

Congress of the United States
Washington, DC 20515

September 30, 2019

The Honorable Jerome H. Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, D.C. 20551

Dear Chairman Powell:

As you are aware, the nature of money is changing. While this is not a new phenomenon—one might recall the advancement of paper money in China in the 9th century from a coin-based system—more recent advancements could be described as an inflection point in the evolution of money and payments. As outlined in more detail below, the Federal Reserve, as the central bank of the United States, has the ability and the natural role to develop a national digital currency. We write today to hear your views regarding this issue at this critical juncture.

Article I, Section VIII of the United States Constitution grants Congress rights over the coinage of money, regulation of the value thereof, and of foreign coin, and fixing the standard of weights and measures.¹ As a result Congress passed the Coinage Act on April 2, 1792, establishing the first national mint in the United States. Similarly, in 1913 Congress passed the Federal Reserve Act, establishing the Federal Reserve System as the central bank of the United States, with a mandate to provide the nation with a safer, more flexible, more stable monetary and financial system. With the potential for digital currencies to further take on the characteristics and utility of paper money, it may become increasingly imperative that the Federal Reserve take up the project of developing a U.S. dollar digital currency.

We are concerned that the primacy of the U.S. Dollar could be in long-term jeopardy from wide adoption of digital fiat currencies. Internationally, the Bank for International Settlements conducted a study that found that over 40 countries around the world have currently developed or are looking into developing a digital currency.² For example, Sweden is working on an “e-krona” project, Uruguay has completed a pilot program on an “e-Peso” digital currency, and China’s central bank is expected to launch a digital version of the yuan later this year or in early 2020.

Potential development of digital fiat currencies is not limited to minor economies. The Honorable Christine Lagarde, who was recently nominated to be president of the European Central Bank, offered comments on the subject of fiat digital currencies at the Singapore Fintech Festival on November 14, 2018.³ In her remarks, Ms. Lagarde assesses whether central banks should go beyond regulating cryptocurrencies and develop individual national digital currencies of their own. She observes that, without fiat digital currencies as an option, customers seeking to use cryptocurrency as a means of payment or unit of account are utilizing a payment tool whose liability rests with a private firm rather than the state. While some Americans currently use cryptocurrency for speculative purposes, usage of digital assets may well increasingly align with that of paper money in the future.

¹ U.S. Const. art. I, § 8.5.

² See <https://www.bis.org/publ/bppdf/bispap101.pdf>

³ See <https://www.imf.org/en/News/Articles/2018/11/13/sp111418-winds-of-change-the-case-for-new-digital-currency>

Relying on the private sector to develop digital currencies carries its own risks, including loss of control of monetary policy, as well as the ability to implement and enforce effective anti-money laundering and counter-terrorism financing (AML/CTF) measures. The Facebook/Libra proposal, if implemented, could remove important aspects of financial governance outside of U.S. jurisdiction. In the private sector, J.P. Morgan recently became the first U.S. bank to create and successfully test a digital coin representing a fiat currency.⁴ Additionally, next year, Wells Fargo plans to begin piloting Wells Fargo Digital Cash which will be a cryptocurrency linked to the U.S. dollar.⁵

In search of further clarity and the desire for the United States to remain financially competitive, we ask that you provide answers to the following questions regarding the potential development of a U.S. dollar digital currency:

1. Is the Federal Reserve exploring the development, or actively developing, a U.S. dollar digital currency?
2. What plans are the Federal Reserve making to respond if digital fiat currencies or their private sector equivalents begin to gain traction?
3. What legal, regulatory or national security issues would prevent the Federal Reserve's development of a U.S. dollar digital currency?
4. What benefits or detriments do you see the Federal Reserve incurring as a result of developing a U.S. dollar digital currency, especially as it relates to upholding its mandate and policy goals?
5. What market risks, if any, do you see in the development, or in the failure to develop, a national digital currency?
6. Please provide a description of any salient design features that would have to be considered or specified by Congress for the development of a U.S. dollar digital currency (e.g., access and transfer mechanisms for such currency, the degree of anonymity of transactions vis-à-vis the central bank, parameters of a potential pilot program, and any cyber or other operational considerations).

We look forward to receiving your answers and hearing your views. Should you have any questions, please do not hesitate to reach out to Ashley Gunn at ashley.gunn@mail.house.gov in Rep. French Hill's office, or Diem-Mi Lu at diem-mi.lu@mail.house.gov in Rep. Bill Foster's office.

Sincerely,



French Hill
Member of Congress



Bill Foster
Member of Congress

⁴ See <https://www.jpmorgan.com/global/news/digital-coin-payments>.

⁵ See <https://www.reuters.com/article/us-wells-fargo-blockchain/wells-fargo-tests-cryptocurrency-for-internal-transactions-idUSKBN1W22D3>.