

Statement for the Record
On Behalf of the
American Bankers Association
Before the
Subcommittee on Economic Policy
Of the
Committee on Banking, Housing, and Urban Affairs

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Chairwoman Warren, Ranking Member Kennedy, and members of the Subcommittee on Economic Policy, the American Bankers Association (ABA) appreciates the opportunity to submit a statement for the record for the hearing titled “Building a Stronger Financial System: Opportunities of a Central Bank Digital Currency.” The topic of today’s hearing is an important one, with significant implications for our financial system, economy, markets, and most importantly for the American consumer.

Policymakers around the world, including at the U.S. Federal Reserve, are examining the potential opportunities and risks associated with issuing Central Bank Digital Currencies (CBDCs).¹ A number of central banks are moving from conceptual research to developing pilot programs to explore the uses and efficiency of CBDCs.² As this work progresses, there is a growing recognition that central bank digital currencies may be weighed down by very significant real-world trade-offs. The reality is that the dollar is largely digital today. The proposed benefits of CBDCs to international competitiveness and financial inclusion are theoretical, difficult to measure, and may be elusive, while the negative consequences for monetary policy, financial stability, financial intermediation, the payments system, and the customers and communities that banks serve could be severe.

The primary reason for this disconnect between the commonly-touted benefits of CBDCs and the more privately-assessed risks of re-engineering our financial system is that we tend to treat CBDCs superficially, as though a digital currency is a single concept, and one that could be implemented beside, rather than on top of, our existing system. Neither is true. A CBDC is not a single proposal; rather, it refers to a wide range of different proposals with varied potential designs, each with specific costs and benefits. Nor does CBDC fill a fundamental gap in our financial architecture that it could slide neatly into to perform a discrete role. Some designs are

¹ In its simplest terms, a CBDC is a digital representation of a country’s government-issued, central-bank-controlled money (a “digital dollar”). A CBDC would be a liability of the central bank, just as the dollar is today.

² See BIS Papers No. 114, *Ready, Steady, Go? – Results of the Third BIS Survey on Central Bank Digital Currency* (Jan. 2021), <https://www.bis.org/publ/bppdf/bispap114.pdf>.

more disruptive than others, but all have the potential to transform the way money flows through our economy in ways both intended and unintended.

The Highlight Reel Effect

Current policy discussions often fail to acknowledge that many of the purported benefits of CBDC are mutually exclusive and driven by how the CBDC is designed. Choosing between the various designs requires serious and complex policy tradeoffs. Too often CBDC proponents take a “highlight reel” approach to describing CBDC, cherry picking all the perceived benefits, while downplaying the serious risks to consumers and our financial system. In particular, all CBDC designs would take the money currently held on bank balance sheets and place it directly on that of the Federal Reserve.³ In today’s economy, most money takes the form of bank deposits. Money—and therefore deposits—is created through the private credit allocation process, which is a critical driver of economic growth and prosperity. Taking deposits out of the banking system would disrupt this key economic function by bifurcating deposit taking and lending, making lending more expensive, among other things.⁴

Federal Reserve Chairman Jerome Powell highlighted the importance of this in a recent video where he noted that any potential CBDC “serve as a complement to and not a replacement of cash and current private-sector digital forms of the dollar such as deposits at commercial banks.”⁵

The U.S Already Has the Most Robust Financial System in the World

As Governor Brainard has recently noted, “In any assessment of a CBDC, it is important to be clear about what benefits a CBDC would offer over and above current and emerging payments options, what costs and risks a CBDC might entail, and how it might affect broader policy objectives.”⁶

For example, it is unclear what policy goals a CBDC would achieve in the United States. For some countries, a CBDC could enhance weak or nonexistent financial systems. Unlike many other countries, the United States has a well-developed and robust financial system that is the backbone of our economy and markets. As they have done for hundreds of years, American banks today provide a broad array of essential financial and economic functions that benefit

³ In a May 24, 2021 speech Federal Reserve Governor Lael Brainard highlighted these concerns noting, “Banks play a critical role in credit intermediation and monetary policy transmission, as well as in payments. Thus, the design of any CBDC would need to include safeguards to protect against disintermediation of banks and to preserve monetary policy transmission more broadly.”

<https://www.federalreserve.gov/news-events/speech/brainard20210524a.htm>.

⁴ Even a CBDC with account limits would likely have a significant impact on the deposit base. The ECB estimates that a CBDC with account limits of €3,000 would lead to deposit outflows of €1trillion.

⁵ Chair Powell’s Message on Developments in the U.S. Payments System, May 20, 2021
<https://www.federalreserve.gov/videos.htm>.

⁶ Lael Brainard, Member Board of Governors of the Federal Reserve System, “Private Money and Central Bank Money as Payments Go Digital: An Update on CBDCs,” Remarks at the Consensus by CoinDesk 2021 Conference Washington, D.C. (May 24, 2021), <https://www.federalreserve.gov/news-events/speech/brainard20210524a.htm>.

their communities, most notably, safekeeping deposits and making loans. For other countries, a CBDC could enhance their payment systems. The United States, however, has one of the most efficient, safe, and modern payments systems in the world. Banks have invested significant resources in expanding faster, safer, more inclusive options, including P2P, real-time payments systems (e.g., The Clearing House Real Time Payment Network (RTP) and the Federal Reserve's FedNow), and upgraded Automated Clearing House (ACH) products. Solutions to pay gig workers instantly and put funded bank accounts into the hands of disaster victims have recently come online, addressing key use cases proffered for CBDC.

The United States should not implement a CBDC simply because we can or because others are doing so. Policy changes of this magnitude should be driven by a careful analysis of the benefits and risks. A CBDC may be beneficial in an economy that does not have an advanced payment system or a robust banking system, or in jurisdictions where the central government is already a major provider or facilitator of financial services and expectations of individual privacy are not strong. **However, after a careful review of the benefits and risks of various proposals to implement a CBDC, it does not appear that a CBDC is well-positioned to enhance underlying financial capabilities or extend the reach of financial services in well-developed markets, at least not in the U.S. context, despite the overly optimistic promises from proponents.**

Policymakers Should Proceed with Extreme Caution

Given the important policy implications of CBDC and the potential to disrupt the U.S. financial system, we support the Federal Reserve's thoughtful and considered approach. The forthcoming Federal Reserve Bank of Boston findings will be an important next step for understanding the feasibility of this novel technology in our unique economy.⁷ We further support the Federal Reserve's recognition that the development of a CBDC would require input, engagement, and support from a range of stakeholders in both the public and private sectors. To this end, we look forward to responding to the discussion paper the Federal Reserve intends to issue this summer, which, according to Chairman Powell, will outline the Federal Reserve's current thinking on digital payments, with a particular focus on the benefits and risks associated with CBDC in the U.S. context.⁸ Before the introduction of a CBDC, we believe the Federal Reserve Board, with input from the Treasury and the other banking regulators, should publish a rigorous analysis that assesses the benefits and risks of a CBDC and that convincingly establishes (if findings warrant) that a CBDC would not create adverse impacts on consumers, markets, or the economy.

⁷ See "The Federal Reserve Bank of Boston Announces Collaboration with MIT to Research Digital Currency" (Aug. 13, 2021), <https://www.bostonfed.org/news-and-events/press-releases/2020/the-federal-reserve-bank-of-boston-announces-collaboration-with-mit-to-research-digital-currency.aspx>.

⁸ The authority of the Federal Reserve to issue CBDC remains an open—and fundamental—question in this policy debate, which must be resolved before Federal Reserve action on this issue. Chairman Powell has expressed reluctance to proceed with a CBDC without Congressional approval. See American Banker, "'We don't need to rush' on Fed digital dollar, Powell says" (Mar. 22, 2021), <https://www.americanbanker.com/news/we-dont-need-to-rush-on-fed-digital-dollar-powell-says> (quoting Powell as saying, "I think that would ideally come in the form of an authorizing law, rather than us trying to interpret our law, to enable this").

In the remainder of this testimony we will:

- Outline the risks and benefits of CBDC designs being considered today, and
- Highlight the challenging tradeoffs policymakers face in achieving their intended goals.

CBDC Design Choices Matter

The potential benefits and risks of a CBDC depend heavily on the way it is structured, making it impossible to evaluate the merits of CBDC in the abstract. Design choices involve tradeoffs, and so we must avoid a rush to action driven by cherry-picked benefits. By contrast, some of the disadvantages and risks of CBDC carry across all designs.

While a number of factors affect the theorized operation of a CBDC (*e.g.*, whether to use distributed ledger technology or a centralized database), the most important factors are *architecture*, or the role of the central bank in the distribution of CBDC, and *access*, or consumer's utilization of CBDC.⁹ The following identifies some of the most significant potential benefits and risks of each architecture and access design choice that policymakers should consider as they determine whether to implement a CBDC in the United States.

Architecture Choices

Architecture goes to the operational role of the central bank in the CBDC. There are a number of different CBDC architectures, but the two principal models are (1) a "direct" CBDC that provides retail consumers with central bank accounts and (2) an "intermediated or hybrid" CBDC (or "two-tiered" model) where the distribution of CBDC would be through a commercial bank or other financial intermediary, such as a nonbank digital wallet provider.¹⁰

The following sets forth some of the purported benefits and potential risks of these models.

Direct CBDC	
Potential Benefits	Potential Risks
➤ Provides additional monetary policy tools (<i>e.g.</i> , increases influence on deposit rates and reduces the risk of alternative units of account—such as privately-	➤ Takes money out of the real economy, diverts deposits and stymies money creation, thereby

⁹ We assume that, in whatever form it takes, CBDC will be compatible with other forms of money (cash, bank notes) and interoperable with pre-existing payment systems that choose to interface with it. Financial institutions, consumers, and end users also should remain free to use CBDC or continue to use conventional digital or physical currency.

¹⁰ A wholesale CBDC model, which focuses on cross-border payments, also raises a number of difficult policy issues, but is beyond the scope of this testimony. Depending on its structure, including whether such a payments system would be interoperable with existing systems, this could adversely affect U.S. payments systems.

<p>issued cryptocurrencies—dominating)</p> <ul style="list-style-type: none"> ➤ May improve access to financial services and enhance financial inclusion ➤ May facilitate direct government disbursements to citizens ➤ May improve efficiency of payment system by some measures 	<p>undermining commercial lending and the deposit insurance system</p> <ul style="list-style-type: none"> ➤ Makes the Federal Reserve a massive retail bank, introducing significant costs and operational burdens (e.g., interfacing with customers, building front-end wallets, fraud resolution/mitigation), as well as fundamentally changing the mission of the central bank ➤ Likely would lead to less privacy than for those using cash or other forms of digital payments
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Intermediated or Hybrid CBDC	
<i>Potential Benefits</i>	<i>Potential Risks</i>
<ul style="list-style-type: none"> ➤ Decentralized relative to other models (e.g., central bank will not have customer relationship) ➤ Facilitates compliance with anti-money laundering (AML)/combating the financing of terrorism (CFT) and know your customer (KYC) frameworks ➤ Provides a more convenient and modern alternative to paper cash ➤ Means of countering new private digital currency 	<ul style="list-style-type: none"> ➤ Potential for CBDC to move out of banks into non-bank financial institutions ➤ If counted as cash, likely would not be available to support lending in the real economy ➤ Raises information security risks and the potential for fundamental design mistakes ➤ Changes the economics of the payments system, potentially reducing incentives for product innovation

Takeaways:

Policymakers throughout the world have generally concluded that the direct model is not feasible because of the increased costs and operational burdens placed on central banks.¹¹ A direct CBDC model would effectively set the Federal Reserve up as a retail bank to every household in the nation. This would present an immense operational burden on the central bank, which would be responsible for onboarding customers and servicing those accounts. Today U.S. banks employ over 2 million employees to accomplish the same goal. Among the most critical technical and operational challenges that would need to be dealt with is the risk of creating a global target for cyberattacks or a new avenue for money laundering. A CBDC could be a very attractive target for cyberattacks.¹²

If policymakers determine that a CBDC is warranted to address payments system gaps, a “two-tier” CBDC architecture should form the basis of further work. Under this approach, the Federal Reserve would continue to focus on monetary policy and the underlying design of CBDC, and only commercial banks and appropriately regulated and supervised financial institutions should be permitted to distribute CBDC.¹³

Access Choices

Access addresses how consumers can utilize CBDC. Generally speaking, CBDCs may be account-based or token-based.¹⁴ A key difference between the two types of access is the mode of verification when a transaction takes place. Account-based CBDCs are tied to an identity scheme, similar to existing bank accounts. In an account-based system, the accountholders on either end of the transaction are authenticated. Token-based CBDC is more similar to cryptocurrencies and would be freely transferrable tokens, which may be held in an “unhosted”

¹¹ This appears to be the approach the ECB is taking. See, e.g., Fabio Panetta, Member of the Executive Board of the ECB, “Evolution or Revolution? The Impact of the Digital Euro on the Financial System,” Bruegel Online Seminar (Feb. 10, 2021), <https://www.ecb.europa.eu/press/key/date/2021/html/ecb.sp210210ra1665d3188.en.html> (“[t]he ECB does not plan to interact directly with potentially hundreds of millions of users of a digital euro. We simply would not have the capacity or the resources to do so. Financial intermediaries—in particular banks—would provide the front-end services, as they do today for cash-related operations. We would provide safe money, while financial intermediaries would continue to offer additional services to users.”).

¹² See, e.g., Lael Brainard, Member Board of Governors of the Federal Reserve System Cryptocurrencies, “Digital Currencies, and Distributed Ledger Technologies: What Are We Learning?” Remarks at the Decoding Digital Currency Conference Sponsored by the Federal Reserve Bank of San Francisco, San Francisco, California (May 15, 2018), <https://www.federalreserve.gov/newsevents/speech/files/brainard20180515a.pdf>.

¹³ The Federal Reserve is keenly aware of the longstanding legal and policy framework maintaining the separation of banking and nonbank commercial activities. If it decides that private-sector financial intermediaries should play a role in CBDC distribution and transactions as intermediaries, it should assure that this separation is maintained, taking into consideration whatever aspects of banking functions such intermediaries ultimately play.

¹⁴ See Alexander Lee, Brendan Malone, and Paul Wong, FEDS Now, “Tokens and Accounts in the Context of Digital Currencies” (Dec. 23, 2020), <https://www.federalreserve.gov/econres/notes/feds-notes/tokens-and-accounts-in-the-context-of-digital-currencies-122320.htm> (highlighting some issues with the “tokens vs. accounts” dichotomy).

digital wallet on the holder's smartphone.¹⁵ In a token-based system, the token itself is authenticated. This makes the token a bearer instrument, much like cash today.

The following sets forth some of the purported benefits and potential risks of these models.

Token-Based CBDC	
Potential Benefits	Potential Risks
<ul style="list-style-type: none"> ➤ More consumer privacy in comparison to account-based models ➤ Promotes ease of transfer ➤ More resilient to infrastructure outages and cyberattacks ➤ Most like digital cash ➤ Frees the central banks from the duties of large-scale account keeping and reconciliation 	<ul style="list-style-type: none"> ➤ Complicates compliance with AML/CFT and KYC frameworks ➤ May drain deposits from banks and the real economy, reducing the amount available for banks to lend. ➤ May lead to destabilizing runs on bank deposits into central bank money ➤ Introduces risk of loss or theft of the private key for the token

Account-Based CBDC	
Potential Benefits	Potential Risks
<ul style="list-style-type: none"> ➤ Most akin to traditional bank accounts ➤ Facilitates compliance with AML/CFT and KYC frameworks ➤ Helps to preserve banks' deposit base, and money creation function that is essential to lending and economic growth 	<ul style="list-style-type: none"> ➤ May not achieve the potential benefits of introducing CBDC ➤ May pose threat to financial anonymity and privacy for citizens ➤ May not be available to support lending in the real economy

¹⁵ An “unhosted” wallet describes situations where transactions from the wallet do not require the use or involvement of a financial institution.

Takeaways:

In considering the trade-offs between account-based and token-based CBDC, including the ability to use unhosted wallets and engage in offline transactions, policymakers should ensure they are not facilitating money laundering or more generally impeding the ability of financial institutions to comply with AML/CFT and KYC frameworks, or to respond to lawful government orders. They should also be mindful of privacy concerns related to direct government oversight of consumer accounts. These two objectives are difficult to reconcile and may be mutually exclusive.

Policymakers Face Challenging Tradeoffs to Achieve Desired Outcomes

As discussed above, the various designs of CBDC being considered today all come with significant tradeoffs. As policymakers consider how to achieve their desired outcomes, they must seriously consider these tradeoffs. The intended benefits of implementing a CBDC are often less than expected, given these tradeoffs. In some cases, these benefits may be effectively non-existent because they come at such a high cost. Below, we briefly describe some key considerations for policymakers as they look to achieve their desired outcome.

Risks

Financial Intermediation:

As noted above, every construction of CBDC requires moving funds from banks' balance sheets to the Federal Reserve. Regardless of the model chosen, a CBDC is a direct liability of the central bank. This contrasts to bank deposits, which are a liability on an individual bank insured by the Federal Deposit Insurance Corporation (FDIC).

In effect, these accounts will serve as an advantaged competitor to retail bank deposits that will move money off bank balance sheets where it can be lent back into the economy and into accounts at the Federal Reserve. Philadelphia Fed Research referenced above found that these proposals would create a "deposit monopoly" that would "attract deposits away from the commercial banking sector."¹⁶

While depositors at FDIC insured banks have never lost a penny of an insured deposit, it is hard to compete with a government agency that prints that money. Philadelphia Federal Reserve research found that depositors value this and will, in equilibrium, choose to hold their funds at the Federal Reserve instead of at retail banks, establishing the Federal Reserve as a "deposit monopolist."

¹⁶ <https://www.philadelphiahfd.org/-/media/frbp/assets/working-papers/2020/wp20-19.pdf>.

These bank deposits are the primary funding source of bank loans. These loans are critical drivers of economic growth and prosperity. In the United States today, banks fund more than \$10 trillion in loans. This includes \$2.1 trillion in consumer mortgages, \$1.6 trillion in consumer loans, and \$498 billion in small business loans.¹⁷ Any reduction in this deposit base would quickly impact consumers and small businesses in the form of reduced credit availability and increased cost, undermining the goal of financial inclusion and undercutting economic growth.

Some models seek to minimize this effect by capping the amount of funds that can be held in CBDC. However, this limits the potential benefits of a CBDC account. These limits would reduce the business use cases often cited as in arguments for CBDC's ability to promote international competitiveness. It also does little to offset the problem. For example, the ECB estimates that a CBDC with account limits of €3,000 would lead to deposit outflows of €1 trillion.

Unlike retail banks, the Federal Reserve is not prepared to make loans to consumers and businesses. As deposits migrate from bank balance sheets to the Federal Reserve, capital that fuels economic growth will be severely restricted.

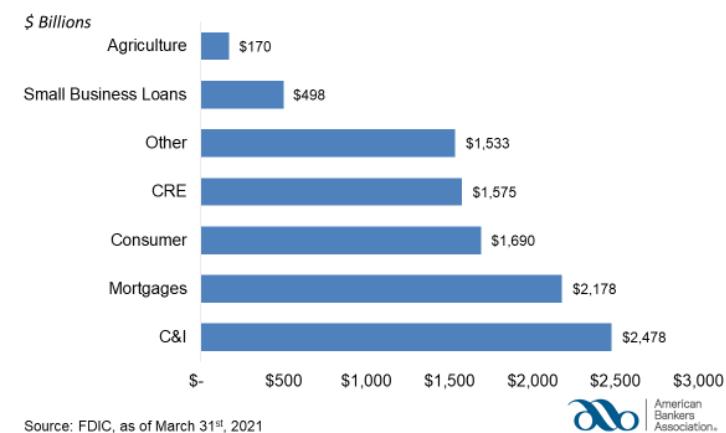
In times of economic hardship, the bank balance-sheet driven model is even more important. Banks' balance sheets and strong capital position allow them to make long-term investments and continue lending throughout a downturn, just when it is needed most.

A digital currency also creates a risk to financial stability. In times of economic stress, depositors are likely to prefer holding their money at the Federal Reserve. This creates a risk of bank runs that would undermine financial stability.

Anti-Money Laundering, Sanctions Enforcement, and Countering the Financing of Terrorism:

One significant challenge associated with many CBDC models is whether the central bank has the ability to identify users and track funds held in CBDC. Today, it is difficult to track the movement of physical cash throughout the economy. There is significant investment in programs to address this; however, any of those rely on the fact that is logically challenging

Bank Loans Support Economic Growth



Source: FDIC, as of March 31st, 2021



¹⁷ Federal Deposit Insurance Corporation Quarterly Banking Profile (May 26, 2021).

to move large amounts of physical cash. Simply put, it is difficult to move large volumes of physical cash. Digitizing that cash as a CBDC allows users to more easily move larger sums, making a CBDC more attractive to those looking to circumvent these important measures.

In the case of a direct CBDC, the Federal Reserve would be able to control account onboarding and implement these checks itself. However, the operational burdens of doing so are significant. Today U.S. banks employ an estimated 20,000 employees to accomplish this.

Moving to an indirect model does not solve this challenge either. A token-based CBDC presents even more challenges to implementing these controls. Token-based CBDCs are authenticated by the token (not the user) similar to many cryptocurrencies in the market today. These tokens are held in software-based programs like “unhosted” digital wallets. Regulators could police the access points to these assets but will have little control once they leave that controlled environment.

Minimizing this risk would point to an indirect, account-based CBDC. These would function similarly to bank accounts today; however, as discussed below this also minimizes many of the purported benefits associated with CBDC.

Privacy

Another challenging question around the implementation of a CBDC is the level of insight that governments have into the use of CBDC. Unlike physical cash, many constructions of CBDC allow the government to directly track and monitor the use of these assets. This raises important public policy questions around the appropriate role of government.

Pervasive government surveillance of consumer and commercial payments may be considered a benefit to some governments issuing CBDC, but this feature should not be taken lightly in a democracy where the government is not meant to have access to the details of financial transaction without proper legal cause.

There are models that minimize this risk, like an indirect token-based CBDC, but this involves a tradeoff in the ability to monitor for illicit uses of CBDC as discussed above. In many cases privacy is mutually exclusive with the objectives of AML/KYC programs.

Role of Government

By making a governmental body into the nation’s near-monopoly provider of currency, bank accounts, and payment services, the Federal Reserve would quickly become politicized as the central control point for monitoring and potentially denying transactions. For controversial but locally-regulated purchases such as cannabis and firearms, a CBDC would entangle the Federal Reserve as a national arbiter of social issues.

Desired Outcomes

Financial Inclusion

A foundational goal of direct CBDC proposals (and similar proposals like postal banking) is to promote financial inclusion. Access to banking services provides people with a means to save for their future and economic opportunity that is critical to promoting social equity. This is an important and urgent goal.

The pandemic has laid bare the consequences of being unbanked, from delays in receiving stimulus payments to navigating additional barriers in the Paycheck Protection Program. Sustainable economic opportunity requires a long-term banking relationship, but according to the FDIC's 2019 "How America Banks" survey, despite some encouraging trends, over 7.1 million US households – 5.4% – remain unbanked, and another 24 million households are underbanked.¹⁸ While the FDIC observed "particularly sharp" declines between 2017 and 2019 for Black and Hispanic households, 13.8% of Black households and 12.2% of Hispanic households remained entirely unbanked in 2019, "substantially above the unbanked rated for White households (2.5 percent). Our nation and industry can do better.

America's banks are committed to promoting financial inclusion and are working to address this challenge. Today, unbanked customers have numerous options to open bank accounts that are designed to address the reasons most unbanked individuals cite as barriers to becoming banked. Through the Bank On program, run by the Cities for Financial Empowerment Fund and other efforts, free and low-cost bank accounts are widely available at banks of all sizes, with new accounts being certified every day. Bank On sets account standards that provide a benchmark for safe, affordable accounts at mainstream financial institutions, setting consumers on a path toward financial inclusion. Today, these accounts are available at over 32,500 branches across the United States. And importantly, they represent the beginning of a banking relationship, which can grow to include lending, saving, investing and other opportunities.

As the government rushed to distribute millions of Economic Impact Payments during the COVID-19 pandemic, the [FDIC](#), [the IRS](#), [Bank On](#) and [the ABA](#) worked to promote awareness of such accounts so American taxpayers could receive their payments quickly and securely. We have another critical opportunity to promote Bank On-certified accounts ahead of the expanded and newly-advanceable Child Tax Credit payments, which will be available to 36 million taxpayers starting in July.

Unlike programs like Bank On, it is unclear whether access to a direct account at the Federal Reserve would address the reasons families report not having a banking relationship.

¹⁸ Underbanked means that a household has an account at an insured institution but also obtained financial products or services outside of the banking system.

Moreover, by taking too narrow a view of the problem, these proposals risk undermining the real progress underway with Bank On and similar efforts.

In addition, direct CBDC proposals focus solely on the question of access to a deposit account. While it is true that deposit accounts are often the first step towards inclusion, the benefits of a long-term banking relationship go well beyond a deposit account. The same is not true of a CBDC account with the Federal Reserve, which would not grow into a lending or investing relationship.

Not only do direct CBDC proposals not address this serious issue, they will likely exacerbate it. Philadelphia Fed Research referenced above found that these proposals would create a “deposit monopoly” that would “attract deposits away from the commercial banking sector.” This has the effect of reducing the funds on banks balance sheets that is available to lend which would reduce access to credit to the communities that need it the most.

Payments system efficiency

Many CBDC proponents cite the need to speed up payments by digitizing them; the reality is that the majority of payments in the U.S. are already digital. Today, consumers and businesses have the option to pay with credit or debit cards, payments applications like Zelle or Venmo, and via ACH.

Efforts to modernize and speed up our payments system have been underway for some time and are already being implemented. The Federal Reserve’s 2017 Faster Payments Task Force examined the entirety of the payment system and its experts, including consumer groups, recommended faster networks – not a new currency. As a result of these efforts, the Federal Reserve is building out an instant payments solution called FedNow.

Industry has been driving these improvements as well. The RTP Network is a brand-new instant payment system that represents an advancement equivalent to moving from dial-up to broadband in terms of speed and features. ABA was a strong advocate for using this capability as part of the EIP program to speed electronic payments to those with bank accounts or even prepaid cards.

Together, RTP, FedNow, and faster ACH systems are forming a web of super-fast, low-cost or free digital payment options that will make waiting for days to receive a payment a thing of the past.

Conclusion

A U.S. CBDC could fundamentally change the role of the central bank in the United States and reshape the banking system. Given the additional complexity, delay, and transition costs involved in creating a new form of money, there are strong efficiency interests that suggest

CBDC should only be pursued as a final option to meet clearly-defined public policy goals that cannot be achieved through payments innovations that leverage existing digital dollars. As of today, those use cases have not emerged.

If a viable use case for CBDC in the United States does emerge in the future, design choices must be carefully considered to ensure that the benefits as well as the risks of introducing a CBDC are fully appreciated.