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Opening Remarks

by

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Board of Governors of the Federal Reserve System

at the

Economics of Payments XII Conference  
Federal Reserve Board

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I am grateful for the opportunity to speak with you today, at a time of great change, and great promise, for the payments system.<sup>1</sup> The Federal Reserve plays multiple roles in the payments system, including as a supervisor of banks and financial market utilities and as an operator of some key components of payments infrastructure. The research done by experts, including those in this room, is vital in helping us understand what works well in the payments system and what can be done to improve it.

We introduced the FedNow Service® in July to facilitate secure and convenient instant payments. We developed FedNow in response to a growing demand for instant payments from both households and businesses. A hundred years ago, the Fed facilitated payments by moving checks across the country by train. FedNow represents new “rails” by which payments can keep pace with today’s businesses and consumers. The Federal Reserve has now made these rails available; banks can build on this infrastructure to provide better service for households and businesses.

It is hard to speak about payments innovation without mentioning the increased experimentation with new payments technologies, such as stablecoins and central bank digital currencies (CBDCs) happening in the private and public sectors, both in the United States and elsewhere. As this work proceeds, we must carefully weigh the benefits and risks of different uses of these new technologies.

Stablecoins, as I have said in other remarks, need to be regulated. When an asset is pegged to a government-issued currency, it is a form of private money. When that asset is also used as a means of payment and a store of value, it borrows the trust of the central bank. So, the Federal Reserve has a strong interest in ensuring that any stablecoin

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<sup>1</sup> The views expressed here are my own and not necessarily those of my colleagues on the Federal Open Market Committee or the Federal Reserve Board.

offerings operate within an appropriate federal prudential oversight framework, so they do not threaten financial stability or payments system integrity. We also have provided guidance to the banks that we supervise on how they should engage with their supervisors when considering use of these products.

In terms of CBDCs, we continue to speak to a broad range of stakeholders and conduct basic research in emerging technologies that might support a CBDC payments backbone, or for other purposes in the existing payments system. The research is currently focused on end-to-end system architecture, such as how ledgers that record ownership of and transactions in digital assets are maintained, secured, and verified, as well as tokenization and custody models. This work helps us consider how we could design a digital analog to the paper bank note that permits a transfer of value between two parties without direct facilitation by the issuing central bank.

It is important to note, however, that while the Federal Reserve supports further research and continued engagement with a broad range of stakeholders, the Fed has made no decision on issuing a CBDC and, as Chair Powell has emphasized, would only proceed with clear support from the executive branch and authorizing legislation from Congress. With this in mind, learning from both domestic and international experimentation can aid decisionmakers in understanding how we can best support responsible innovation that safeguards the safety and efficiency of the U.S. payments system. We'll hear more about the results from some of these domestic and international initiatives on CBDCs later today.

International collaboration and coordination are often essential in payments systems, as we heard in Jon Cunliffe's keynote yesterday. In 2020, the G20 governments

endorsed a roadmap for enhancing cross-border payments, aimed at making them faster, cheaper, more transparent, and more accessible globally.<sup>2</sup> The Federal Reserve supports and continues to work with the international community on these issues, and I look forward to our ongoing engagement with stakeholders, both public and private, on the path forward.

Closer to home, traditional payment methods are still the backbone of the U.S. payments system, despite the surge in interest in emerging payment technologies. It is important to advance research in both new and older payment methods. Questions on the use of cash and the dynamics among the players in the debit card industry remain worthy of investigation, as is evident in the conference agenda.

Earlier this week the Board proposed revisions to the interchange fee cap for debit card issuers, as required by law. Public input is a key element of the rulemaking process for the Federal Reserve, and I look forward to reviewing the comments that we will receive on the proposed revisions. I also appreciate the opportunity for Federal Reserve staff to engage with the broader scholarly community on this and other topics, as research is an important component for our consideration of regulatory actions. Engagement with researchers, stakeholders, and the public will help the Federal Reserve continue to support a safe and efficient payments system, which has been part of our mission since the Fed's establishment in 1913.

Finally, whether we talk about traditional or emerging payment technologies, in the public or private sector, innovation must proceed in a way that respects fundamental principles for serving the public good. Payments innovation should support and promote

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<sup>2</sup> <https://www.fsb.org/2020/10/enhancing-cross-border-payments-stage-3-roadmap/>

broad access and financial inclusion. Financial inclusion is affected by many factors, but too often the cost of a payment service is prohibitive and represents a barrier that limits access for low- and moderate-income households and small businesses. I am pleased to see that so many of the topics covered in this conference touch on factors that affect financial inclusion: issues of cost, trust, privacy, and security, among others.

In conclusion, I want to thank the organizers for putting together this forum and I look forward to further engagement. Thank you all for being here and giving us the opportunity to learn more about your research.