September 14, 2023

# Central Bank Digital Currency: Significant Risks Must Preclude Adoption

The Independent Community Bankers of America, representing community banks across the nation with nearly 50,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing titled: "Digital Dollar Dilemma: 7KH ,PSOLFDWLRQV RI D &HQWUDO %DQN 'LJLWDO &

,&%$ EHOLHYHV WKDW FRXOG EH GHYDVWDWLQJ ... GHILQHG )HGHUDO 5HVHUYH ... WKH UHDVRQV VHW IRUWK LQ WKLV VWDWHPHQW ... XUJHV &RQJUHVV ... RI D &%'& ZRXOG EHVW EH DGGUHVVHG WKURXJK ... )HG1RZ ... FRPPXQLW\ EDQNHUV DOVR ... WR ILQDQFLDO LQVWLWXWLRQV ... JLYHQ WKH LQFUHDVLQJ DGRSW

serving rural, suburban, and urban markets in all regions of the United States.

## Disintermediation of Community Bank Deposits

The Federal Reserve GHILQHV D &%'& DV "D GLJLWDO OLDELOLW\ RI D FHQW SXEOLF." Under the "intermediated" model contemplated by the Federal Reserve, "WKH SULYDWH VHFWR 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 PDUNHW IRU &%'& VHUYLFHV."

Bank deposits are a liability of the issuing bank and reside on its balance sheet. As such, deposits serve as a source of bank lending. By contrast, as a liability of the Federal Reserve, a CBDC HYHQ RQH WKDW LV "LQWHUPHGLDWHG," would not be available to support bank lending. A CBDC would position the Federal Reserve as a direct, advantaged competitor for bank 0Gks from community banks with a direct and adverse impact on credit availability. The risk of this scenario would be accentuated in a financial crisis. Because a CBDC would not have credit or liquidity risk, depositors might ³UXQ RQ WKH EDQN´ DQG WUDQVIHU WR WKH ... The digital nature of CBDC would allow these transfers to occur with unprecedented speed, triggering a chain reaction of events that

The Role of Congress

The Federal Reserve S U R P L V H G  L Q  L W V  U H S R U W  Q R W  W R  P R Y H  I R U Z D U G  ³Z