provide sufficient additive qualities over alternative means of storing value and making payments. Ultimately, any CBDC that is introduced would either fulfill the purpose/function for which it is advanced, in which case it would be successful and would impact existing financial and payments systems, or it would be unsuccessful because it did not provide sufficient additive benefits over alternatives.

Both the intermediated CBDC framework and the development of a payment infrastructure capable of accepting CBDC would require significant investment from private firms. That investment would in turn require business cases that support such investment. Viable business cases for building the back-office and front-office infrastructure to facilitate CBDC-based payments, or, more fundamentally, to conduct KYC/AML/CFT/OFAC screenings, would be absolute prerequisites to any intermediary establishing a relationship with a CBDC holder. A sound business case, therefore, is critical to the success of a CBDC; to date, however, no such business case exists.

#### **IV. Concluding Comments**

The Clearing House appreciates the important work that Congress is doing to examine the opportunities and risks presented by the possible development and introduction of a CBDC in the U.S. We hope that you will take the points made in this letter into consideration as your deliberations continue and we trust that your examination of the issues will lead you to conclude, as we have, that a CBDC should not be introduced in the U.S.

Respectfully submitted,

/S/

Robert C. Hunter  
Director of Legislative & Regulatory Affairs and  
Deputy General Counsel  
(336) 769-5314  
[Rob.Hunter@TheClearingHouse.org](mailto:Rob.Hunter@TheClearingHouse.org)

---

supervisory structure applicable to banks. While we cannot accurately predict consumer attitudes and preferences, either way this duality gets resolved is likely unacceptable. Either CBDC will be wildly successful, in which case it will likely decimate the current bank deposit and lending system, or it will not, in which case the government will have spent considerable time, money, and other resources constructing a system without substantial additive value.