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Submitted via email to Digital-innovations@frb.gov

May 20, 2022

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: REQUEST FOR COMMENT REGARDING THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM PUBLIC CONSULTATION PAPER, *MONEY AND PAYMENTS: THE U.S. DOLLAR IN THE AGE OF DIGITAL TRANSFORMATION*

Dear Ms. Misback,

The Independent Community Bankers of America (ICBA)[1] appreciates this opportunity to respond to the Board of Governors of the Federal Reserve System's (the Board) research and analysis paper "Money and Payments: The U.S. Dollar in the Age of Digital Transformation" (CBDC Report).[2] The paper is positioned as a "first step" in a public discussion between the Federal Reserve and stakeholders about the potential risks and benefits of a Central Bank Digital Currency (CBDC). A CBDC is defined as "a digital liability of a central bank that is widely available to the general public" and it is intended to function as a digital equivalent of paper money.

After careful consultation with community bankers, ICBA opposes a CBDC because the creation of a CBDC will introduce significant privacy and cybersecurity risks into the nation's monetary system and disrupt the stability of America's banking system. A CBDC could threaten the health of the U.S. financial system by destabilizing existing banking and payments systems that are the backbone of our economy and markets. It would alter the roles and responsibilities of the private sector and the central bank in an unprecedented way. It remains unclear that a government sponsored cryptocurrency will ever be able

[1] The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services.

With nearly 50,000 locations nationwide, community banks constitute 99 percent of all banks, employ more than 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding more than $5.8 trillion in assets, over $4.8 trillion in deposits, and more than $3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers' dreams in communities throughout America. For more information, visit ICBA's website at www.icba.org

[2] Board of Governors of the Federal Reserve System, Research & Analysis, "Money and Payments: The U.S. Dollar in the Age of Digital Transformation" (January 2022), available at: https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf.

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to achieve the potential benefits of payments modernization or increased financial inclusion. It is even more unlikely that creating a CBDC is the most effective method to achieve these goals compared to existing initiatives that the government has already invested significant resources into such as the FedNow℠ system. In short, a CBDC appears to be a solution in search of a problem. While we support the Federal Reserve's efforts to ensure the U.S. payments and monetary system remains modern and competitive, **creating a CBDC would introduce risks without providing benefits to households, businesses, and the overall economy that exceed costs and risks, and would not yield benefits more effectively than alternative methods,** which is described as a prerequisite of creating a CBDC in the CBDC Report**.**

The nation's community banks, whose interests ICBA represents, will be dramatically impacted by the creation of a CBDC. Many community banks, both state-chartered and national banks, are members of the Federal Reserve System (FRS), which means they hold stock in their regional Federal Reserve bank. All community banks, whether or not they are FRS members, serve as financial intermediaries, facilitating payments between consumers, merchants, and government. Because of the critical role that community banks play in the payments system and as small business lenders, as well as their unique understanding of how the system works, we urge the Board to give appropriate weight to their staunch opposition to a CBDC.

We appreciate the Federal Reserve's investment of time and resources to study this important topic as central banks across the globe are evaluating the opportunities and risks of a CBDC. We also recognize the urgency of understanding the impacts of digital assets more broadly, as highlighted in President Biden's Executive Order on "Ensuring Responsible Development of Digital Assets."[3] However, we believe that, even as the public awareness of these issues has grown, it is important to proceed with a cautious, deliberative approach.

While we believe that the Federal Reserve Board has an important and legitimate role in the conversation surrounding the creation of a CBDC, we strongly urge it not to proceed down too far down this path without explicit statutory authorization and oversight from Congress. In testimony before the Senate Banking Committee, Federal Reserve Chairman Jerome Powell said that the Fed would "want very broad support in society and in Congress and ideally that would take the form of authorizing legislation as opposed to a very careful reading of ambiguous law."[4] While we appreciate the Chairman's commitment to a continued dialogue, **we do not believe that the authority to issue a CBDC exists under current law.**

The Fed committed in its report not to move forward "without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law." Federal legislation would be required to establish the roles and responsibilities of the various stakeholders—including the Treasury Department, Federal Reserve, and the private sector. Congress would need to exercise its authority to

[3] President Joseph R. Biden Jr., "Executive Order on Ensuring Responsible Development of Digital Assets," (March 9, 2022), available at: https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/.

[4] "The Semiannual Monetary Report to the Congress," United States Senate Committee on Banking, Housing, and Urban Affairs (July 15, 2021) (Testimony of the Hon. J. Powell).

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preclude any actions that would disrupt the stability of the economy and inject safety and soundness risks to the financial system. The creation of a CBDC would be among the most significant changes to the nation's monetary system in history, on par with the Legal Tender Acts or the creation of the Federal Reserve System. In light of the magnitude of this change, it would not be appropriate for the Federal Reserve to issue a CBDC without statutory authorization.

Executive Summary

ICBA's position is that the Federal Reserve should not issue a CBDC because the associated risks would outweigh any potential benefits. It seems exceedingly unlikely that a CBDC would achieve its policy goals that cannot be better achieved by other means. On the other hand, it would introduce clear risks into the financial system by reducing the amount of deposits than can be lent against, thereby increasing the cost of credit, and by increasing the likelihood and severity of bank runs during times of financial crisis. A summary of the risks of a CBDC and the ways it fails to achieve its potential benefits is below. Our letter will discuss each in detail.

Risks of a CBDC Are Clear

1. **Loss of Deposits/Reduced Access to Credit** – Because banks would be unable to lend against customer deposits stored in CBDC wallets, a CBDC would obstruct banks' ability to provide vital lending services to customers that rely on their local banks as a source of credit. The CBDC Report states the "substitution effect could reduce the aggregate amount of deposits in the banking system, which could in turn increase bank funding expenses, and reduce credit availability or raise credit costs for households and businesses." This potential disintermediation of banks would have a disastrous effect on the availability of credit, particularly to the small businesses served by community banks. The Federal Reserve must preserve the vital role of community banks as economic engines of the U.S. economy.
2. **Privacy/Cyber Security –** Because a CBDC would require a public record of all transactions conducted in CBDC to be maintained by the central bank, it could significantly undermine the privacy of consumers. In addition, the Federal Reserve's role as central processor of the CBDC ledger would dramatically increase its profile as a target for hackers – including by sophisticated criminal gangs and hostile nations. If the CBDC was attacked by hackers, it could undermine confidence in both the CBDC and the dollar as a global reserve currency.
3. **Gateway to Public Banking –** While the current proposal calls for a CBDC to be "intermediated" through wallets offered by financial institutions, a CBDC may be the first step towards direct customer accounts with the Federal Reserve. ICBA is adamantly opposed to direct-to-consumer accounts offered by the Federal Reserve. Consumers are best served by thousands of competing private institutions, which have a duty to ensure their needs are met.
4. **Cost of Compliance –** In an intermediated model, banks would be saddled with all of the identity-verification, customer service, Know Your Customer (KYC), Anti-Money Laundering (AML), privacy protections, sanctions screening and other compliance burdens with no clearly identified revenue stream to compensate banks for these services. Because the Fed has proposed that banks would compete with regulated non-banks in an open market, community banks would be at risk of losing customers to wallets offered by less regulated companies.

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5. **Effects on Monetary Policy –** The introduction of a CBDC could damage the Federal Reserve's ability to conduct monetary policy and interest rate control by altering the supply of reserves in the banking system. The Fed believes it may have to significantly increase the size of its balance sheet to offset demand for CBDC. This would involve "substantially expanding its holding of securities." In a system like ours, which depends on fractional reserve banking, where most money creation is done by commercial banks rather than the Federal Reserve, creating an alternative to bank deposits will have a contractionary effect on the supply of money.
6. **Regulatory Arbitrage Risk –** The Fed proposal states, "Under an intermediated model, the private sector would offer accounts or digital wallets to facilitate the management of CBDC holdings and payments. Potential intermediaries could include commercial banks and regulated nonbank financial service providers and would operate in an open market for CBDC services." ICBA strongly opposes direct access to Federal Reserve accounts by fintech companies and other nonbank providers that sit outside the regulatory perimeter, avoiding the supervisory and regulatory framework that applies to banks while adding risk to the financial system. In order to guarantee the safety and soundness of a CBDC framework involving intermediaries, all intermediaries should meet the same level of regulatory and supervisory compliance to which insured depository institutions are subject.

Potential Benefits of a CBDC Remain Uncertain

1. **Unclear and Uncertain Value Proposition –**The additive value of a CBDC is unclear, particularly given existing efforts by the private and public sectors to modernize the payments system. The economics of a CBDC – both direct costs to build/deploy and the impact to the economy – are not well understood and are not explained by the Fed in the CBDC Report. There are other, less risky and more efficient alternatives to achieve the purported policy goals outlined in the Fed proposal. The CBDC Report sets a high bar for determining that a CBDC is needed, including providing benefits to households, businesses, and the overall economy that exceed costs and risks, and yielding benefits more effectively than alternative methods. In our view, these conditions have not been met nor are guaranteed by a U.S. CBDC. A Federal Reserve FED Notes white paper surmises "…it is unlikely that all benefits of a CBDC will be able to co-exist in practice."[5] Additionally, a CBDC would take many years to create and launch, as pointed out by Treasury Secretary Janet Yellen in a recent speech.[6] The policy goals stated in the CBDC Report may be more effectively achieved through other means by the time a CBDC would be generally available.
2. **Alternative to Stablecoins –** Giving consumers direct access to the central bank would allow them to transact without worry about credit and liquidity risk. While this could make a CBDC an attractive alternative to stablecoins, the credit and liquidity risk of U.S. banks is already tremendously low. Prudential standards make bank failures rare, and FDIC insurance has never

[5] Maniff, Jesse Leigh and Wong, Paul, "Comparing Means of Payment: What Role for a Central Bank Digital Currency?," FED Notes, August 2020 https://www.federalreserve.gov/econres/notes/feds-notes/comparing-means-of-payment-what-role-for-a-central-bank-digital-currency-20200813.htm.

[6] U.S. Department of the Treasury, Remarks from Secretary of the Treasury Janet L. Yellen on Digital Assets (April 7, 2022), available at: https://home.treasury.gov/news/press-releases/jy0706.

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failed to repay insured deposits to any depositor. In short, a safe and regulated alternative to stablecoins already exists in traditional deposit accounts.

3. **Payments –** Advocates claim that a CBDC could reduce the cost and friction of payments. Advocates argue that if a CBDC had existed in 2020, the relief payments in response to the COVID pandemic could have been distributed more quickly and equitably to the unbanked and underbanked. However, the Treasury Department did not utilize currently-available faster payments options for stimulus payments, including Same Day ACH and RTP®, which would have offered faster transaction clearing. Because payments modernization is a major goal of the FedNow project, we believe it would be imprudent to introduce a CBDC before giving FedNow a chance to become operational, widely adopted and successful. CBDC proponents argue that more competition is needed in the payments system, and a CBDC could solve for this. There is a wealth of evidence that demonstrates the U.S. has a diverse and highly competitive payments system today, with significant consumer choice. Safe, efficient Federal Reserve and private-sector interbank payment systems exist now that offer increased transaction speed and reduced costs.
4. **Financial Inclusion –** Advocates of a CBDC say that it could promote financial inclusion by allowing low-income individuals to transfer money or receive payments digitally, without having to pay the fees associated with a traditional deposit account or for remittances. In our view, it seems incredibly unlikely that a technologically complex, government issued cryptocurrency, which will depend on fee-based private wallets, is the best way to reach the underbanked. In public comments, Nellie Liang, Undersecretary for Domestic Finance at the Treasury Department, discussed additional means of addressing unequal access to the financial system, including FedNow.[7]
5. **Global Competition –** ICBA recognizes that the U.S. dollar must remain the foundation of the U.S. financial system to safeguard and strengthen national security. As other central banks worldwide consider creating a CBDC and as stablecoins gain wider adoption, advocates say a U.S. CBDC could help the dollar stay competitive and retain its status as a global reserve currency. However, this argument also appears to lack merit because the reason for the dollar's reserve currency status stems from the strength of the U.S. economy and the responsible conduct of monetary policy by the Federal Reserve. It seems exceedingly unlikely to us that participants in global financial markets will suddenly begin to esteem China's yuan or other CBDCs as global reserve currencies, simply because a digital version becomes available. The decision should not be based upon whether our peers and rivals choose to create a CBDC.

Background

In the CBDC Report, a CBDC is defined as "a digital liability of the Federal Reserve that is widely available to the general public."[8] The report states that a CBDC could be defined as legal tender – though our view is that it does not meet the definition of legal tender in 31 U.S.C. 5013 – and that it would be distinct from digital money that people are used to dealing with today – which exists in bank accounts as

[7] Nellie Liang, U.S. Department of the Treasury, "Remarks by Under Secretary for Domestic Finance Nellie Liang to the National Association for Business Economics" (March 22, 2022), available at: https://home.treasury.gov/news/press-releases/jy0673.

[8] CBDC Report at 3.

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computer entries on commercial bank ledgers. In this way, a CBDC would be central bank money, rather than commercial bank money or nonbank money, which the report defines as follows:

- **Central bank money** is a liability of the central bank. In the United States, central bank money comes in the form of physical currency issued by the Federal Reserve and digital balances held by commercial banks at the Federal Reserve.
- **Commercial bank money** is the digital form of money that is most commonly used by the public. Commercial bank money is held in accounts at commercial banks.
- **Nonbank money** is digital money held as balances at nonbank financial service providers. These firms typically conduct balance transfers on their own books using a range of technologies, including mobile apps.[9]

Understanding this distinction is important because it is what separates a CBDC from digital money as customers are accustomed to dealing with it today. Because a CBDC is a liability of the central bank – and not a liability of a commercial bank like a demand deposit – a CBDC would have no credit or liquidity risk. Today, credit and liquidity risk of commercial bank money are almost completely irrelevant to the average consumer – that is because bank failures are rare, the United States has a comprehensive system of prudential regulations designed to prevent them, and FDIC deposit insurance exists to guarantee the safety of consumer deposits up to a $250,000 threshold.

Because the risk of not being able to convert commercial bank money (bank deposits) into central bank money (physical cash) on a 1:1 basis is infinitesimally small, commercial bank money is accepted by merchants in the form of debit transactions interchangeably with cash. However, some forms of non-bank money, which are also often thought of as being equivalent to the dollar, bear less trivial credit and liquidity risk. For example, money stored in accounts by non-bank financial technology companies and used for peer-to-peer (P2P) digital transfers and payments is not usually covered by FDIC insurance. Customers using these apps run the risk of losing some or all of their account balance if the app provider experiences a default.

Currently, money is moved between financial institutions, businesses, and consumers through the payments system. Most payments in the United States rely on an interbank payment system such as the ACH network, which moves money from a sender's account to a recipient's account at another bank. The CBDC Report notes that there have recently been improvements to payment systems to enable faster payments, including the Clearing House's Real Time Payments (RTP) system and the FedNow system, which will be released in 2023. According to the report, these systems "will enable commercial banks to provide payment services to households and businesses around the clock, every day of the year, with recipients gaining immediate access to transferred funds."[10]

A central bank digital currency would differ significantly from this process because it would not travel over the traditional payment rails. Instead, a CBDC would likely use cryptographic technology to transfer balances between CBDC wallets. The central bank would act as a central transaction processor, validating these transactions, as outlined by the Federal Reserve Bank of Boston and Massachusetts

[9] CBDC Report at 5.

[10] CBDC Report at 7.

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Institute of Technology (MIT) as part of their collaboration on an experimental CBDC design known as Project Hamilton: In their experimental design, users interact with a central transaction processor using digital wallets storing cryptographic keys and transfer wallet balances.[11]

A CBDC Would Damage the Financial System

If the Federal Reserve issues a CBDC it will cause significant disruptions in the financial system, potentially leading to permanently tightened credit conditions and institutional failures. It is difficult to predict the effects of a CBDC because no similar experiment has ever been attempted with a major global currency, but a CBDC would be a significant source of competition for banks in attracting deposits. As the CBDC Report points out, because banks depend on the ability to lend against deposits, a reduction in deposits would result in reduced access to credit and higher borrowing costs for consumers. The extent of this contractionary effect would depend on the characteristics of a CBDC and the extent of its adoption by consumers, but it would likely be severe.

In the United States, we have a system of fractional reserve banking, wherein banks take deposits from the public, hold a portion as a reserve in cash or balances at the central bank, and lend out the remainder. When commercial banks lend, they are, in effect, creating new money that can reenter the banking system as new deposits. These deposits can, in turn, be lent against, again leading to further money creation. In a fractional reserve banking system, the central bank creates base money, but the majority of money creation is done by commercial banks. The central bank can influence the money supply through asset purchases, adjusting the reserve requirements of commercial banks, and interest rate targeting, but it does not control money creation directly.

In this system, a reduction in deposits will lead to a reduction in commercial banks' ability to create money. This monetary tightening will result in an increased cost of credit and decreased credit availability, slowing economic growth or leading to an economic contraction. A CBDC will lead to a reduction in deposits because a CBDC wallet would allow customers to send and receive money digitally, without the credit or liquidity risk of bank deposits.

During a time of financial crisis, the risk to bank deposits posed by a CBDC could be even more dramatic. Because a CBDC would not have credit or liquidity risk, there is a risk that, during times of financial stress, depositors would "run on the bank" and transfer their balances to CBDC wallets. Like a traditional bank run, this may lead to forced liquidations, which could plunge financial markets and the economy into a collapse. It could also lead to liabilities for the FDIC if forced liquidations lead to bank failures. Unlike a traditional bank run, however, which is somewhat constrained by the difficulties associated with handling large amounts of cash, a run to CBDC would be entirely digital. This would enable large depositors to flee from deposit accounts into CBDC wallets with unprecedented speed, worsening the effects of the run.

[11] *See* Federal Reserve Bank of Boston, "Project Hamilton Phase 1 A High Performance Payment Processing System Designed for Central Bank Digital Currencies" (February 3, 2022), available at: https://www.bostonfed.org/publications/one-time-pubs/project-hamilton-phase-1-executive-summary.aspx.

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In a different economic environment, bank deposits may be competitive with a CBDC because banks pay interest on deposits. A CBDC should not accrue interest, nor should interest be paid on balances stored in CBDC wallets. However, because interest rates have been reduced to historically low levels by the policies of the Federal Reserve, commercial banks currently pay relatively low rates of interest on deposits.[12] These low rates, which are negative in real terms, are unlikely to provide a meaningful incentive to persuade consumers to store money in deposit accounts as opposed to CBDC wallets. While banks could raise the interest paid on deposits to be competitive with a CBDC if one was issued, doing so would increase the rates they would be required to lend at and would also cause them to incur a reduction in the value of existing loans.

A CBDC Creates Significant Privacy and Cybersecurity Risks

Advocates of a U.S. CBDC frequently assert that the creation of a CBDC is important for the U.S. dollar to maintain its international competitiveness. It is sometimes argued that the People's Bank of China's (PBOC) "Digital Yuan" (e-CNY) could challenge the dollar as a global reserve currency.[13] This thinking asks the financial community to believe that simply because America's geopolitical rivals are experimenting with a new technology, we should be as well – for fear of ending up on the wrong side of a CBDC gap. Before we accept this premise, however, it is worth taking a moment to investigate the motives of the Chinese government for creating a CBDC.

In the Chinese system, the PBOC issues e-CNY – defined as M0, central bank money or base money – while eight "Tier 2" institutions (state-owned banks and Chinese internet banks) offer customer wallets to store and transact in e-CNY. Similar to the intermediated CBDC model being discussed in the United States, these Tier 2 institutions would be responsible for customer service associated with the use of wallets and for Know-Your-Customer (KYC) requirements. However, while the day-to-day requirements of offering wallets is delegated to the banks, the PBOC is responsible for validating all transactions in CBDC. In other words, the Chinese central bank has a direct line of sight into every e-CNY transaction. While the system includes a feature called "controlled anonymity," which would allow e-CNY users to conceal their identity from counterparties – this anonymity does not extend to protecting users from surveillance by Chinese law enforcement.[14]

In a surveillance state like China, the appeal of this level of visibility into private transactions is obvious. However, in the United States, we should think carefully before going down the same path. In April of 2021, Federal Reserve Chairman Powell testified before Congress that "[t]he currency that is being used in China is not one that would work here. It's one that really allows the government to see every

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[12] According to Bankrate.com's survey of depository institutions, the average interest on deposits was 0.06% as of the week of April 6, 2022. Bankrate, "What is the average interest rate for savings accounts?" (April 7, 2022), available at: https://www.bankrate.com/banking/savings/average-savings-interest-rates/.

[13] *See e.g.* Eustance Huang, "China's digital yuan could challenge the dollar in international trade this decade, fintech expert predicts," CNBC.com (Mar. 15, 2022), available at: https://www.cnbc.com/2022/03/15/can-chinas-digital-yuan-reduce-the-dollars-use-in-international-trade.html.

[14] *See* Deutsche Bank, "Digital yuan: what is it and how does it work" (July 14, 2021), available at: https://www.db.com/news/detail/20210714-digital-yuan-what-is-it-and-how-does-it-work.

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payment for which it is used in real time."[15] Chairman Powell's hesitancy regarding the privacy of a CBDC is well founded because this level of government surveillance would be unprecedented in a developed democracy.

In 2021, ICBA launched the #KeepMyBankingPrivate campaign to oppose a proposed requirement for banks to report account flows of their customers to the Internal Revenue Service without customer consent. According to a Morning Consult poll commissioned by ICBA, 67% of registered voters opposed the proposal and, in response to our campaign, over 500,000 Americans sent letters to Congress opposing the proposal. The lesson from the IRS tax reporting proposal is clear – Americans do not support government intrusion into their transaction records. The creation of a CBDC, which could give the Federal Reserve visibility into every transaction between CBDC wallets, is even more invasive than the IRS tax reporting proposal and would generate equivalent levels of public backlash.

Ultimately, if Americans believed that their transactions were being monitored by the federal government, it is possible that they would remove their funds not only from CBDC wallets but from the banking system as a whole. A CBDC would open up the possibility of government interference in payments to politically disfavored but otherwise legal industries – from firearms to fossil fuels. After Operation Choke Point, it is difficult to conclude that the fear of being deplatformed from the banking system is unfounded.

In addition to fears of government monitoring of CBDC transactions and the politicization of a CBDC, there is also cybersecurity risk posed by criminal hackers and rogue states. A CBDC would depend on the Federal Reserve to serve as a hub, validating all transactions between CBDC wallets. If hackers were able to compromise the Federal Reserve's cybersecurity system, not only could they potentially disrupt or misdirect countless transactions, the hackers would also do permanent damage to the credibility of the CBDC and to the dollar itself. The damage that such a hack would do is a far greater threat to the dollar's status as a global reserve currency than competition from a Chinese CBDC.

As a FEDS Notes report concluded, "In addition to potential counterfeiting, a CBDC may be subject to fraud and double spending, which could weaken trust in a CBDC. Like the anti-counterfeiting measures used for physical currency, a variety of measures would need to be incorporated into a CBDC to prevent users from copying, modifying, or double spending the same asset...Attacks on existing payment systems are a risk, and CBDCs would likely encounter similar pressures … It is difficult to assess the explicit security needs of a CBDC without a clear system design as approaches to security would need to be tailored to the unique design and architecture that is implemented for each CBDC." [16] The responsibility for ensuring the security of a CBDC would be a significant technical challenge with extremely high stakes.

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[15] *See* Henry Kenyon, "Privacy issues seen reducing appeal of central bank digital currencies," Roll Call (November 16, 2021), available at: https://rollcall.com/2021/11/16/privacy-issues-seen-reducing-appeal-of-central-bank-digital-currencies/.

[16] Tarik Hansen and Katya Delak, FEDS Notes, "Security Considerations for a Central Bank Digital Currency" (Feb. 3, 2022), available at: https://www.federalreserve.gov/econres/notes/feds-notes/security-considerations-for-a-central-bank-digital-currency-20220203.htm.

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Furthermore, the risk of a cybersecurity breach is not limited to the central bank. Banks would also be required to invest significant resources into ensuring that customer CBDC wallets are secure. This would be duplicative of their efforts to provide security to deposit accounts in compliance with the Gramm-Leach Bliley Act's Privacy and Safeguards rules. While banks have an excellent record of cybersecurity, it is naive to assume that breaches can be entirely prevented, and CBDC wallets would create a new vector for cyber threats both for the hub (the Federal Reserve) and the spokes (financial institutions that provide customer wallets.)

In addition to the risk of hacks, the credibility of the dollar could also be jeopardized by operational failures of a CBDC. This risk should not be overlooked as speculative because the Eastern Caribbean Central Bank, which has rolled out a pilot CBDC, experienced a service outage in February of 2022.[17] This outage caused transactions to fail and created significant uncertainty for users of the ECCB's DCash platform. If a similar outage were to occur with a U.S. CBDC, it would almost certainly happen at a larger scale, undermining trust in the U.S. payments system.

A CBDC Is a Gateway to Public Banking

As the CBDC Report acknowledges, "the Federal Reserve Act does not authorize direct Federal Reserve accounts for individuals, and such accounts would represent a significant expansion of the Federal Reserve's role in the financial system and the economy."[18] Therefore, the report instead proposes using an "intermediated" model where banks and other financial institutions would provide CBDC wallets. While we agree that the Federal Reserve Act does not permit the Fed to issue a CBDC directly, an intermediated model would require a sufficiently viable business model to incentivize private companies to undertake the technical and compliance expenses required to provide CBDC wallets to customers. Because banks would not be able to lend against funds stored in CBDC wallets in the same way that they lend against deposits, the business model would necessarily depend on service fees, which is not an attractive option for banks or their customers.

If the Federal Reserve issues a CBDC and it experiences low levels of adoption due to the fees intermediaries would need to charge in order to offer wallets, it is highly foreseeable that there could be calls from Congress for the Federal Reserve to offer CBDC wallets directly to consumers. While we understand that this is not included in the Fed's current proposal, the conversation surrounding a CBDC is not taking place within a vacuum. The idea of public banking has been garnering increased attention in recent years and prominent members of Congress have already introduced legislation designed to increase the federal government's role in providing banking services.[19] Issuing a CBDC without statutory authorization will be a dramatic expansion of the Federal Reserve's role in the financial system and increases the likelihood that it is eventually called on by Congress to offer banking services directly to

[17] *See* "Eastern Caribbean CBDC platform crashes," Finextra (Feb. 1, 2022), available at: https://www.finextra.com/newsarticle/39606/eastern-caribbean-cbdc-platform-crashes.

[18] CBDC Report at 13.

[19] *See e.g.* Senator Sherrod Brown's Banking Act for All, S.3571 (116th) and Senator Kyrsten Gillibrand's Postal Banking Act, S.2755 (115th).

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consumers. This amounts to a tacit endorsement of public banking, which is a foreseeable outcome of such an expansion.

ICBA has long opposed public banking in all its forms, including postal banking, because it would divert deposits from community banks which reinvest them in the communities they serve. This reduction of deposits in the banking system could reduce the availability of credit for homebuyers and small business unless the government also becomes a lender. In our view, federal, state, and local governments simply lack the expertise necessary to become creditors and if they did, it could create devastating liabilities for taxpayers if a financial crisis caused a significant number of borrowers to default.

Offering CBDC Wallets Will Create Significant Compliance Burdens

In an intermediated model, banks offering CBDC wallets will be required to comply with the full range of identity verification, cybersecurity, Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations, as they do when they offer deposit accounts. We believe that an intermediated model better answers the risks of money laundering and terrorist finance than a model where the Federal Reserve offers CBDC wallets directly to customers.

In a direct model, the Federal Reserve itself would be required to conduct a tremendous amount of customer due diligence and it currently has no analogous experience. Hiring additional staff with specialized experience would be required and the Federal Reserve would open itself up to reputational risk if a successful cyberattack occurred or if CBDC wallets offered by the Federal Reserve were used to facilitate money laundering. These events would be damaging to the reputation of the affected financial institution if they occurred in an intermediated system, but in a direct system, it would damage the credibility of the Federal Reserve and the dollar itself.

Commercial banks, by contrast, already comply with the Bank Secrecy Act, the Gramm Leach Bliley Act, and their associated regulatory framework which requires customer due diligence and cybersecurity infrastructure to protect customer privacy while still monitoring and reporting suspicious transactions. However, these compliance functions are not costless – far from it – and therefore creating the technical and compliance infrastructure for CBDC wallets will require a compensation model that could include charging fees to users. The fees banks will be required to charge in order for CBDC wallets to be a viable business will significantly offset any potential benefit to financial inclusion presented by a CBDC. Currently, the price of deposit accounts to customers is subsidized both by a bank's ability to lend against deposits and to collect interchange fees on transactions. Neither of these business models will be available with a CBDC, so customers may likely be required to pay for access to wallets with an account maintenance fee to offset bank investments to provide and maintain these services.

Because of the cost and complexity of offering CBDC wallets, as well as the problems presented by a fee-based business model, smaller financial institutions like community banks and credit unions are less likely to offer them than larger banks and financial technology companies. Community banks are largely dependent on their core processors to provide banking software and solutions, so the added cost and time it will take for these technology partners to develop and deploy CBDC wallets will disadvantage their customers. To the extent that a CBDC gains adoption, it would likely transfer deposit market share away from community banks, and towards their larger bank peers. This is not a new phenomenon – in

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1921, there were 30,456 banks in the United States. In the post-FDIC insurance era, the commercial bank population reached a peak of 14,496 in 1984. Today, there are only 4,377 FDIC-insured depository institutions.[20]

There are many reasons for industry consolidation, but among the most significant is regulatory compliance burden. Creating a new system for storing and transferring value, which is what a CBDC would do, and then layering it on top of the existing banking system, will create new compliance burdens and will be a much larger proportional challenge for community banks than for large banks and fintech companies. A foreseeable result, then, is further consolidation as small banks are required to get bigger in order to compete. The creation of a CBDC, then, amounts to the Federal Reserve picking winners and losers among bank business models and asset sizes – with traditional community banks being less favored than big banks and financial technology companies. Because of community banks' outsized role in small business lending, agriculture lending, and providing access to financial services in underserved urban and rural areas, we believe this would be a serious mistake.[21]

By way of example, according to the FDIC, only 75.6% of rural people had access to a smartphone, compared with 86.2% in urban areas and 88.4% in suburban areas. The report also found that 68% of rural households had access to the internet in their home, a much lower rate than urban (79.5%) or suburban (84.5%) households.[22] These rural households, which depend on community banks for access to financial services, will not easily be able to access or use a CBDC. A shift to a CBDC will disadvantage these communities and isolate them from the financial services ecosystem.

A CBDC Will Harm the Formation of Banking Relationships

The core of the community bank business model is relationship banking. Community banks provide more than simply access to payments rails and credit. Instead, community bankers work with their customers – both retail and small business – and help them manage their finances and make informed financial decisions. This guidance can range from teaching a retail customer how to balance their checkbook, to guiding a family through the process of applying for a first mortgage, to helping a small or midsized business apply for government guaranteed loans and other forms of more complicated financing that suit their individual business needs. In other words, relationship banking is more than simply taking deposits and extending credit, it is about creating mutually beneficial trust by acting as an educator and advisor to customers.

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[20] William R. Emmons, St. Louis Federal Reserve, "Slow, Steady Decline in the Number of U.S. Banks Continues" (Dec 2021), available at: https://www.stlouisfed.org/on-the-economy/2021/december/steady-decline-number-us-banks#.

[21] As the only physical banking presence in one in five U.S. counties, community banks meet the needs of areas left behind by other financial services providers. See https://www.fdic.gov/regulations/resources/cbi/report/cbsi-execsumm.pdf

[22] FDIC, "How America Banks: Household Use of Banking and Financial Services" (2019), available at: https://www.fdic.gov/analysis/household-survey/2019report.pdf.

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For most customers, the banking relationship begins with opening a deposit account. If the creation of a CBDC disintermediates this step, it could upend the ability of community banks to form this relationship with their customers. Community banks may not be able to offer CBDC wallets as cheaply or conveniently as larger-scale, less-regulated financial technology providers. Because CBDC wallet balances will not be able to be lent against, some community banks will likely choose not to offer CBDC wallets at all because the business case is not sustainable.

If a CBDC nips this relationship formation in the bud, it will have effects that harm the customer's financial health in the long term. For example, if a customer chooses to transact entirely through a CBDC wallet, that customer will not build a credit history. A community banker could advise them that, by using a bank-issued credit card and paying off the balances in a timely way, they will be able to improve their credit score in a way that will reduce the cost of borrowing for major purchases like a home or business loan. If customers are forced to rely on large-scale, online providers of CBDC wallets that do not offer the same level of high-touch customer service as community banks, the end result could be a decline in financial literacy and an increase in customers making adverse financial decisions due to a lack of guidance.

The lack of relationship building may also lead to lower levels of small business formation. According to the FDIC, "Despite holding only 15 percent of total industry loans in 2019, community banks held 36 percent of the banking industry's small business loans. Community banks focus on building relationships with small business owners and tend to make loans that require more interaction with the borrower."[23] According to the same study, in rural areas, "Community banks are an important source of financing for U.S. agriculture, funding roughly 31 percent of farm sector debt in 2019, with half of that total financed by community-bank agricultural specialists … Community-bank agricultural specialists have shown a strong commitment to lending to farmers through the peaks and valleys of cycles in the agricultural sector."[24] If potential small business owners or farmers never walk through the door of a community bank to open a deposit account, they will lose a potential financial partner who could help them navigate the challenges of business formation or adverse economic cycles.

Creating a CBDC Could Alter the Federal Reserve's Ability to Conduct Monetary Policy in Unpredictable Ways

A CBDC could have a significant impact on the Federal Reserve's ability to conduct monetary policy. As argued in an analysis by Bill Nelson at the Bank Policy Institute (BPI), "a CBDC could lead to rapid and huge reductions in reserve balances (the deposits of commercial banks and other depository institutions at the Federal Reserve) when there is a flight to quality, driving up money-market interest rates and

[23] FDIC, Community Banking Study (December 2020), available at: https://www.fdic.gov/resources/community-banking/report/2020/2020-cbi-study-full.pdf.

[24] *Id*.

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potentially destabilizing financial markets."[25] Because a CBDC would be M0, it would not bear the credit or liquidity risks associated with bank deposits – making it an attractive alternative in times of uncertainty. This is dangerous for the stability of the banking system because a flight out of bank deposits could lead to bank failures and would also limit the ability of commercial banks to create money by lending against reserves. Therefore, a CBDC would have a contractionary effect on the money supply, the effect of which would be impossible to predict.

However, while the BPI white paper acknowledges the risk of a CBDC to monetary policy it also argues that a CBDC could have some benefits – for example, removing the Zero Lower Bound on monetary policy "assuming that a CBDC could pay negative interest and paper currency were eliminated."[26] In essence, in the event of a deflationary spiral, the Federal Reserve could reduce the CBDC interest rate below 0, essentially penalizing consumers for holding cash and encouraging spending. Academically, this makes some sense, but we do not believe it should ever be done in practice because consumers' relationship to money has an emotional component that is not captured in an academic exercise. It would significantly undermine confidence in the dollar if it were possible for the Federal Reserve to reduce consumers' CBDC wallet balances in real time in order to facilitate a monetary policy goal.

Furthermore, a CBDC could infringe on the sovereignty of foreign countries' central banks because, if a U.S. CBDC is easier to store and transport than physical cash, it may become a preferred alternative to local currencies, particularly in the developing world. This is potentially damaging to these countries because the ideal monetary policy for their country may be either more dovish or more hawkish than the monetary policy of the United States. However, the ability for foreign central banks to control the value of their own currency could be severely diminished if a digital dollar is more widely used within their borders than their nation's currency.

Creating a CBDC Is Not a Substitute for Regulating Stablecoins and Other Cryptocurrencies

Some government officials, including Federal Reserve Governor Lael Brainard,[27] have argued stablecoins create risks for consumers, who may view them as equivalent to a dollar despite lacking federal deposit insurance or any other federal guarantee of their value. In ICBA's view, stablecoins currently represent a risk to the financial system because while they are called "stable," as recent developments such as Tether and Terra losing their peg to the dollar show, they are often anything but a stable source of value. Without being subject to regulation and supervision stablecoins may deceive customers into thinking that they are as secure as bank deposits.

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[25] Bill Nelson, Bank Policy Institute, "The Benefits and Costs of a Central Bank Digital Currency for Monetary Policy" (Apr. 2021), available at: https://bpi.com/wp-content/uploads/2021/04/The-Benefits-And-Costs-Of-A-Central-Bank-Digital-Currency-For-Monetary-Policy.pdf.

[26] *Id.*

[27] *See* Speech by Governor Lael Brainard, "Private Money and Central Bank Money as Payments Go Digital: an Update on CBDCs" to the Consensus by CoinDesk 2021 Conference (May 24, 2021) (available at: https://www.federalreserve.gov/newsevents/speech/brainard20210524a.htm).

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Furthermore, large technology companies like Meta (previously branded as Facebook), have experimented with creating their own corporate-backed stablecoins. ICBA is concerned that corporate guaranteed stablecoins could present a backdoor way for large commercial firms to offer bank-like deposit and payment products without becoming subject to appropriate prudential regulations. In the United States, there is a separation between banking and commerce, which is designed to reduce the transmissibility of shocks in the financial markets to commercial firms and to prevent undue concentrations of economic power or too-big-to-fail firms that may create systemic risk. If Big Tech or other large commercial companies are allowed to issue stablecoins it will erode the separation of banking and commerce and create deposit-like products without appropriate regulatory oversight. ICBA urges policymakers to preserve the separation of banking and commerce.

However, while stablecoins present novel challenges to the legal and regulatory landscape of the financial services industry, creating a CBDC as an alternative to privately issued stablecoins is not a substitute for regulation, nor does it come down to a binary choice of a CBDC or stablecoins. A CBDC will neither outcompete stablecoins out of existence nor solve the regulatory challenges presented by stablecoin arrangements, including ensuring they are adequately capitalized and do not create systemic risk.

The President's Working Group on Financial Markets has recommended that:

> "[W]ith respect to stablecoin issuers, legislation should provide for supervision on a consolidated basis; prudential standards; and, potentially, access to appropriate components of the federal safety net. To accomplish these objectives, legislation should limit stablecoin issuance, and related activities of redemption and maintenance of reserve assets, to entities that are insured depository institutions. The legislation would prohibit other entities from issuing payment stablecoins. Legislation should also ensure that supervisors have authority to implement standards to promote interoperability among stablecoins."[28]

ICBA believes it is critical that stablecoins are subjected to appropriate federal prudential oversight, which includes bringing them within the regulatory perimeter in order to address serious risks to financial stability, national security, and consumer protection. Unregulated stablecoins threaten to disintermediate community banks and heighten risks for disruptions to the wider economy.

A CBDC Will Not Improve the U.S. Payments System

In the United States, we already have digital money to a large degree – most commercial bank money is stored as electronic ledger entries in deposit accounts, and it can be transferred and spent using methods customers are already familiar and satisfied with. It is not obvious that a CBDC will serve the challenges of facilitating payments more efficiently than these existing methods. For example, the CBDC Report argues that a CBDC has the potential to improve cross boarder payments. Not only will this require, "significant international coordination to address issues such as common standards and

[28] President's Working Group on Financial Markets, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency, "Report on STABLECOINS" (Nov. 2021), p. 7 (available at: https://home.treasury.gov/system/files/136/StableCoinReport_Nov1_508.pdf).

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infrastructure," it would also require a CBDC to handle tremendous payment volume, preventing limits on CBDC wallets.

Because cross border payments require significant KYC/AML checks, wallet providers (banks and regulated non-banks) would still likely be required to charge for these services, making a CBDC no more cost effective than current payment rails. In order to improve cross-border payments, central banks would have to create interoperability between their respective CBDCs. Interoperability or transferability of CBDC across multiple payments systems is a problem without a clear solution. There are additional problems of currency conversion and compliance with local policies.

ICBA has long been a supporter of efforts to modernize the payments system. However, creating a CBDC would be an expensive and risky way to duplicate the capabilities of the existing payments system. It is, in many ways, redundant of the extensive work already done on FedNow. FedNow is the "instant payment service that the Federal Reserve Banks are developing to enable financial institutions of every size, and in every community across the U.S., to provide safe and efficient instant payment services in real time, around the clock, every day of the year."[29]

In March, Treasury Under Secretary for Domestic Finance Nellie Liang observed, "We also recognize that there are developments that could address some of these issues [costs and fees associated with having a bank account and making payments]. For example, FedNow aims to be a 24/7 payment system that will be low cost to users and widely available. Because FedNow relies on the banking system, there already are safeguards for consumers and businesses. In addition, bank-based money usually has deposit insurance and banks are generally eligible to obtain access to the lender of last resort."[30]

It seems unnecessary to create a CBDC for the purpose of realizing faster or lower cost domestic payments when significant effort, time, and expense has already been invested in developing FedNow. When the FedNow system is launched, it is likely to improve the speed and lower the cost of payments, delivering one of the key potential benefits of a CBDC without the associated risks and uncertainties. FedNow should be allowed to deliver on its promised benefits before duplicative expenses to develop a CBDC are made. As Deputy Treasury Secretary Liang noted, the banks that will use the FedNow system operate within a well-established regulatory framework that provides safeguards to consumers. If a CBDC is created, it will require the creation of a new regulatory and technical architecture.

A CBDC Will Not Promote Financial Inclusion

A CBDC will have a negative effect on financial inclusion. According to an FDIC Report, 36% of unbanked households report that they do not have a bank account because "avoiding a bank gives more privacy."

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[29] The Federal Reserve, FRBServices.org, "About the FedNow Service," available at: https://www.frbservices.org/financial-services/FedNow/about.html.

[30] Nellie Liang, U.S. Department of the Treasury, "Remarks by Under Secretary for Domestic Finance Nellie Liang to the National Association for Business Economics" (March 22, 2022), available at: https://home.treasury.gov/news/press-releases/jy0673.

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And 34.2% report that they do not have a bank account because "bank account fees are too high."[31] Neither of these problems, which are both among the most commonly cited reasons for not having a bank account, will be solved by a CBDC.

In an intermediated CBDC model, as proposed by the CBDC Report, banks and other financial institutions would offer wallets to customers to store their CBDC. For customers who do not trust these institutions because of privacy concerns, it is not clear why this objection would vanish with a CBDC wallet. Furthermore, the central bank would have more visibility into CBDC transactions than transactions processed by the existing payments system. In other words, a CBDC would be less private than the current system and is unlikely to attract the customers who are unbanked due to a desire for privacy or distrust of banks.

Finally, since a CBDC would be an entirely digitally native form of money, it seems likely to require internet access to manage and spend. Because it would depend on complicated cryptographic technology, it may be difficult for customers to understand. For customers who are unbanked or underbanked due to a lack of reliable access to the internet or because of low financial literacy, a CBDC appears to put up new barriers to accessing the money and payments system, rather than promoting financial inclusion.

A CBDC Is No Guarantee of the Dollar's Status as World Reserve Currency

Creating a CBDC is not necessary for the dollar to maintain its status as the world's preeminent reserve currency. Even now, when the dollar has entered a period of higher-than-average inflation, it has gained value against the currencies of peer countries. The Dollar Index (known as the DXY or Dixie, is a widely traded index maintained by the Intercontinental Exchange (ICE) containing the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc) has increased 15.26% since December 31, 2020 and 7.69% since the start of 2022.[32] What the increase of the value of the dollar compared to other world currencies demonstrates is that, despite the past two years of a global pandemic and the unprecedented expansion of the supply of U.S. dollars, it remains a bastion of relative strength. We are confident that the dollar will remain the global standard without creating a CBDC variant.

For the China yuan, or any less widely used currency, offering a digital version of its currency is an attractive gimmick that may drive some adoption of its currency in countries with less stable local currencies. The dollar needs no such gimmick to be accepted as a store of value or a mode of transaction because it is backed by the full faith and credit of the United States government and its supply is managed through the prudence of the Federal Reserve's monetary policy. As long as the United States retains a preeminent place in world affairs and the Federal Reserve carefully manages the money supply according to its dual mandate of stable prices and low unemployment, the dollar will have value worldwide. Any corporation or private individual who finds the value proposition of a digital yuan more compelling is free to choose to use it, but they should be mindful of the potential for currency

[31] Federal Deposit Insurance Corporation, "How America Banks: Household Use of Banking and Financial Services" (2019), available at: https://www.fdic.gov/analysis/household-survey/2019execsum.pdf.

[32] *See* CNBC.com, DXY US Dollar Currency Index, (calculated on 5/7/2022) available at: https://www.cnbc.com/quotes/.DXY.

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manipulation, surveillance, limitations on transactions, or confiscation, as opposed to the protections of storing dollars in an FDIC-insured bank account.

Finally, as analysis by the Bank Policy Institute has shown, other global currency leaders are already beginning to pull back from the creation of a CBDC, "the Bank of Canada has sidetracked its CBDC effort, noting that it does not see a compelling need for one. Likewise, Australia, where the central bank governor noted of CBDCs that 'we have not seen a strong public policy case to move in this direction, especially given Australia's efficient, fast and convenient electronic payments system.' In the U.K., the Lords Economic Affairs Committee recently found that none of the witnesses who came before the committee (including the Governor of the Bank of England) was able to make a convincing case for a retail CBDC, and concluded that the introduction of a CBDC could pose significant risks."[33]

The Federal Reserve has asked, how "should decisions by other large economy nations to issue CBDCs influence the decision whether the United States should do so?"[34] In our view, the fear of missing out should not be a driving motivator to fundamentally change the nature of the money system and the role of the Federal Reserve. Therefore, the decisions of other nations to create a CBDC – or not – should have a minimal effect on our reasoning here in the United States. The decision should be based on the substantive merits for and against the creation of a CBDC – and we believe the risks decisively outweigh any potential benefits – and undertaken only with explicit statutory authorization from Congress and with the support of the financial services industry and the customers it serves.[35]

Conclusion

In conclusion, the nation's community banks view the creation of a CBDC as a mistake that would disrupt existing depository institutions and create significant risks to financial stability. Creating a

[33] Greg Baer and Paige Paridon, Bank Policy Institute, "The Waning Case for a Dollar CBDC" (Feb. 18, 2022), available at: https://bpi.com/wp-content/uploads/2022/02/The-Waning-Case-for-a-Dollar-CBDC.pdf; *citing:* Ljunggren, David, "Bank of Canada not planning to launch digital currency, at least for now," Reuters, Oct. 18, 2021, available at https://www.reuters.com/world/americas/bank-canada-not-planning-launch-digital-currency-least-now-2021-10-18/.; Lowe, Philip, "Payments: The Future?", speech on Dec. 9, 2021, available at https://www.rba.gov.au/speeches/2021/sp-gov-2021-12-09.html.; House of Lords Economic Affairs Committee, 3rd Report of Session 2021–22, HL Paper 131, "Central bank digital currencies: a solution in search of a problem?", Jan. 13, 2022, available at https://committees.parliament.uk/publications/8443/documents/85604/default/

[34] CBDC Report at 22.

[35] *See* the comments from Federal Reserve Chairman Jerome Powell at a panel discussion hosted by the International Monetary Fund, "We do think it's more important to get it right than to be first and getting it right means that we not only look at the potential benefits of a CBDC, but also the potential risks, and also recognize the important trade-offs that have to be thought through carefully." Reuters, "Fed's Powell: More important for U.S. to get digital currency right than be first" (October 19, 2020), available at: https://www.reuters.com/article/us-usa-fed-powell-digitalcurrency/feds-powell-more-important-for-u-s-to-get-digital-currency-right-than-be-first-idUSKBN2741OI. ICBA agrees with Chair Powell's approach of carefully weighing the risks and trade-offs of a CBDC before creating one simply to be first, but we urge the Federal Reserve to leave open the possibility that, after a careful analysis has been conducted, the risks may simply be too great to create a CBDC in the United States.

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CBDC will introduce new risks into our financial system, disintermediate depository institutions, and increase the cost of credit for consumers and small businesses. Its creation is not to be taken lightly and cannot be justified by a desire to enter a monetary arms race with other nations. It is foreseeable that a CBDC will be a first step towards offering direct customer accounts at the Federal Reserve, ushering in an era of public banking, granting the Federal Reserve visibility into every transaction and eroding privacy, and disintermediating private banks. But even if these worst fears never come to pass, it is clear that a CBDC would be a significant competitor for bank deposits – which would limit the ability of community banks to lend and have a contractionary effect on the money supply and the economy.

We are not convinced that a CBDC will meet the prerequisites established by the Fed, nor will it yield benefits that exceed the costs and risks. It is puzzling that the Federal Reserve would begin developing a new, alternative payment system before giving FedNow, a platform that the Federal Reserve has invested significant time and resources to create, a chance to succeed. A CBDC would be a technologically complex system and would require internet access to utilize, meaning that it will likely have a negative effect on financial inclusion. Without the ability to lend against wallet balances, the business case for banks to offer CBDC wallets is unclear. The dollar's recent strength throughout the pandemic demonstrates that it will retain its reserve currency status without creating a digital variant.

Thank you again for the opportunity to provide feedback in response to the Board's research and analysis paper "Money and Payments: The U.S. Dollar in the Age of Digital Transformation." We look forward to continued engagement with the Federal Reserve on this critical topic. Please feel free to contact us at Deborah.Phillips@icba.org or (202) 697-1266 or Michael.Marshall@icba.org or (202) 821-4411, if you have any questions about the positions stated in this letter.

Sincerely,

/s/

Deborah Matthews Phillips
Senior Vice President, Payments and Technology Policy

/s/

Mickey Marshall
Director, Regulatory Legal Affairs