

SUMMARY STATEMENT OF KEY MESSAGES

GDF Industry Roundtable with guests the BIS and the IMF

9 November 2021

On 9 November 2021, Global Digital Finance (GDF) chaired a roundtable discussion on the topic of central bank digital currency (CBDC) and policy considerations for its adoption. Participants included guests from the Bank for International Settlements (BIS) Innovation Hub and from the International Monetary Fund (IMF), as well as private sector representatives from the crypto and digital asset community, the traditional financial industry and professional services firms¹.

In the roundtable four key areas were discussed, namely i) design features and principles for a CBDC, ii) public-private sector cooperation, iii) designing CBDC beyond borders and iv) managing risk of cross-border CBDC.

i) Design features and principles for a CBDC

Several features of the architectural design of CBDC were discussed. It was noted that these design principles should be based on a thorough understanding of user needs and consumer requirements. Consultations with future users could provide insights into what design features would best serve their needs and increase positive adoption.

An important consideration is privacy. Participants considered that this feature should be addressed into the architectural design from the early stages of CBDC development. This is because data privacy is likely to determine users' appetite towards CBDC. A balance needs to be found to guarantee a certain level of privacy in day-to-day transactions, while ensuring that anti-money laundering/combating the financing of terrorism (AML/CFT) requirements are met. Whilst protecting privacy, suspicious transactions could be verified by financial intelligence units to ensure compliance with

¹ A list of participants can be found in the Annex.

regulations. Importantly, different jurisdictions might have different privacy preferences. This could also have implications for the cross-border dimension of CBDC.

A second key design feature is interoperability and integration of CBDC into existing payment systems. The ability to integrate CBDC with existing systems would ensure a smooth consumer experience as well as promote merchant acceptance, which is seen as an imperative for CBDC success. For this purpose, the two-tier distribution model currently in place could be used in a CBDC system as well. This would ensure minimal disruption in integrations of retail CBDC with existing merchant systems. The chosen design solution should provide interoperability with existing payment systems, as well as with additional payment networks. In addition, CBDC should be interoperable with other government services, such as education, housing or emergency services. This kind of interoperability could enable government-to-person (G2P) payments and cash-based transfers via CBDC.

An additional element of CBDC is programmability. The digital nature of CBDC could enable the programmability of money. This could be a powerful feature that could add value to CBDC and give room for future developments in the payment ecosystem. For example, payments could be programmed in such a way that only certain goods or services can be purchased.

Participants also highlighted resiliency of the system as a fundamental design feature. A key component of adoption is trust. Citizens need to be confident that CBDC are trustworthy systems. This includes ensuring measures to combat fraud, customer protection and cyber security. Technical, procedural or human failures should not hinder the operations of CBDC systems.

The discussion included comments on accessibility. With respect to offline functionality, a retail CBDC must be available despite potential network outages. In addition, hardware accessibility should be considered. The type of technological device that may be used to store or transact in CBDC should be carefully discussed. Limiting access to smartphone technologies could result in unintended consequences such as perpetrating financial exclusion or widening the digital divide if some people do not have the necessary infrastructure, resources or knowledge to use CBDC. As such, financial literacy should be a key pillar going forward.

The cost structure of CBDC should also be taken in consideration. Implementing a retail CBDC and conducting AML/CFT could be expensive, especially when considering the system will run in parallel to existing payment infrastructures. A potential option that was discussed is to charge small fees for merchants, whilst ensuring the system remains free for retail users.

The role of regulation and compliance was also highlighted. New CBDC systems will have to be regulated in a way that coexists with current payment landscapes. In addition, a balance should be found between consumer preferences and compliance requirements, such as AML/CFT. International regulatory cooperation and global consistency of standards are also relevant given the borderless nature of digital technologies. Nonetheless, there needs to be room to allow for jurisdictional flexibility to facilitate innovation.

ii) **Public-private sector cooperation**

The importance of public-private partnerships was highlighted during the roundtable discussion. Private companies have a key role to play in the development of a CBDC system in two main areas. First, the private sector plays an important role in developing the technology underlying CBDC and in providing expertise on blockchain development. Leveraging on the private sector technical expertise will increase speed of implementation and quality of products. Second, the private sector is key in onboarding customers and promoting CBDC adoption.

Another important element of private sector participation is competition. A competitive ecosystem was acknowledged to be important as it incentivises private entities to attract new or retain existing customers by delivering better products for consumers. Therefore, there must be a developer friendly ecosystem that will encourage innovation.

Finally, different models of CBDC issuance were discussed. Participants noted that a model with intermediaries was more likely to be used, while a direct issuance model offered the fewest opportunities for private sector participation and competition.

iii) **Designing CBDC beyond borders**

Cross-border payments face several challenges. First, standards and protocols may differ from one country to another. Second, limited operating windows and time differences may reduce the timeframe to transact with another country. As a result, actors rely on indirect access to foreign RTGS through intermediaries. This poses high levels of counterparty risk between each of the different participants in an intermediary chain. In addition, legal rules vary by jurisdiction. This increases the risks and uncertainty related to cross-border payments.

The role of CBDC in addressing these challenges may depend on the chosen system. Three CBDC systems were discussed, each with different implications.

A first option is the individual jurisdictional model. In this system, each central bank develops its own CBDC technology and owns its system. As such, different rules or technological standards may be in place. In this model, challenges for interoperability across borders remain.

The second model consists of one single global platform on which each jurisdiction issues its own CBDC. Whilst effective in addressing cross-border payment issues, it is unlikely that a central bank would be comfortable releasing control over its own system.

In the third option each jurisdiction has its individual model and each individual system is linked to the other systems. This would allow jurisdictions to retain control over their own CBDC systems, while ensuring that all systems are interlinked and interoperable, without any need for intermediaries. For this purpose, similar technological standards and rules should be adopted by all jurisdictions.

The private sector would also have an important role to play in cross-border settlements. Private companies have several years of experience in developing cross-border solutions and they could support the development and design of the necessary technological features and functionalities. While central banks would own the system, private actors could be provided with access to build innovative solutions on top of it. For this purpose, an important feature of CBDC systems is the ability to compose blockchain spaces and to add additional building blocks and new use cases on top of the basic features.

Use cases of cross-border payments were also discussed. A key user case concerns remittances. A retail CBDC would support remittances only if peer-to-peer transactions

from one digital wallet to another can be carried out, and if the money received can be spent in the recipient's ecosystem. Participants highlighted that this is unlikely to be the case at least at initial stages of CBDC development. Nonetheless, efficiency in cross-border transactions could be improved and the cost of sending money across borders reduced, even if not entirely removed.

Finally, discussions on cross-border CBDC raise some questions on issues of domestic money ownership and whether CBDC wallets could be opened by non-residents and, if so, what rules should apply. Programmability could address some of these concerns by limiting the use of CBDC for non-residents. For example, non-residents could be able to transfer value, but only hold the money for a limited amount of time before converting or transferring it.

iv) Managing the risks of cross-border CBDC

The cross-border dimension of payments brings considerable complexities. A key issue are the challenges that different legal systems bring. In addition, cultural differences may affect how rules are applied in those jurisdictions, an example being the challenges experienced in implementing the revised Payment Services Directive (PSD2) in Europe.

The roundtable discussion highlighted the importance of having consistent terminology across the globe, and the need for a clear policy vision, which could be further clarified and improved as solutions are developed.

AGENDA

GDF Industry Roundtable with guests the BIS and the IMF

9 November 2021

0900-1130 EST / 1400-1630 GMT / 1500-1730 CET / 2200-0030 HKT

| No | Time | Item (Who) |
|----|------------------|---|
| 1 | 1400-1415 GMT | Open meeting, welcome and introductions, agenda overview <ul style="list-style-type: none"> • GDF Opening Remarks (LW) • BIS Opening Remarks (RL) • IMF Opening Remarks (DH) |
| 2 | 1415-1445 GMT | <p>Part A. Domestic retail CBDC</p> <p>1. Design features and principles for a CBDC</p> <ul style="list-style-type: none"> • In your view, what are the most important design features (eg privacy, programmability) of a CBDC? How do you think CBDC architectures should be designed to ensure open finance platforms that promote greater competition and better services? • How do you envision a CBDC interacting and being interoperable with other domestic payments rails, (eg bank deposits, cash, stablecoins) and what would the payments landscape look like in a CBDC world? |
| 3 | 1445-1515 GMT | <p>Part A. Domestic retail CBDC (Continued)</p> <p>2. Public-private sector cooperation</p> <ul style="list-style-type: none"> • What opportunities would a CBDC provide to private firms to develop financial services around it, and how would these compare with the services |

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| | | <p>that can be offered through private sector digital currency alternatives?</p> <ul style="list-style-type: none"> From the standpoint of the private sector, what regulatory challenges would a retail CBDC present and how should regulation be designed in a CBDC world? |
| 4 | 15:15-15:45 GMT | <p><i>Part B. Cross-border retail and wholesale CBDC</i></p> <p>3. Designing CBDC beyond borders</p> <ul style="list-style-type: none"> In your view, what are the most serious pain points in the current framework for cross-border payments and to what degree would multiple wholesale CBDC platforms address these issues? Would this approach be better than new technological solutions being developed by the private sector? In designing a multiple wholesale CBDC platform to address current problems in cross-border payments and transfers, what role should be given to private sector players in the system and how could the platform affect the business models of different types of financial firms? |
| | 15:45-16:15 GMT | <p><i>Part B. Cross-border retail and wholesale CBDC</i></p> <p>4. Managing the risks of cross-border CBDC</p> <ul style="list-style-type: none"> How should regulation be designed to address potential risks arising from new solutions for cross-border payments from either the public or private sector (eg volatile capital movements, money laundering and terrorist financing)? To the extent that a central bank were to make its retail CBDC available to non-residents, what opportunities and challenges would this present to private sector financial services providers? |

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| 5 | 16:15-1630 BST | Meeting Close <ul style="list-style-type: none">● BIS Closing Remarks (RL)● IMF Closing Remarks (DH)● GDF Closing Remarks (LW) |
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Roundtable Chair and Secretariat Hosts, and Guests

| Entity | Delegate | Title |
|--|----------------------------|--|
| Bank for International Settlements (BIS – Guest) | Ross Leckow (RL) | Senior Adviser Fintech - Strategy and Legal |
| International Monetary Fund (IMF – Guest) | Dong He (DH) | Deputy Director, Monetary and Capital Markets Department |
| Global Digital Finance (GDF Host – Chair) | Lawrence Wintermeyer (LW) | Executive Co-chair |
| GDF Host (Secretariat) | Lavan Thasarathakumar (LT) | Director, Regulatory Affairs |

Roundtable Delegates

| Company | Delegate | Title |
|--|-------------------------|---|
| Archax | Matthew Pollard | Founder |
| Bitmex | Alexander Hoeptner | CEO |
| BNY Mellon | Sambyal Rajeev | Director Digital Assets |
| Cambridge Center for Alternative Finance | Bryan Zheng Zhang | Director Digital Assets |
| Coinbase | Claire Wells | Associate General Counsel |
| ConsenSys | Shailee Adinolfi | Director of Strategic Sales |
| DLA Piper | Martin Bartlam | Partner |
| Ernst & Young | Danielle Grennan | EMEIA Financial Services Regulatory |
| Ernst & Young | Amarjit Singh | EMEIA Assurance Blockchain Leader |
| Fnality | Angus Fletcher | Director / Senior Executive advisor |
| Goldman Sachs | Mathew McDermott | MD Digital |
| Hogan Lovells | John Salmon | Technology Partner |
| Hogan Lovells | Rachel Kent | Head of Financial Institutions |
| ING | Teunis Brosens | Head Economist for Digital Finance |
| OKLink | Layla HE | |
| OKLink | Chao Zhang | Vice President |
| PayPal | Eva Gustavsson | Head of Global Government Relations |
| PayPal | Jose Fernandez da Ponte | SVP and GM, Blockchain, Crypto and Digital Currencies |
| PayPal | Edwin Aoki | CTO, Blockchain, Crypto, and Digital Currencies |
| R3 | Jack Fletcher | Government Relations Manager (Digital Currencies) |

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|--------------------|------------------|---|
| R3 | Todd McDonald | Co-Founder |
| Securrency | Jackson Mueller | Director, Policy & Government Relations |
| Solidus Labs | Chen Arad | COO |
| Solidus Labs | Kathy Kraninger | VP of Reg Affairs |
| Standard Chartered | Steven Hu | Executive Director |
| Standard Chartered | Zelda Anthony | Executive Director and Head of Digital Currencies |
| Visa | Catherine Gu | Global CBDC Lead |
| Visa | Maike Horung | Crypto Mobilize for Growth Initiative |
| Wells Fargo | Matthew Shepherd | Strategy, DLT Program |
| Wells Fargo | Michael Knorr | Head of Payment and Liquidity Management |
| Wells Fargo | Laura Fontana | Digital Assets Lead |

Roundtable Topic: CBDCs

Key objectives: Industry / Agency *Engagement* Platform

- Two-way dialogue – “voice of the industry” alongside regulators and agencies
 - Focus on key priorities – “making CBDCs happen”
 - Identify key opportunities and barriers to overcome
 - Actions to be taken
- Disseminating, communicating, educating – “progress, new information, direction of travel”
- Other Key Messages and Themes
 - As provided by industry input

Key themes:

- Key themes to be considered:
 - CBDCs & taxonomies: digitally native coins
 - Design choices impacting treatment of CBDCs
 - Interoperability between central banks
 - Programmable money

Delegate Participation:

- Open to GDF patron and advisory council members and selected guests



- Circa 20+ delegates to participate
- “GDF Observation Deck” for regulator, agency, GDF staff, delegate staff, and guests

The GDF Industry / Regulator and Agency Roundtable Format

- A closed loop event with industry delegates chaired by GDF who will produce a summary statement of key messages which will be made available on the GDF website
- Topics / questions / areas have been circulated ahead of the roundtable to allow participants to prepare statements and input, please come PREPARED
- Delegates are asked: to leave their cameras on during the roundtable; to leave their microphones on mute unless they are speaking
- Participants in the observation deck have no access cameras or microphones and are in view / listed mode
- Delegates who have nominated a topic area to speak on in advance of the roundtable will be selected in advance of the delegates that have not
- If you have not nominated yourself for a topic to speak on and wish to speak, raise a hand
- Be prepared, the Chair may, unprompted, call on you to speak. Please decline if you have nothing to say
- Each roundtable delegate has the floor for optimally 2-3 and no more than 5 mins to share their insights – the chair will cut-off any breach of time violation
- You are free to use the comment feature of the virtual conference facility to add supplementary information or get the attention of other participants
- The roundtable will be subject to **Chatham House Rules**: participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed
- Please DO NOT record the event on your computer



- Please DO NOT use social media in any way related to the event