



DIGITAL ASSETS AND COMMUNITY BANKS

In the past year, the cryptocurrency industry has been rocked by high-profile collapses of cryptocurrency lenders and exchanges, notably FTX, as well as the failure of a major algorithmic stablecoin (TerraUSD), and a significant decline in overall market values. Community bankers are increasingly alarmed by the risks presented by digital assets, including scams and misrepresentations to consumers, and their growing potential to jeopardize the financial stability of the traditional banking sector. Community banks are at risk of disintermediation if non-bank issued stablecoins become widely adopted for payments, undermining their ability to provide funding to support local economic activity, growth, and development.

Stablecoins. Stablecoins are a type of digital asset that attempts to maintain a stable value by being pegged to a national currency or backed by assets, such as commercial paper or commodities. ICBA urges policymakers to bring stablecoins within the regulatory perimeter to address serious risks to financial stability, national security, and consumer protection. To maintain the health of the U.S.

financial system, policymakers must ensure that non-bank stablecoin issuers and other crypto-related entities do not have access to Federal Reserve master accounts or the payment system. Special purpose bank charters or similar alternatives should not be granted to non-bank stablecoin issuers that do not fully meet the requirements of federally insured and supervised chartered banks.

Decentralized Finance (DeFi). DeFi is a term that describes a growing ecosystem of financial applications that run on public blockchains and attempt to replicate traditional products and services like payments and lending without the use of centralized parties, such as banks, insurance companies, or brokerages. DeFi threatens to disintermediate community banks and create a shadow banking system filled with unregulated platforms that pose risks to consumers, the financial system, and U.S. national security.



Need for Regulation. Cryptocurrency should be subject to a regulatory regime and oversight comparable to the multitude of regulations applicable to traditional, functionally similar payments products and services offered by the banking system.

ICBA OPPOSES THE CREATION OF A U.S. CENTRAL BANK DIGITAL CURRENCY (CBDC)

A central bank digital currency (CBDC), under consideration by the Federal Reserve and the Biden Administration, could fundamentally change the structure of the U.S. financial system. The economics of a CBDC – both direct costs to build and deploy as well as the economic impact– are not well understood. ICBA's serious concerns with a CBDC are described below.

Loss of Community Bank Deposits. As a liability of the Fed, a CBDC positions the Fed as a direct competitor for bank deposits that fund lending. The Fed concedes that a CBDC “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.” In other words, a CBDC could create an outflow of deposits from community banks with a direct and adverse impact on credit availability. Depositors may prefer CBDC over bank deposits in a crisis.

Alternatives Provide a Better Route to Achieve Policy Goals. The FedNow service, expected to launch in 2023, will enable financial institutions of all sizes to provide safe and efficient instant payment services in real time, 24x7x365. FedNow provides many of the benefits of alternative payments rails without the risk and will accomplish many of the stated goals of a CBDC. FedNow must be given a chance to work and be evaluated in the market before a CBDC is considered.

The Role of Congress. Congressional approval would be required to create a CBDC. Congress must thoroughly examine the fundamental question of what problem a CBDC is actually trying to solve. A CBDC would be an experiment in which the risks and costs far outweigh any potential benefits for American consumers and businesses, and the broad economy. ICBA opposes the creation of a U.S. Central Bank Digital Currency.