Statement for the Record

On Behalf of the

American Bankers Association

before the

Subcommittee on Digital Assets, Financial Technology and Inclusion

Of the

House Financial Services Committee

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September 14, 2023

The American Bankers Association (ABA) [1] appreciates the opportunity to provide a Statement for the Record for this hearing, *Digital Dollar Dilemma: The Implications of a Central Bank Digital Currency and Private Sector Alternatives*.

The Federal Reserve defines[2] a central bank digital currency (CBDC) as a digital form of money that 1) is a liability of the central bank and 2) is widely available to the general public. Using that definition of a CBDC, ABA believes strongly that a CBDC is unnecessary in the United States and would present unacceptable risks and costs to the financial system. The dollar is already digital today, and it is unclear how issuing a CBDC would improve financial inclusion or achieve the other laudable goals its proponents advocate for. On the other hand, issuance of a CBDC would fundamentally change the relationship between citizens and the Federal Reserve, undermine the important role banks play in financial intermediation, exacerbate economic and liquidity crises, and impede the transmission of sound monetary policy.

A CBDC is Unnecessary and Presents Unacceptable Risks and Costs to the Financial System

For the general public, the dollar is already digital. It is held or transacted via bank accounts, payment apps, and other online transaction venues. Consumers can transact digitally using debit and credit cards, Zelle, ACH, wire, RTP, PayPal, Venmo, CashApp, and more. The newest payment system to come online in the United States is FedNow, which launched in late July and is a payment service managed by the Federal Reserve that offers real-time settlement 24 hours a day every day for participating institutions. In addition, as leaders in responsible innovation banks are exploring opportunities to safely and soundly leverage distributed ledger technology for payments. None of these payment systems are themselves a CBDC nor do they require a CBDC to operate. Rather, they enable the digital transfer of money from one account to another.

[1] ABA is the voice of the nation's $23.5 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2.1 million people, safeguard $18.6 trillion in deposits and extend $12.3 trillion in loans.

[2] https://www.federalreserve.gov/central-bank-digital-currency.htm

They also represent a diversity of use cases, addressed with technologies from the private sector and the Federal Reserve that often possess specialized advantages over a CBDC.

Proponents of CBDC are driven by a number of laudable goals like financial inclusion and promoting the U.S. dollar's international role as a reserve currency and a medium of exchange for international trade. ABA supports these important goals; however, we do not believe that a CBDC is well-positioned to accomplish them. In many cases there are initiatives already underway that address these goals, such as the "Bank On" account standards for low or no-fee bank accounts.

Banks are strong proponents of financial inclusion and have put significant effort into bringing unbanked families into the financial system. A CBDC would do little to address some of the reasons why families report not having a banking relationship, including lack of trust and privacy concerns. Importantly, a CBDC only addresses the question of a deposit account. The benefits of a banking relationship go far beyond a deposit account. The goal of financial inclusion is to build a lifelong relationship that can help families access credit that can help them build for a secure financial future. A CBDC is likely to undermine this by failing to promote credit availability to the communities that need it the most.

Similarly, a CBDC does not appear well-positioned to support the role of the U.S. dollar internationally. The Federal Reserve notes that the dollar's status as the global reserve currency is driven by 1) the strength and openness of our economy, 2) the depth of our financial markets, and 3) the trust in our institutions and rule of law.

The risks associated with issuing a CBDC are often downplayed but are real and likely to undermine any possible benefit that a CBDC would have. Most importantly, a CBDC requires moving funds from banks to the Federal Reserve because a CBDC is a direct liability of the central bank. According to the Federal Reserve, "[a] widely available CBDC could serve as a close substitute for commercial bank deposits or other low-risk assets such as government MMFs and Treasury bills. A shift away from these assets could reduce credit availability or raise credit costs for households, businesses, and governments."[3] In effect, a CBDC would serve as an advantaged competitor to retail bank deposits that would move money away from banks and into accounts at the Federal Reserve, severely limiting the ability of commercial banks to lend funds back into the economy. A CBDC would remove a key source of bank funding for making loans that could harm consumers and businesses.

Possible Alternatives Merit Evaluation

There may be other possible designs for new digital money that may merit further evaluation. For example, a digital form of money that 1) is a liability of the central bank and 2) is ***not*** widely available to the general public. Instead of being consumer-facing, such a technology could be used for wholesale settlement among regulated financial institutions and the Federal Reserve. Some have referred to this digital money concept as a "wholesale CBDC" (or wCBDC). Because a wCBDC would not be available to the general public, a wCBDC avoids many of the key risks associated with a CBDC as defined by the Federal Reserve. In particular, a wCBDC would not

[3] Financial Stability Report, https://www.federalreserve.gov/publications/financial-stability-report.htm

change the relationship between citizens and the central bank nor undermine banks' critical financial intermediation role. However, a wCBDC could still disintermediate banks and other private sector companies from some of their roles as payments infrastructure and service providers.

Several US banks and financial institutions collaborated with the New York Innovation Center, part of the Federal Reserve Bank of New York, to conduct a proof of concept for the exchange of a wCBDC and privately-issued regulated liabilities on a shared distributed ledger. This concept, known as a Regulated Liability Network[4], addressed aspects of technical feasibility, business applicability, and legal viability. The proof of concept simulated a domestic interbank payments use case, where transactions were conducted in commercial bank deposit tokens and settled using a theoretical wCBDC. The project also simulated a second use case for a USD cross-border payment. The findings suggest shared ledger technology is an area that may warrant further evaluation.

Just last week at the Seventh Annual Fintech Conference hosted by the Federal Reserve Bank of Philadelphia, Vice Chair Michael Barr described[5] the Federal Reserve's involvement in research on technologies that might support a CBDC. He noted the important distinction between investigation and decision making about next steps and indicated "we are a long way from" decision making. We appreciate the Fed's careful consideration of this issue, evaluating fully the potential opportunities, risks, and tradeoffs, as well as ensuring clear support from the executive branch and authorizing legislation from Congress, before proceeding.

In April 2023, Federal Reserve Governor Michelle Bowman addressed[6] the threshold questions of what problem is the policymaker trying to solve, and is a CBDC a potential solution? She concludes with the following: "From my perspective, there could be some promise for wholesale CBDCs in the future for settlement of certain financial market transactions and processing international payments. When it comes to some of the broader design and policy issues, particularly those around consumer privacy and impacts on the banking system, it is difficult to imagine a world where the tradeoffs between benefits and unintended consequences could justify a direct access CBDC for uses beyond interbank and wholesale transactions." We appreciate Governor Bowman's thoughtful analysis and considered approach given the high stakes of this issue.

Conclusion

A CBDC is unnecessary in the United States and would present unacceptable risks and costs to the financial system. Since the dollar is already digital today, it is not clear that issuing a CBDC would improve financial inclusion or achieve other laudable goals. It would, however, fundamentally change the relationship between citizens and the Federal Reserve for the worse, undermine the important role banks play in financial intermediation, exacerbate economic and liquidity crises, and impede the transmission of sound monetary policy. Moreover, there are

[4] https://www.newyorkfed.org/aboutthefed/nyic/facilitating-wholesale-digital-asset-settlement
[5] https://www.federalreserve.gov/newsevents/speech/files/barr20230908a.pdf
[6] https://www.federalreserve.gov/newsevents/speech/bowman20230418a.htm

possible alternatives, such as the wholesale CBDC concept mentioned by Governor Bowman that should be carefully evaluated before moving forward with a CBDC.

ABA looks forward to engaging with the Congress, Federal Reserve, and other policymakers as they consider these important questions.