
Background Information

Policymakers in the U.S. and around the world have begun examining a form of digital asset called central bank digital currency (CBDC). CBDCs are a digital asset that would be issued by a central bank and remain as a liability on the central bank's balance sheet. Contrary to popular belief, CBDCs are not intended to "digitize the dollar" as the dollar is largely digital today. Instead, the issuance of a CBDC would fundamentally rewire our banking and financial system by changing the relationship between individual customers and the Federal Reserve.

While there are several potential models for CBDC, in a January 2022 discussion paper the Fed indicated it is exploring a model where the CBDC is a liability of the Fed and widely available to the general public. The Fed also promised not to move forward "without clear support from the executive branch and from Congress, ideally in the form of a specific authorizing law." ABA responded to the Fed's paper and has continued to advocate that there is no compelling use case for a CBDC.

The Biden administration's March 2022 executive order on digital assets called for additional examination of CBDC, and work on those is ongoing. Congress is also contemplating next steps.

Why it Matters To Your Community

The implementation of a CBDC would change the nature of our industry, financial system, and economy. While proponents claim they could bring benefits, many of these benefits are theoretical and will be hard or impossible to realize. The risks associated with the issuance of a CBDC are tangible and in many cases unavoidable.

Importantly, the issuance of a CBDC would set the Fed up as a direct competitor for bank deposits. Because a CBDC would be a liability of the Fed, it will inevitably sit on the Fed's balance sheet instead of a bank's. Even if delivered through a bank, a CBDC would be more akin to cash in a safety deposit box than an actual bank deposit. This deposit substitution would drain our nation's deposit base and limit banks' ability to make the loans that power economic growth.

More generally, it is unclear what policy goals a CBDC would achieve in the United States that cannot be better achieved by other means. For some countries, a CBDC could enhance weak or nonexistent financial systems, whereas a CBDC does not appear well-positioned to enhance underlying financial capabilities or extend the reach of financial services in well-developed markets like the United States, despite the overly optimistic promises from proponents.