



May 25, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member McHenry,

The American Bankers Association, Bank Policy Institute, Consumer Bankers Association, Credit Union National Association, National Association of Federally-Insured Credit Unions, National Bankers Association, and The Clearing House appreciate the opportunity to share this letter detailing our views on the topic of Central Bank Digital Currency (CBDC). The debate on CBDC has significant implications for our financial system, economy, and, most importantly, for the American consumer.

Contrary to the assertions of some CBDC proponents, a U.S. CBDC is not necessary to “digitize the dollar,” as the dollar functions primarily in digital form today. Commercial bank money is a digital dollar, and is currently accepted without question by businesses and consumers as a means of payment. By the same token, some have argued that consumers have a natural right to hold an instrument backed by the central bank, and that the move away from cash will deprive them of that right. However, deposit insurance will continue to provide them exactly that – digital money in the form of commercial money, backed by the full faith and credit of the United States.

Furthermore, the issuance of a CBDC would fundamentally rewire our banking and financial system by changing the relationship between citizens, financial institutions, and the Federal Reserve, leading to a reduction in the availability and increase in the cost of credit. The Federal Reserve has recognized this potential, noting both in its recent Financial Stability Report and its CBDC consultative paper, that “A CBDC could fundamentally change the structure of the U.S.

financial system, altering the roles and responsibilities of the private sector and the central bank.”¹

There is a growing recognition that the deployment and use of CBDCs would be accompanied by significant real-world trade-offs. The lack of compelling use cases where CBDC delivers benefits above those available from other existing options, coupled with the significant risks of a U.S. CBDC, have, for good reason, cooled the enthusiasm for developing, deploying, and maintaining a CBDC.

Today, we use both public and private money. Public money, which includes cash and accounts held directly at the Federal Reserve, makes up about 5% of money in developed economies.² The other 95% is private money – funds held as a liability of a private institution like a bank or credit union that themselves have accounts at the central bank that settles transactions among those institutions. Private money is created through financial intermediation by banks and credit unions – the process in which financial institutions take deposits and lend out and invest those deposits. Private money is used by financial institutions to provide funding for businesses and consumers and thus supports economic growth. Introducing a CBDC would be a deliberate decision to shift some volume of private money to public money, with potentially devastating consequences for the cost and availability of credit for consumers and businesses. In sum, the savings of businesses and consumers would no longer fund the assets of banks – primarily, loans – but instead would fund the assets of the Federal Reserve – primarily securities issued by the Treasury Department, Fannie Mae, and Freddie Mac. Businesses and consumers would seek the cost of borrowing rise, and government would see the cost of borrowing fall.

If the intended objective behind issuing a CBDC is to realize the benefit of technological innovation, we should look to leverage novel developments in private money (like real-time payments systems and well-regulated stablecoins). Private sector innovation in banking and payments has made a significant contribution to establishing the U.S. dollar as the reserve currency of the world and is best positioned to support the dollar’s preeminent position in the years to come.

There are many proposed designs for a CBDC, and the design choices have a significant impact on the potential risks and benefits associated with each. For purposes of its discussion paper, the Federal Reserve has defined a CBDC as “a digital liability of a central bank that is widely available to the general public.” It has also suggested that any CBDC should be “privacy-protected, intermediated, widely transferable, and identity-verified.” This approach has helped focus the discussion on the intermediated CBDC model, where a CBDC would be delivered

¹ Federal Reserve Board, *Money and Payments: The U.S. Dollar in the Age of Digital Transformation*, (January 2022) (hereinafter, “CBDC Report” or “discussion paper”), <https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf>.

² Harvard Business Review, *Stablecoins and the Future of Money* (Aug. 10, 2021), <https://hbr.org/2021/08/stablecoins-and-the-future-of-money#:~:text=Public%20money%20includes%20central%20banks,in%20developed%20economies%20is%20private>.

through private-sector financial institutions, but where individual holdings will sit at the Federal Reserve. Importantly, this definition precludes “direct”³ and “wholesale”⁴ designs of CBDC. Given this focus, the majority of our analysis will evaluate the impact of this intermediated model.

The purported benefits of a CBDC are uncertain and unlikely to be realized, while the costs are real and acute. For these reasons, we do not see a compelling case for a CBDC in the United States today.

Proponents of CBDC cite a number of laudable goals in support of a CBDC, such as increasing financial inclusion and promoting the U.S. dollar’s international role as a reserve currency and a medium of exchange for international trade. The joint trades support these important goals; however, we do not believe that a CBDC is well-positioned to accomplish them

Banks and credit unions are strong proponents of financial inclusion and have put significant effort into bringing unbanked families into the financial system. For example, 235 “Bank On” certified accounts – low- or no-fee accounts with no penalty fees for overdrafts, non-sufficient funds, low balances or account dormancy -- are now offered by banks and credit unions at more than 39,000 branches nationwide.⁵

Even if a CBDC did attract unbanked consumers – which we do not believe will be the case – this could actually be counterproductive since a CBDC would only provide an alternative to a deposit account. However, the benefits of a banking relationship go far beyond a deposit account. The goal of financial inclusion is to build a lifelong relationship that can help families access credit that can help them build for a secure financial future. A CBDC is likely to undermine this by limiting, rather than promoting, credit availability to the communities that need it the most.

Similarly, a CBDC does not appear to be necessary to support the role of the U.S. dollar internationally. While many countries have experimented with a CBDC, many have focused on a wholesale model, something not contemplated by the Federal Reserve’s discussion paper. In addition, many have pulled these experiments back as the costs of implementation have become apparent. The Federal Reserve notes that the dollar’s status as the global reserve currency is driven by 1) the strength and openness of our economy, 2) the depth of our financial markets, and 3) the trust in our institutions and rule of law.

³ A “direct” CBDC means a liability of the central bank held directly by a member of the public, unlike a commercial bank deposit, which is a liability of the commercial bank owed to its customer.

⁴ A “wholesale” CBDC means a CBDC designed for use among financial intermediaries only.

⁵ The account standards are available here: <https://2wvkof1mfraz2etgea1p8kiy-wpengine.netdna-ssl.com/wp-content/uploads/2020/10/Bank-On-National-Account-Standards-2021-2022.pdf>. See Written Testimony Submitted to the U.S. House Committee on Financial Services, House Subcommittee on Consumer Protection and Financial Institutions. Hearing on “Banking the Unbanked: Exploring Private and Public Efforts to Expand Access to the Financial System,” (July 21, 2021), Submitted by David Rothstein, Senior Principal, Cities for Financial Empowerment Fund, available at: [hrg-117-ba15-wstate-rothsteind-20210721.pdf \(house.gov\)](https://www.house.gov/committees/financial-services/documents/2021/07/21/20210721-hrg-117-ba15-wstate-rothsteind-20210721.pdf); [Accounts – BankOn \(joinbankon.org\)](https://www.joinbankon.org); The Bank On National Data Hub: Findings from 2020, available at: [bankonreport_2020findings.pdf \(stlouisfed.org\)](https://www.bankonreport.org/2020findings.pdf).

The risks associated with issuing a CBDC are often downplayed but are real and likely to undermine any possible benefit that a CBDC would have. Most importantly, every construction of CBDC requires moving funds from banks to the Federal Reserve. According to the Federal Reserve “A widely available CBDC could serve as a close substitute for commercial bank deposits or other low-risk assets such as government MMFs and Treasury bills. A shift away from these assets could reduce credit availability or raise credit costs for households, businesses, and governments.”⁶

In effect, a CBDC will serve as an advantaged competitor to retail bank deposits that will move money away from banks and into accounts at the Federal Reserve where the funds cannot be lent back into the economy. These deposit accounts represent 71% of bank funding today. Losing this critical funding source would undermine the economics of the banking business model, severely restricting credit availability increasing the cost of credit, and causing a slowdown of the economy. ABA estimates that even a CBDC where accounts were capped at \$5,000 per “end user” could result in \$720 billion in deposits leaving the banking system.

With respect to financial stability, the Federal Reserve notes, “Because central bank money is the safest form of money, a widely accessible CBDC would be particularly attractive to risk-averse users, especially during times of stress in the financial system. The ability to quickly convert other forms of money—including deposits at commercial banks—into CBDC could make runs on financial firms more likely or more severe. Traditional measures such as prudential supervision, government deposit insurance, and access to central bank liquidity may be insufficient to stave off large outflows of commercial bank deposits into CBDC in the event of financial panic.”

The only solution proffered to solve this fundamental problem has been a limit on the value of CBDC that anyone can hold – effectively limiting it to consumers. But this use case undermines practically every use case for CBDC, as it means that it cannot be used for commercial purposes, and that any retail holder will have to hold a bank account as well, in case the limit is exceeded.

Given the high stakes, it is important we get this right, which is why the joint trades support the Federal Reserve’s thoughtful and considered approach. The Federal Reserve’s discussion paper takes a balanced view of the opportunities and risks associated with issuing a CBDC in the United States.

The recent Executive Order on Digital Assets⁷ places an increased focus on CBDC. While much of the executive order calls on federal agencies to assess the expanding marketplace of digital assets before recommending new rules, we are concerned that it clearly directs federal agencies to begin pursuing a central bank digital currency even before determining if a U.S. CBDC is actually ‘in the national interest’ as the order also requires. Secretary Yellen recently commented

⁶ Federal Reserve Board, Financial Stability Report at 44 (May 2022), <https://www.federalreserve.gov/publications/files/financial-stability-report-20220509.pdf>.

⁷ <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/03/09/executive-order-on-ensuring-responsible-development-of-digital-assets/>

on this work, noting that “issuing a CBDC would likely present a major design and engineering challenge that would require years of development, not months.”⁸

It also seems worth noting that proponents of a dollar CBDC frequently note enthusiasm in other countries, and the potential for a “CBDC gap.” However, 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.

U.S. policymakers are coming to the same conclusion. In June, 2021, then Vice Chair for Supervision Randal Quarles suggested that CBDCs were an unfortunate fad like “parachute pants” that would be “puzzling or embarrassing” in hindsight.⁹ Similarly, Federal Reserve Governor Christopher Waller called CBDC “a solution in search of a problem.”¹⁰

Lastly, and perhaps most importantly, we believe that legislation is required to authorize the Federal Reserve and the Treasury Department to change the nature of our nation’s currency.¹¹ Just as Congress acted to authorize the abandonment of gold backing for the currency in 1933, it would need to act now to convert our nation’s currency from paper to digital form. The requirement of Congressional action is all the more important given the profound consequences for the nature of our economy, and the role of government in it.

We look forward to engaging with the Federal Reserve, Treasury Department, and other policymakers as they consider the important questions raised in this discussion paper.

Sincerely,

American Bankers Association¹²

Bank Policy Institute¹³

Consumer Bankers Association¹⁴

⁸ <https://home.treasury.gov/news/press-releases/jy0706>

⁹ <https://www.federalreserve.gov/newsevents/speech/quarles20210628a.htm>

¹⁰ <https://www.federalreserve.gov/newsevents/speech/waller20210805a.htm>

¹¹ <https://bpi.com/legal-authority-to-issue-a-u-s-central-bank-digital-currency/>

¹² The American Bankers Association is the voice of the nation’s \$24.0 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2 million people, safeguard \$19.9 trillion in deposits and extend \$11.4 trillion in loans. [Fed Comment Letter](#).

¹³ The Bank Policy Institute is a nonpartisan public policy, research and advocacy group, representing the nation’s leading banks and their customers. Our members include universal banks, regional banks and the major foreign banks doing business in the United States. Collectively, they employ almost 2 million Americans, make nearly half of the nation’s small business loans and are an engine for financial innovation and economic growth. [Fed Comment Letter](#).

¹⁴ The Consumer Bankers Association is the only national trade association focused exclusively on retail banking. Established in 1919, the association is now a leading voice in the banking industry and Washington, representing members who employ nearly two million Americans, extend roughly \$3 trillion in consumer loans, and provide \$270 billion in small business loans.

Credit Union National Association¹⁵
National Association of Federally-Insured Credit Unions¹⁶
National Bankers Association¹⁷
The Clearing House¹⁸

cc: Members of the House Financial Services Committee

¹⁵ The Credit Union National Association, Inc. (CUNA) is the largest trade association in the United States serving America's credit unions and the only national association representing the entire credit union movement. CUNA represents over 5,000 federal and state credit unions, which collectively serve over 130 million members nationwide. CUNA's mission in part is to advocate for responsible regulation of credit unions to ensure market stability, while eliminating needless regulatory burden that interferes with the efficient and effective administration of financial services to credit union members. [Fed Comment Letter](#).

¹⁶ The National Association of Federally-Insured Credit Unions advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 130 million consumers with personal and small business financial service products. NAFCU membership is direct and provides credit unions with the best in federal advocacy, education and compliance assistance. [Fed Comment Letter](#).

¹⁷ Since 1927, The National Bankers Association has served as the leading trade association for minority depository institutions (MDIs). Our members include Black, Hispanic, Asian, Pacific Islander, Native American, and women-owned and -operated banks across the country, all working to help low and moderate-income communities who are underserved by traditional banks and financial service providers.

¹⁸ The Clearing House Association, L.L.C., the country's oldest banking trade association, is a nonpartisan organization that provides informed advocacy and thought leadership on critical payments-related issues. Its sister company, The Clearing House Payments Company L.L.C., owns and operates core payments system infrastructure in the U.S., clearing and settling more than \$2 trillion each day [Fed Comment Letter](#).