Cooley

Federal Reserve Seeks Comments on a US Central Bank Digital Currency

January 31, 2022

The Federal Reserve Board recently released a discussion paper and is seeking public comments on the potential benefits and risks, and related policy considerations, of introducing a central bank digital currency (CBDC) in the United States. The Federal Reserve emphasizes that the paper is "the first step in a public discussion between the Federal Reserve and stakeholders about CBDC," and that it "will only take further steps toward developing a CBDC if research points to benefits for households, businesses, and the economy overall that exceed the downside risks, and indicates that CBDC is superior to alternative methods." The Federal Reserve will also not issue a CBDC without "clear support" from the executive branch and Congress. Accordingly, the Federal Reserve makes clear it is not signaling it will make any imminent decisions regarding whether to introduce a CBDC.

As the development of a CBDC would be a "highly significant innovation in American money," the Federal Reserve is seeking public comments on 22 questions related to this topic. Comments are due by May 20, 2022, and may be submitted online.

Function and characteristics of a CBDC

The Federal Reserve envisions that a CBDC could be used by individuals, businesses and governments to make payments using a risk-free asset. For example, users could use a CBDC for purchases of goods or services, and governments could collect taxes or make benefit payments. Importantly, CBDC transactions would be final and complete in real time. A CBDC might also be able to be programmed to deliver future payments.

The Federal Reserve states that a CBDC would best serve the needs of the United States if it were:

- **Privacy protected** to safeguard the privacy rights of consumers, while also providing sufficient transparency to deter criminal activity.
- **Intermediated** such that the private sector could offer accounts or digital wallets to facilitate management of CBDC holdings and payments.
- **Transferable** between customers of different intermediaries, making the payment system more efficient.
- **Identity verified** to help combat money laundering and terrorist financing.

Potential benefits of a CBDC

The paper outlines a variety of potential benefits of introducing a CBDC. The Federal Reserve believes that a CBDC could:

- Offer broad public access to digital money that is free from credit risk and liquidity risk.
- Improve cross-border payments, provided there is significant international cooperation.
- Help preserve the dominant role of the US dollar globally.
- Promote greater financial inclusion (e.g., facilitate access to digital payments and provide a secure means to save).
- Extend access to safe central bank money to the general public.

Potential risks of a CBDC

The paper also identifies potential key risks posed by the introduction of a CBDC. In the Federal Reserve's view, a CBDC could:

- Reduce the aggregate amount of deposits in the banking system and cause a shift away from lower-risk assets, both of which could decrease credit availability or raise credit costs for market participants.
- Increase the risk or severity of runs on financial firms.
- Impact monetary policy implementation and interest rate control.
- Be susceptible to operational disruptions and cybersecurity risks.

Comments and outlook

A CBDC would be a liability of the Federal Reserve available to the general public. In this regard, a CBDC would potentially provide a safe, digital payment option for individuals and businesses. While the development of a CBDC would be a significant innovation itself, the issuance of a CBDC would also spur innovation in the private sector. Under the intermediated model discussed in the paper, banks and nonbank financial services providers could offer accounts or digital wallets to hold or make payments with a CBDC, as the Federal Reserve Act does not authorize individuals to hold Federal Reserve accounts.

Notwithstanding the potential benefits of a CBDC, the paper also highlights existing developments in the US payment system that are focused on making payments faster, cheaper, more convenient and more accessible. Nonbank providers of payment services have played an important role in advancing these goals, and the development of new interbank settlement services offers greater capabilities for instant payments. The request for comments indicates that the Federal Reserve is interested in both understanding how the US payment system might evolve in the absence of a CBDC and gathering input on issues that would have to be addressed if it were to move ahead with implementing a CBDC.

This content is provided for general informational purposes only, and your access or use of the content does not create an attorney-client relationship between you or your organization and Cooley LLP, Cooley (UK) LLP, or any other affiliated practice or entity (collectively referred to as "Cooley"). By accessing this content, you agree that the information provided does not constitute legal or other professional advice. This content is not a substitute for obtaining legal advice from a qualified attorney licensed in your jurisdiction, and you should not act or refrain from acting based on this content. This content may be changed without notice. It is not guaranteed to be complete, correct or up to date, and it may not reflect the most current legal developments. Prior results do not guarantee a similar outcome. Do not send any confidential information to Cooley, as we do not have any duty to keep any information you provide to us confidential. When advising companies, our attorney-client relationship is with the company, not with any individual. This content may have been generated with the assistance of artificial intelligence (AI) in accordance with our AI Principles, may be considered Attorney Advertising and is subject to our legal notices.

Key Contacts

Adam Fleisher **Washington, DC**	**afleisher@cooley.com** **+1 202 776 2027**

This information is a general description of the law; it is not intended to provide specific legal advice nor is it intended to create an attorney-client relationship with Cooley LLP. Before taking any action on this information you should seek professional counsel.

Copyright © 2023 Cooley LLP, 3175 Hanover Street, Palo Alto, CA 94304; Cooley (UK) LLP, 22 Bishopsgate, London, UK EC2N 4BQ. Permission is granted to make and redistribute, without charge, copies of this entire document provided that such copies are complete and unaltered and identify Cooley LLP as the author. All other rights reserved.