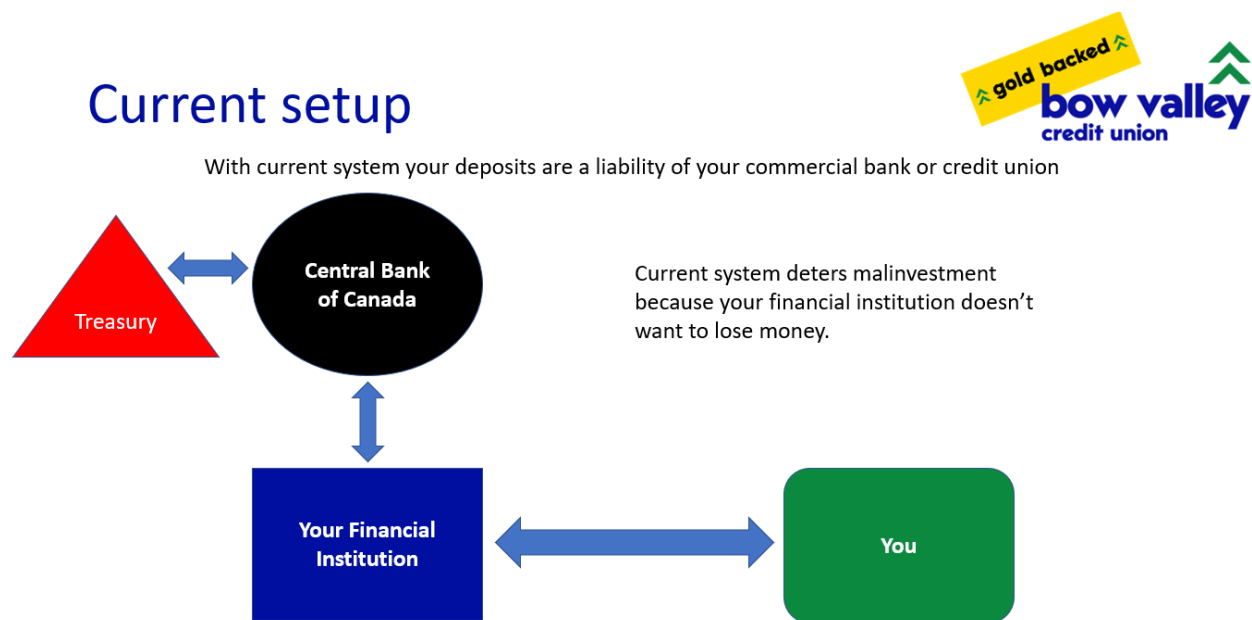


Central Bank Digital Currency (CBDC)

Prior to understanding CBDCs, it's important to understand how the banking system works today.

Currently there is separation between the Central Bank of Canada and YOU. This separation happens via the commercial banking sector through financial institutions like Bow Valley Credit Union and others such as banks or other credit unions.

Currently, if you have \$100 deposited at Bow Valley Credit Union, it's a \$100 asset to you and a \$100 liability to Bow Valley Credit Union.



- Think of the “Central Bank of Canada” as the “equity” of the financial house of Canada.
- Think of the “Treasury” as the “chequing account” for the Government of Canada.
- The commercial banking sector is “Your Financial Institution” such as Bow Valley Credit Union or another bank or credit union.
- “You” represents your personal accounts, as a person or as a business.

The Central Bank of Canada, and therefore the government, has no direct access to your deposit accounts or lending on any level. Your financial institution acts as a gatekeeper to protect both the investment of your deposits and your ability to secure lending.

Your financial institution also acts as a gatekeeper to protect your information – as much or as little as it determines should be given to the government. Some financial institutions are more

willing to share YOUR information with governments than others. Bow Valley Credit Union has taken the stance to share as little information with government or third parties as possible.

What is a Central Bank Digital Currency (CBDC)?

Let's break this down:

1. What is a Central Bank?

It's a branch of government. The Bank of Canada is Canada's central bank. Its main role is "to promote the economic and financial welfare of Canada" as defined in the *Bank of Canada Act*.

Its main areas of responsibility include:

- Monetary policy: influence the supply of money circulating in the economy, using its monetary policy framework to keep inflation low and stable, mainly through interest rates. (This is distinctly separate from Fiscal Policy which is done via the Treasury – the Government of Canada's "chequing account.")
- Financial system: its objective is to promote safe, sound, and efficient financial systems, within Canada and internationally. We also conduct transactions in financial markets in support of these objectives. (The protection of the financial system requires the existence of a healthy commercial banking sector, as is apparent by the end of this discussion.)
- Currency: it designs, issues, and distributes Canada's bank notes.
- Funds management: it is the "fiscal agent" for the Government of Canada, managing its public debt programs and foreign exchange reserves. It provides treasury-management services and manages Canada's public debt programs and foreign exchange reserves.
- Retail payments supervision: it supervises payment service providers, according to the *Retail Payment Activities Act*. This Act clearly states it does not apply to payment service providers that perform retail payment activities, like Bow Valley Credit Union.

2. What is a Digital Currency?

It's simply that: a digital form of currency such as the Canadian Dollar.

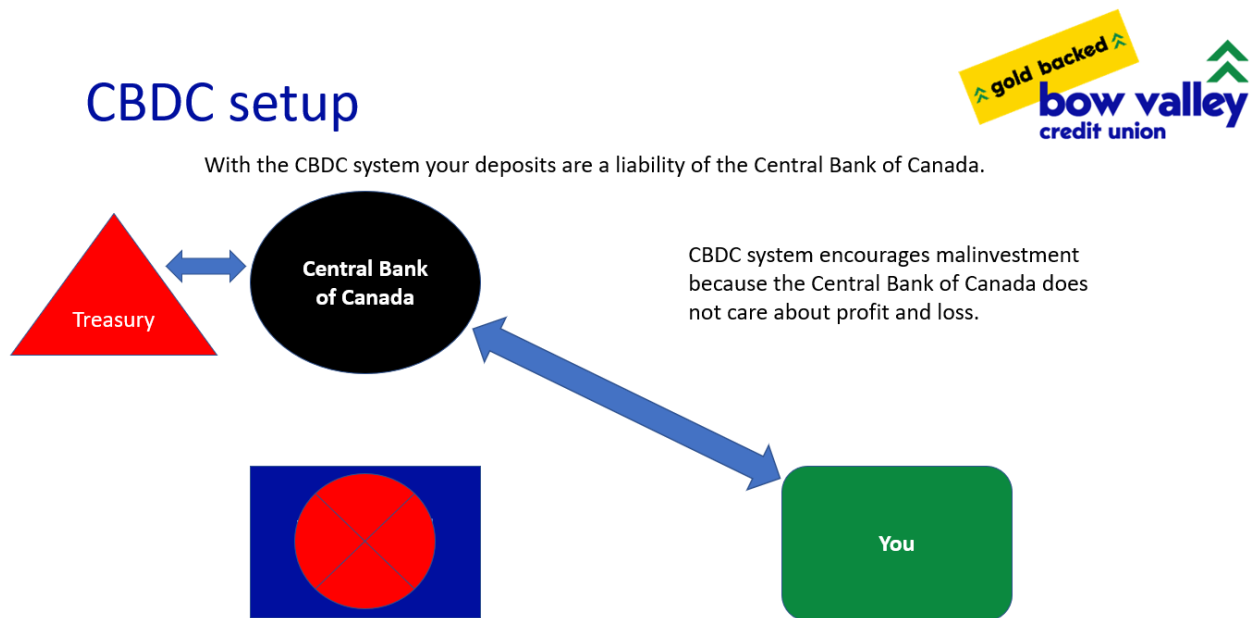
Most things are digital now, so why do you have a problem with this?

With a *true* CBDC, there would not be a separation between the Central Bank of Canada and YOU. Therefore, the government would have a complete financial picture of YOU and your business.

With a *true* CBDC, there would be no commercial banking sector: therefore, no credit unions, banks, or other financial institutions to act as gatekeepers to protect your interests. So, if you had \$100 to deposit, it's still a \$100 asset to you, but rather than a liability in a credit union or bank, the \$100 liability would be in an account directly with the Bank of Canada.

There are a number of major concerns to have with a true CBDC and the Central Bank of Canada having direct access to your financial information, including:

1. Malinvestment – Inflation
2. Government Overreach – Programmable Money
3. Elimination of the Commercial Banking Sector



1. Malinvestment – Inflation

With a *true* CBDC, the government would have control over all deposits; therefore, the government would have direct control over any lending in Canada. Without deposits and lending, as a consequence, the commercial banking sector would be eliminated. The only access to lending could be gained through the Central Bank of Canada. What projects/people do you think will have an easier time getting access to lending?

It is well known that government spending is very far from efficient or effective compared to the private sector. There would likely be a lot of wasted resources on programs with a lack of a return on investment (ROI), either financially or socially. In most instances, governments do not have to be concerned with profit and loss. Why? Because they can just print new currency or borrow to fund projects.

Over the past several years, the cost of borrowing money has been at historic lows. Therefore, projects didn't require any significant ROI to be viable. This is why we saw a burst of project startups and inflated valuations in such things as crypto currency, tech startups, real estate, and stock market prices. However, now, with interest rates rising, these projects and investments are no longer viable; hence, we have seen a decline in the valuation of these assets. A large, well-known, and visible outcome of this reality is the recent failure of businesses and lending banks that made non-viable investments.

The same thing happens at the government level. A number of projects that may have been viable from an economic or social standpoint become non-viable when the borrowing costs rise. These would include ecological, environmental, and health spending that is ultimately unviable and therefore become "malinvestments". Malinvestment is defined as *the action or fact of investing money in an ill-judged or wasteful way*. Sound like any government projects that you know?

The big difference between private and government borrowing is that, with government lending, the burden is on the public to fund the increased costs associated with malinvested projects, regardless of whether they are successful (which is measured in popularity, not ROI, as that is kept invisible to the public). Being motivated to stay in power, governments will spend on whatever they believe will ensure they are re-elected.

In our opinion, the true purpose for a CBDC is to allow the government to have the ability to print currency at will, with little or no consequence to their actions, which results in currency devaluation through inflation, which ultimately drains the citizens who of course carry the tax burden for these increased costs of malinvested projects, or have their saving devalued through inflation.

2. Government Overreach – Programmable Money

With a *true* CBDC, a government would have direct control over your deposits and lending since you would have an account directly with the Central Bank of Canada.

There are a number of things that it could do to control you and your money. Since CBDC is digital currency, it can be programmed to do just about anything.

The government could:

1. Freeze access to your bank accounts at will;
2. Dictate to whom you give currency: e.g., charities and political donations;
3. Tax you daily or even hourly;
4. Dictate how quickly or slowly you can spend your money;
5. Dictate what you are allowed to buy: e.g., if you spend too much on a carbon footprint, they could freeze your accounts;
6. Apply a social credit score: e.g., if you say or do something unfavorable to the current government, you could be penalized financially.

3. Elimination of the Commercial Banking Sector

Our distaste for a CBDC goes beyond malinvestment and government overreach. It also means the end of the commercial banking sector in Canada, including Bow Valley Credit Union. The protection of citizens' gatekeepers would be gone, along with the freedom and privacy they facilitate. Having several options for banking services and deposits is important in a healthy Alberta economy and a free, democratic country.

Conclusion

Banking has been around for thousands of years. There is a distinct, fundamental reason why there has been a separation between government and citizens' money: to prevent government's control over its people.

If you agree with the current government's way of doing things, you may not mind. But what if a government gets into power that does a number of things you don't agree with, but you cannot speak out against that government for fear of losing your money? This would create a dictatorship, ultimately removing fundamental freedoms and democratic rights currently protected under the Canadian Charter of Rights and Freedoms.

Make your voice heard through the Bank of Canada's CBDC Survey:

[Central bank digital currency - Bank of Canada](#)