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SUBCOMMITTEES

INVESTOR PROTECTION,
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NATIONAL SECURITY, INTERNATIONAL
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HOUSE REPUBLICAN STEERING

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September 28, 2021

The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue Northwest
Washington, DC 20551

Dear Chair Powell:

On July 14, 2021, you appeared before the House Financial Services Committee and provided insight on the Federal Reserve's work on developing a central bank digital currency (CBDC), your concerns about stablecoin regulation, and your view that a CBDC would undermine the need for decentralized digital assets. In light of these comments, we would like to know if and how you and the Federal Reserve Board of Governors intend to support domestic innovation and widespread adoption of decentralized digital assets. To that end, we would like answers to the following questions:

- (1) In the United States, digital assets are subject to overlapping regulation from multiple regulators, including the Federal Reserve Board, Financial Crimes Enforcement Network, the Securities Exchange Commission, the Commodities Futures Trading Commission, and others. The adoption of cryptocurrency has been hobbled by a lack of regulatory clarity addressing such matters as custody, tax policy, accounting practices, and other vital requirements. Given this uncertainty, the regulatory environment for digital assets has been defined by enforcement actions, causing uncertainty and leaving entrepreneurs reluctant to invest and innovate in the United States, which has also had the detrimental effect of driving high-paying technology jobs and companies out of our country. What steps is the Federal Reserve Board taking to coordinate with other federal regulators on the development of policy guidance for digital assets such as cryptocurrencies, and other critical related policy issues such as custody and accounting, to ensure America remains a leader in financial innovation?
- (2) On June 10, the Texas Department of Banking issued a notice affirming that Texas state-chartered banks "may provide customers with virtual currency custody services, so long as the bank has adequate protocols in place to effectively manage the risks and comply with applicable law." Wyoming already has a special purpose bank

charter that allows qualifying banks to offer cryptocurrency custody. These state-by-state steps forward are likely to continue as adoption of cryptocurrency grows. As such, increasing bank access to Fed payment rails is critical to facilitate widespread adoption of these assets. What steps is the Board of Governors taking on its own or in coordination with regional Federal Reserve Banks to provide regulatory clarity to banks that wish to offer cryptocurrency or other digital asset custody to their customers?

- (3) Countries such as China, Sweden, Ecuador, and the Bahamas are currently testing retail CBDC projects. On May 20, you announced that the Fed would be publishing a summer discussion paper that will explore “the implications of fast-evolving technology for digital payments, with a particular focus on the possibility of issuing a U.S. central bank digital currency.” In your statement, you also indicated that the Board “expect[s] to play a leading role in developing international standards for CBDCs” through engagement with “central banks in other jurisdictions as well as regulators and supervisors here in the United States.” A cornerstone of the current payments infrastructure is that there are both public and private payment solutions such as ACH, Fedwire, Visa, PayPal and others. When do you plan to release this discussion paper, and does the Federal Reserve Board of Governors intend to highlight the importance of preserving a marketplace of private payment networks?
- (4) Finally, as previously mentioned, you noted to the Committee on July 14, 2021, that the strongest argument in favor of a United States CBDC is that it eliminates the need for cryptocurrencies and stablecoins. Specifically, you stated “you wouldn’t need stablecoins, you wouldn’t need cryptocurrencies if you had a digital U.S. currency – I think that’s one of the stronger arguments in its favor.” However, on March 22, 2021, you said about bitcoin, “It is essentially a substitute for gold rather than the dollar.” Can you explain the contradiction in these statements given that a dollar CBDC would not be a substitute for a gold-like cryptocurrency? Additionally, as you know, cryptocurrency networks do not merely facilitate value transfer, but also make possible myriad applications – from decentralized identity to decentralized file storage. Do you believe a CBDC would make these applications, and the cryptocurrencies that power them, obsolete?

Decentralized digital assets and digital asset ecosystems empower individual Americans and unlock great access to opportunities for all – whether that is the opportunity to access better financial services and products or the opportunity to innovate, to form capital, to launch projects, and to create jobs. The Fed’s work with other regulators to support domestic innovation and widespread digital asset adoption is imperative.

We appreciate your prompt response, no later than October 15, 2021, to the questions detailed in this letter.

Sincerely,



Tom Emmer
Member of Congress



Ro Khanna
Member of Congress



Darren Soto
Member of Congress



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