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Senate Banking Committee Hearing

The Digitization of Money and Payments

Provided by:



OVERVIEW

For questions on the note below, please contact [Kevin Batteh](#) or [Daniel Austin](#) at (202) 547-3035.

Today, the Senate Banking Committee held a [hearing](#) entitled “The Digitization of Money and Payments.”

Key Takeaways

- Former CFTC Chairman Chris Giancarlo explained that U.S. dollar-based central bank digital currency (CBDC) would be an alternative to the existing accounts-based financial architecture that is slow, expensive, and exclusionary. He said a U.S. dollar CBDC would be a new architecture that would address these issues.
- Giancarlo encouraged the Federal Reserve to take further steps in its work on a CBDC and work with the U.S. Treasury on a series of pilot programs that draw upon the private sector to test various design options and specific approaches, technologies, and protocols.
- Charles Cascarilla, Paxos, said Congress can create a transferable regulatory framework that works between the states, similar to the one in the EU, to promote digital currencies and stablecoins. He said Congress can also provide access to the Fed for non-bank payment providers, e.g., a FinTech firm or wallet company, leading to more competition and movement of stablecoins for anyone with access to the Fed.
- Professor Nikita Cuttino, Duke University School of Law, said public access to the existing payments system is the simplest near-term solution to achieve financial inclusion. She said Congress and the Fed can coordinate to accomplish this goal. For example, the Fed could issue reloadable, zero-fee prepaid debit cards or provide bank accounts to all Americans.

SUMMARY

Opening Statements and Testimony

Chairman Michael Crapo (R-ID)

The pandemic has forced us to go digital at a rapid pace. This shift has highlighted the developments of banks, FinTech, and commerce and forced us to reexamine financial inclusion and payments. Digital wallets have increased the availability and ease of electronic financial transactions, and some believe these systems may help meet the needs of the underbanked or unbanked.

Cryptocurrency advocates have championed their ability to provide faster payments on a global scale. Questions still exist regarding stablecoins and their degree of oversight, impact on monetary policy, and more. The crypto ecosystem is diverse, and many of their related developments are beneficial; the U.S. should be the lead in their development.

We must have clear rules for these new digital products without stifling innovation. A CBDC could take many forms, including a tokenized U.S. dollar issued by the Fed. A U.S. CBDC requires methodical consideration and regulators have begun exploring this possibility.

Ranking Member Sherrod Brown (D-OH)

Big technology companies have not lived up to their promises to democratize industries. They tear down things for their own profit and take advantage of the essential workers who are most at risk during the pandemic. Why should we trust big technology with our banking system?

It is expensive to be poor in the U.S. because of the existing financial system and its infrastructure. Many essential workers use cash, which has been made more difficult during the pandemic. I am skeptical FinTech firms will solve the issues of unbanked and underbanked, despite their claims to the contrary. It is difficult to think of any innovations that have truly helped those marginalized by the banking system.

[Chris Giancarlo, Senior Counsel, Willkie Farr & Gallagher LLP and former CFTC Chairman](#)

The Digital Dollar Project (DDP) began with the purpose to lead the discussion of the merits of a tokenized form of a U.S. CBDC. The project is an effort to encourage research and public discussion on the potential advantages of a U.S. CBDC.

The DDP proposes that issuance, distribution, and redemption of a U.S. CBDC take place just as cash does today. The CBDC's token-based properties would allow digital dollars to be intermediated through existing channels. Digital wallets would offer essential payment functionalities and be compatible with existing banking services to enable a seamless integration with the financial system.

The DLT network, which would include the central bank and potentially other banks and financial intermediaries, would operate on an autonomous permissioned network and ensure validity and integrity of all transactions.

The Federal Reserve should take the next step and work with the U.S. Treasury on a series of pilot programs drawing upon the private sector to test various design options and specific approaches, technologies, and protocols.

[Charles Cascarilla, CEO and Co-Founder, Paxos](#)

At Paxos, we believe stablecoins and the adoption of a CBDC are critical to our financial infrastructure and maintaining our nation's leading economic position. Stablecoins represent existing dollars one-to-one on a blockchain, and they can provide for financial inclusion, capital mobilization, cost reductions, and technology-enabled transparency and competition.

Today, we power three of the top six stablecoins in the world, and our approach shares many characteristics with other blockchain-based, dollar-backed stablecoins, but also has several distinguishing categories. First, our stablecoins are based on the Ethereum blockchain, so anyone with a smartphone or internet access can send and receive stablecoins, allowing for 24/7 access and operation. Second, we are subject to ongoing oversight and examinations of our operations by the New York State Department of Financial Services. Third, our tokens allow individuals to transact privately, without fear of surveillance or interference.

Ultimately, the best way to answer the design questions about a U.S. CBDC is to allow experimentation in a safe way, with the correct regulatory policy being analogous to how the internet was developed. This could lead to the most effective implementation of a digital dollar driven by success in the marketplace.

[Nakita Cuttino, Professor, Duke University School of Law](#)

Existing payment frictions have long played a critical role in the financial fragility of millions of low-income Americans. These frictions can be distilled to access and timing frictions associated with the current banking and payments system and infrastructure. Inclusive and real-time access to the payments system can redistribute billions in wealth to, and facilitate savings for, cash-strapped Americans.

Early-wage programs function like payday loans because they require intertemporal decision making and have high fees, limited underwriting, and repayment terms similar to payday loans. These programs also have limited consumer protections and are inaccessible for consumers without mobile, broadband, or bank account access.

Public access to the existing payments system is the simplest near-term solution to achieve financial inclusion. Congress and the Fed can coordinate to accomplish this goal. For example, the Fed could issue reloadable, zero-fee prepaid debit cards or provide bank accounts to all Americans.

Discussion

CBDCs

Crapo: Are other central banks developing CBDCs? Is the development of other CBDCs a threat to the dominance of the U.S. dollar? *Giancarlo:* Yes, and they are doing so at a fast rate. The

majority of central banks are looking into CBDCs, and countries like Sweden have advanced programs. The dollar's strength is built upon many pillars, but China's and other countries' efforts are targeting some of those pillars. Many major commodities are priced in U.S. dollars, and as they move to a more digital format, it is important for the dollar to shift to be more digital as well.

Cotton (R-AR): If we already had a digital dollar, how different would things look earlier this year when the Treasury tried to distribute payments during the pandemic? *Giancarlo:* It would have been instantaneous delivery to those with smart phones.

Rounds (R-SD): Who are the winners and losers among the FinTech community if we begin developing a U.S. CBDC? *Giancarlo:* A U.S. CBDC would be an alternative to the existing accounts-based financial architecture that is slow, expensive, and exclusionary. A CBDC would be a new architecture that would address these issues. There will be winners and losers as there are with any technology advancements; *Cascarilla:* Technology is ultimately a tool and how you use that tool will reveal the costs and benefits. If you do not embrace the technology and it is as truly beneficial as many believe, then those companies will be left behind; *Cuttino:* Regulation could be key in ensuring that the number of losers is minimal. Once the industry begins losing fees, they will look to recoup those losses in other ways, so we must guard against this for the vulnerable communities.

Cortez Masto (D-NV): Are the Treasury and Fed capable of taking on these CBDC pilot programs? *Giancarlo:* I believe the right way to do this program is like we did with the space program and in the early days of the internet. We would bring in the private sector to drive this program forward. It should be a public-private partnership with the policy issues settled by the government.

Kennedy (R-LA): What does Congress need to do to create a digital dollar? *Cascarilla:* Congress can create a transferable regulatory framework that works between the states, similar to the one in the EU. Congress can also create access to the Fed for non-bank payment providers, e.g., a FinTech firm or wallet company, leading to more competition and movement of stablecoins for anyone with access to the Fed. It could also fund a project that would create pilot programs that would allow for more testing and use cases; *Cuttino:* In terms of financial inclusion, Congress should ensure we bridge the gap between those without access to the internet and those with access and smartphones.

Data and Privacy

Crapo: Can the digital currency model adequately protect privacy and data? *Cascarilla:* Yes, a blockchain-based system enables better privacy and data protections. Blockchains can allow transactions to happen anonymously with all transactions tracked on the chain, so law enforcement can track all of the transactions, unlike in cash.

Warner (D-VA): Is there a meaningful distinction between privacy and anonymity in terms of a CBDC? How do we balance privacy with the benefits of a digital payments system? *Giancarlo:* As we shift to digital technology, as opposed to analog technology, you can

integrate policy into a technology and the money itself. We can create a system where all transactions are recorded on a ledger, but anonymity can be removed for transactions that may be illicit. We have to balance the needs of law enforcement and privacy at the outset.

Financial Inclusion and Reduced Costs

Crapo: Can blockchains reduce the cost of financial transactions? *Cuttino:* Yes, if they are used fairly. Also, when one form of bank revenue is eliminated, they look to recoup that elsewhere, so if blockchain technology does reduce transaction costs, we must ensure that the unbanked and underbanked do not fall victim to other costs.

Brown: Discuss FinTech innovations in terms of what they mean for the unbanked and underbanked community. Why have cryptocurrencies not been adopted by these groups? Would offering access to the banking system through post offices in rural areas allow people to benefit from a digital currency? *Cuttino:* We need to address the frictions that exist in the current payment system. There are access frictions that can be related to trust, jurisdiction, internet access, etc. If we are going to advance financial inclusion, we need to bridge this gap for those who may not have this access. In the early years of bitcoin and other cryptocurrencies, the transaction costs were high, which dissuaded many low-income earners from embracing them. Yes, bank access through the postal service would grow access to the financial system.

Tester (D-MT): Will people without internet access be left behind from the benefits of these new technologies? *Cascarilla:* There needs to be much more broad-based internet access in rural America so that these communities can receive the benefits from FinTech. *Cuttino:* Yes. This is one of my primary concerns with the payment developments.

Other

Crapo: What is the best solution for registering money service businesses (MSBs)? *Cascarilla:* The current MSB state-by-state regime is not an effective mechanism to regulate stablecoin issuers because they do not have a primary regulator.

Cotton: Elaborate on your claims regarding the pricing of commodities and other instruments and dollars in a digital format. *Giancarlo:* We have seen a variety of commodities and benchmarks move to a digital format with built-in programs. This transition will happen in the next few years. China's many initiatives would grow the renminbi's global impact.