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March 3, 2023

Via Electronic Submission

Rachel Wallace
Deputy General Counsel and Chief Operating Officer
Office of Science and Technology Policy
Executive Office of the President
1650 Pennsylvania Avenue
Washington, DC 20504

RE: Request for Information – “Digital Assets Research and Development” (88 FR 5043)

Dear Ms. Wallace:

The Independent Community Bankers of America (“ICBA”)¹ welcomes the opportunity to provide feedback on the Office of Science and Technology Policy’s (“OSTP”) Request for Information (“Request”) as it seeks to create a National Digital Assets Research and Development Agenda.²

ICBA and its members welcome the OSTP’s engagement with community banks to understand how academic and government research efforts can help policymakers assess the potential impacts and risks from digital assets. Community banks support responsible innovation in financial services as they develop new ways to serve their customers and provide technologies and experiences that support the 21st century economy. While advocates for digital assets argue entities outside the regulatory perimeter can increase speed, efficiency, and transparency in financial services for consumers and businesses, the reality does not yet seem to match the rhetoric. Last year alone, multiple cryptocurrency lenders and exchanges failed, leaving users unable to access their assets as bankruptcy courts must now grapple with these complex cases.

¹The 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 roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 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 Office of Science and Technology Policy, Notice of Request for Information, “Request for Information; Digital Assets Research and Development,” *Federal Register* 88, no. 17 (January 26, 2023): 5043, <https://www.govinfo.gov/content/pkg/FR-2023-01-26/pdf/2023-01534.pdf>.

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Additionally, the use of cryptocurrency by bad actors soared to new heights in 2022, with North Korean-affiliated hackers stealing over \$1 billion in cryptoassets and DeFi protocols suffering losses exceeding \$3 billion.³ ICBA is alarmed that criminals and bad actors are, with relative ease, increasingly using cryptocurrencies to facilitate ransomware, money laundering, sanctions evasion, and other criminal activities.

ICBA also has serious concerns about the potential for disintermediation of traditional financial services by stablecoins and decentralized finance (“DeFi”) - a result which will negatively impact community banks and disrupt the nation’s regulated financial system. Prudential regulators have expressed similar concerns. For example, Marty Gruenberg, Chair of the Federal Deposit Insurance Corporation (“FDIC”), warned last October that nonbank stablecoins may disintermediate community banks, and he emphasized that threat “is an issue that should also be carefully explored and considered.”⁴ Acting Comptroller of the Currency Michael Hsu has also warned that a lack of interoperability within a stablecoin operating on multiple blockchains and a lack of interoperability across different stablecoins will lead to a highly fragmented payment system reminiscent of Pre-Civil War banking.⁵

As the government considers how to develop its agenda for digital assets, ICBA and its members call on the OSTP to prioritize research on the current and potential impacts from digital assets on community banks and the populations they serve. Community banks are the bedrock for the nation’s financial system and economy. If community banks become disintermediated by a digital dollar or other digital assets, the consequences could be devastating to the banking system and the ability for Americans to access financial services. Moreover, given the outsized role that community banks play in providing financial services to small and rural communities, the potential disruptions by digital assets could have far-reaching economic and social costs. These potential consequences deserve significant attention by the OSTP and the research community to understand how the proliferation of digital assets and supervisory frameworks applied to or excluding digital assets may exacerbate an already uneven playing field between well-regulated community banks and entities that, by design and intent, prefer to be less regulated or unregulated.

³ White House, National Economic Council, “The Administration’s Roadmap to Mitigate Cryptocurrencies’ Risks,” by Brian Deese, Arati Prabhakar, and Jake Sullivan (January 27, 2023), <https://www.whitehouse.gov/nec/briefing-room/2023/01/27/the-administrations-roadmap-to-mitigate-cryptocurrencies-risks/>; Josh Smith, Reuters, “Crypto hacks stole record \$3.8 billion in 2022, led by North Korea groups – report” (February 6, 2023), <https://www.reuters.com/technology/crypto-hacks-stole-record-38-billion-2022-led-by-north-korea-groups-report-2023-02-01/>.

⁴ Federal Deposit Insurance Corporation, FDIC Chairman Martin J. Gruenberg, “Remarks by FDIC Acting Chairman Martin J. Gruenberg at the Brookings Institution on the Prudential Regulation of Crypto-Assets,” October 20, 2022, <https://www.fdic.gov/news/speeches/2022/spoct2022.html>.

⁵ Office of the Comptroller of the Currency, Acting Comptroller of the Currency Michael J. Hsu, Remarks Before the Institute of International Economic Law at Georgetown University Law Center, “Thoughts on Stablecoin Architecture,” April 8, 2022, <https://www.occ.treas.gov/news-issuances/speeches/2022/pub-speech-2022-37.pdf/>.

Executive Summary

Turbulence in the crypto markets last year, especially the catastrophic failure of the algorithmic stablecoin TerraUSD and the sudden collapse of FTX, are evidence of the risks presented by digital assets, including scams, misrepresentations to consumers, and a growing potential for these digital assets to contaminate the financial stability of the traditional banking sector. As explained in more detail below, ICBA's position on digital assets can be summarized by the following principles:

1. Community bankers are opposed to the United States issuing a digital dollar or Central Bank Digital Currency ("CBDC"). The risks far outweigh the uncertain and unproven benefits cited by CBDC advocates. A CBDC threatens to disintermediate community banks, thus raising the risk of serious economic consequences. It is imperative that the federal government conduct thorough research into the potential for CBDC to disintermediate community banks and negatively impact the communities they serve.
2. Nonbank stablecoins, especially global stablecoins, also pose risks to community banks and their customers. These specific risks have not been fully explored in academic or government research; therefore, ICBA and its members urge the OSTP to support research efforts on the specific impacts that community banks may face if stablecoins become widely adopted for payments and contribute to the growth of decentralized financial services.
3. Digital assets present numerous significant threats, including financial crimes and risks to financial stability. Illicit activities fueled by cryptoassets, like ransomware, have affected community bank customers. ICBA and its members encourage the OSTP to prioritize research efforts to understand how bad actors use cryptoassets and to develop strategies or technologies to mitigate these risks.

Additionally, we encourage the OSTP to incorporate the following recommendations as it develops a National Digital Assets Research and Development Agenda:

- Conduct research to assess the full range of potential economic and social consequences that could result from a digital dollar disintermediating community banks.
- Focus research on the specific impacts to community banks and their communities if nonbank stablecoins continue to become more widely used for payments and support the expansion of decentralized finance ("DeFi").
- Perform additional research on blockchain technology, as well as other potential regulatory or legal solutions that could help mitigate the myriad threats of ransomware, sanctions evasions, and other financial crimes facilitated by digital assets.

Since bitcoin launched in 2009, the digital assets economy has exploded in growth - there are currently more than 20,000 different types of cryptoassets traded across hundreds of centralized and decentralized exchanges. The value of the crypto economy surged in 2021, reaching an all-time high of \$3 trillion in total value, before it crashed in 2022 following a series of significant failures of crypto lenders, stablecoins, and other crypto projects. The impact of this precipitous downfall cannot be emphasized enough—investors lost hundreds of millions of dollars’ worth of uninsured assets, and it is unlikely many will ever recover their accounts. Additionally troublesome is the fact that crypto-assets are widely used and leveraged by hackers and, as such, can be used to inflict real harm to American communities. The Colonial Pipeline cyberattack in 2021 that disabled critical infrastructure and triggered severe gas shortages on the east coast serves as a stark warning about the dangers presented by ransomware.⁶

ICBA Comments

Goals, sectors, or applications that could be improved with digital assets and related technologies

Advocates of digital assets have claimed that blockchain has the potential to revolutionize payments and bring financial services to un/underbanked Americans. However, that potential has not yet been realized and it remains uncertain whether the technology will ever meet that potential.

By contrast, other traditional technologies, such as real-time gross settlement systems, have a well-established track record of enhancing financial services and supporting innovation. ICBA recognizes there is a real need for faster payment capabilities, and we strongly support the development and implementation of FedNow, the new instant payment system created by the Federal Reserve that will launch later this year. As noted by Federal Reserve Governor Miki Bowman last year, “FedNow addresses the issues that some have raised about the need for a CBDC.”⁷ To that end, we implore the OSTP to leverage years-long government research and investments in FedNow by ensuring the OSTP’s agenda is focused on understanding how instant payments facilitated by the Federal Reserve can address many of the issues that digital assets advocates now claim only a central bank digital currency can solve.

The vast potential of FedNow, a carefully developed and implemented platform, to improve payments for Americans should not be left to wither on the vine in favor of a central bank digital currency, a concept that is in nascent stages of understanding. Instead, the OSTP should take this

⁶ Joe Carroll, Andres Guerra Luz, and Jill R. Shah, *Bloomberg*, “Gas Stations Run Dry as Pipeline Races to Recover From Hacking” (May 8, 2021), <https://www.bloomberg.com/news/articles/2021-05-09/u-s-fuel-sellers-scramble-for-alternatives-to-hacked-pipeline>.

⁷ Michelle Bowman, Federal Reserve Board of Governors, “Technology, Innovation, and Financial Services,” Remarks at the VenCent Fintech Conference, Little Rock, Arkansas, August 17, 2022, <https://www.federalreserve.gov/newsevents/speech/bowman20220817a.htm>.

opportunity to consider how instant payment systems like FedNow can evolve to support additional needs in the future, particularly with respect to cross-border payments. In 2020, the G20 endorsed a plan to improve cross-border payments by finding ways to lower costs and increase transparency, and the Financial Stability Board (“FSB”) now serves as the lead coordinator for these efforts.⁸ The OSTP should consider how additional research into the challenges of cross-border payments can complement the FSB’s ongoing work. For example, the OSTP could partner with the prudential regulators on research into specific technological, operational, or regulatory hurdles with which community banks must contend to offer cross-border payments to their customers. Finding solutions to these issues could allow community banks to provide enhanced payment services to their customers, meet a growing demand for faster and more efficient remittance payments, and support international commerce.

Goals, sectors, or applications where digital assets introduces risks or harms

Central Bank Digital Currency (“CBDC”)

Community banks act as the nation’s financial bedrock, with more than 4000 chartered banks serving towns and cities across the country. Community banks represent approximately 99% of all banks in the United States, and more significantly, provide a critical lifeline to underserved and rural communities. In fact, there are 2,276 community banks located in 1400 counties with populations under 50,000.⁹ In other words, there are approximately 1.6 banks in the counties with fewer than 50,000 people, meaning that community banks are the only provider of financial services for millions of Americans.¹⁰

The facts stated above serve as vital context for our concerns about the potential for a CBDC to disintermediate community banks and inflict tremendous economic harm. That is why ICBA and its members believe understanding the wide-ranging consequences of a CBDC is of the utmost importance. ICBA and community bankers remain adamantly opposed to a CBDC because banks will be unable to lend against customer deposits stored as CBDC, thus disrupting community banks’ ability to meet their credit needs of their community needs. These are serious concerns that merit extensive and dedicated government and academic research.

Therefore, ICBA strongly encourages the OSTP to research the specific risks that a digital dollar can pose to community banks and consumers. For example, the OSTP could sponsor research to consider what may happen to credit creation and small business development if a U.S. CBDC leads to significant declines in deposits at community banks. This question is vitally important and must be thoroughly examined before any decision is made to launch a CBDC. Main street still matters in the 21st century, and we implore the OSTP to carefully analyze the potential for a

⁸ Financial Stability Board, “G20 Roadmap for Enhancing Cross-border Payments: Consolidated progress report for 2022,” (October 10, 2022), <https://www.fsb.org/wp-content/uploads/P101022-1.pdf>.

⁹ *Banking Strategist*, “Community Banks: Number by State and Asset Size,” <https://www.bankingstrategist.com/community-banks-number-by-state-and-asset-size>.

¹⁰ *Ibid.*

CBDC to disintermediate community banks and leave a trail of significant economic and social consequences in its wake.

Stablecoins

Unfortunately, few studies have investigated the specific repercussions for the community banks and the customers they serve. Therefore, ICBA and its members encourage the OSTP to consider research opportunities that will examine such consequences.

As one example, the OSTP could research how community banks may be affected by the rise of one or more global stablecoins and analyze the numerous impacts that could result from banks losing deposits to stablecoins. The OSTP could also sponsor more research into the financial stability threats posed by stablecoins, such as the possibility of a global stablecoin rapidly collapsing due to a cyberattack, a loss of user confidence, or other catastrophic event.

Cryptocurrencies and Crypto Entities

ICBA has repeatedly warned regulators and lawmakers about the risks of cryptocurrencies, and unfortunately many of those concerns were realized last year. Following a series of high-profile collapses of algorithmic stablecoins, cryptocurrency lenders, and cryptocurrency exchanges, millions of users remain unable to access their accounts or with assets that quickly plummeted in values. Some of these entities even falsely claimed to protect user assets with deposit insurance through the FDIC.¹¹ The impacts of these failures and misrepresentations continue to affect consumers today. ICBA and its members support research not only on the impacts of cryptocurrencies, but also on the ways in which volatility in the crypto markets may spill over onto Main Street and threaten the financial system.

ICBA and its members urge the OSTP to support ongoing research into the potential for DeFi to pose risks to consumers, the financial system, and U.S. national security. The risks of DeFi have been the recent focus of numerous regulatory bodies and organizations, including the Federal Reserve and the Bank for International Settlements.¹² However, there remain more opportunities to analyze the interconnectedness in DeFi and learn how it can spread volatility throughout the crypto ecosystem and possibly the traditional financial system.

¹¹ Federal Deposit Insurance Corporation, Financial Institution Letter, FIL-35-2022, “Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies,” July 29, 2022, <https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html>.

¹² Federal Reserve Bank of Atlanta Policy Hub, Center for Financial Innovation and Stability, “Decentralized Finance (DeFi): Transformative Potential and Associated Risks,” by Francesca Carapella, Edward Dumas, Jacob Gerszten, Nathan Swem, and Larry D. Wall, No. 14-2022, October 2022, <https://www.atlantafed.org/research/publications/policy-hub/2022/10/18/14--decentralized-finance-defi--transformative-potential-and-associated-risks>; Bank for International Settlements, Monetary and Economic Department, “Cryptocurrencies and Decentralized Finance,” BIS Working Papers, No. 1061, by Igor Makarov and Antoinette Schoar, December 2022, <https://www.bis.org/publ/work1061.htm>.

Federal research opportunities that could be introduced or modified to support efforts to mitigate risks from digital assets

In addition to research efforts focused on the financial stability risks presented by CBDC and stablecoins, the OSTP should also support more research on digital assets and financial crimes. Ransomware, sanctions evasion, and many other illicit activities now involve payments in cryptocurrencies. While the government took significant steps last year to curtail the use of Tornado Cash, a mixer notorious for aiding North Korean hackers, there are still many threats posed by crypto mixers and anonymity-enhanced cryptocurrencies, such as Monero.¹³ We encourage the OSTP to support research into technical, legal, and regulatory solutions to help private industry, law enforcement, national security organizations, and other government agencies address the rising threat of crypto crime.

Opportunities to advance responsible innovation in the broader digital assets ecosystem

ICBA and its members support responsible innovation in financial services; however, digital assets are neither the only source of innovation nor the only solution to deliver faster payments. Community banks, through decades of innovation and coordination with federal regulators, have made great strides towards expanding banking services to the un/underbanked. In fact, according to the latest FDIC survey, approximately 96% of all American households have access to a bank account.¹⁴ This milestone was accomplished not through a CBDC or stablecoin, but rather from the persistent and responsible efforts of community banks to find new ways to meet the demands of their customers and communities.

As new systems like FedNow come online, community banks will have even more opportunities to leverage new technologies to develop and implement innovative solutions to meet the needs of the 21st century economy. To that end, we again encourage the OSTP to widen its research focus to consider how other technologies, particularly instant payment systems, can advance responsible innovation in financial services.

Conclusion

ICBA appreciates the opportunity to comment on the unique ways digital assets initiatives may impact community banks. Any National Digital Assets Research and Development Agenda must support efforts to protect the nation's financial system from unsound risks and criminal activity and recognize the vital role that community banks have in supporting communities, consumers, and small businesses across America.

¹³ United States Department of the Treasury, Press Release, "U.S. Sanctions Notorious Virtual Currency Mixer Tornado Cash," (August 8, 2022), <https://home.treasury.gov/news/press-releases/jy0916>.

¹⁴ Federal Deposit Insurance Corporation, "2021 FDIC National Survey of Unbanked and Underbanked Households" (November 14, 2022), <https://www.fdic.gov/analysis/household-survey/index.html>.

We look forward to working with the OSTP and with the Administration as it considers the future of digital assets and develops policies that will enable community banks and their customers to benefit from advances in financial technology without sacrificing the health of the broader economy.

If you have questions or require additional information about ICBA's statements, please contact me at (202) 821-4427 or by email at Brian.Laverdure@icba.org.

Sincerely,

/s/

Brian Laverdure, AAP
Vice President, Payments and Technology Policy

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