

## Factoring an international dimension into CBDC design

Joint DNB – NBRM Conference on Payments and Market Infrastructures Flourishing Digital Payments Future

Anneke Kosse 4 October 2022

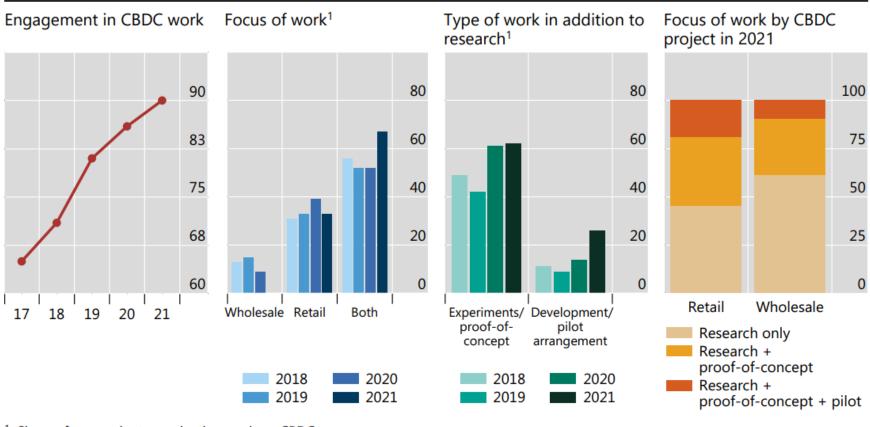
Disclaimer: Views expressed are those of the presenter and not necessarily those of the BIS, CPMI or their member central banks.

#### Central bank involvement in CBDC work rises further



Full survey results available here

#### Share of respondents



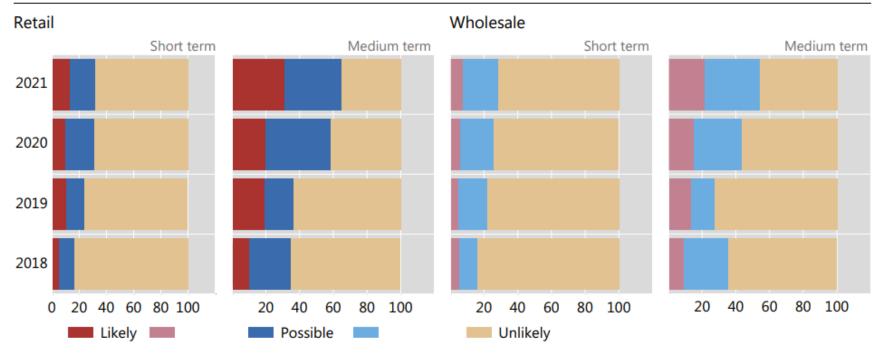
<sup>&</sup>lt;sup>1</sup> Share of respondents conducting work on CBDCs.

Source: 2021 BIS central bank survey on CBDCs and digital tokens.



### More than half of central banks consider it a possibility that they will issue a CBDC in the foreseeable future

#### Share of respondents



Short term: 1-3 years; Medium term: 1-6 years. "Likely" combines "very likely" and "somewhat likely". "Unlikely" combines "very unlikely" and "somewhat unlikely".

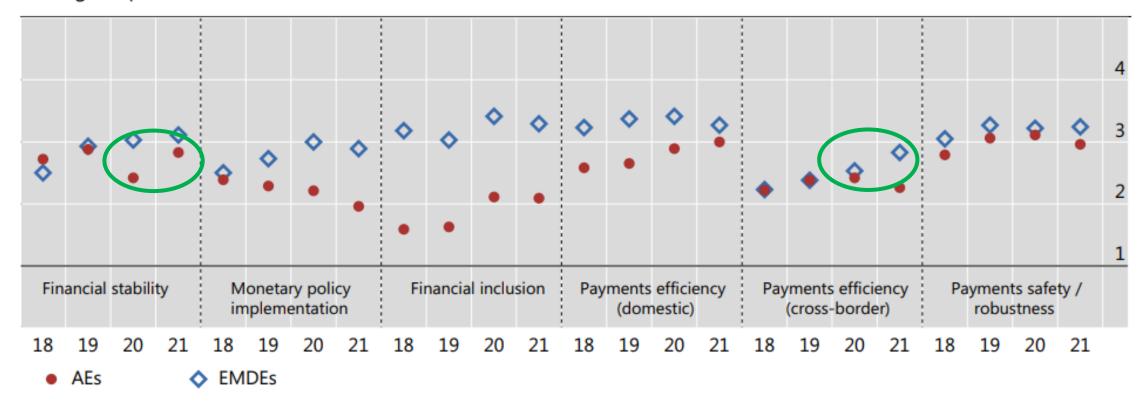
Source: 2021 BIS central bank survey on CBDCs and digital tokens.

About 30% indicated that the **Covid-19 pandemic** has changed their priority and preferences for issuing a CBDC.

The emergence of stablecoins and other **cryptocurrencies** has accelerated the work on CBDCs of 79% of AE central banks and 48% of EMDE central banks

### Retail CBDC: Financial stability and cross-border efficiency are growing reasons

#### Average importance

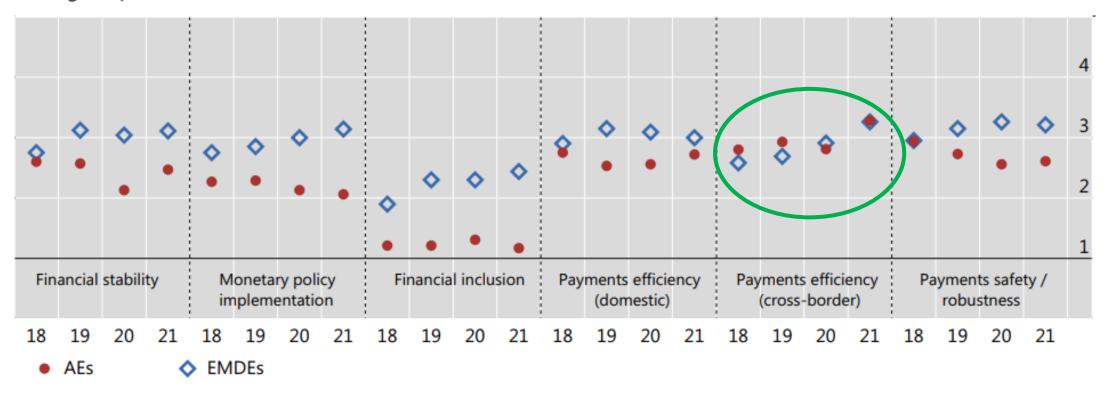


(1) = not so important; (2) = somewhat important; (3) = important; (4) = very important.

Source: 2021 BIS central bank survey on CBDCs and digital tokens.

### Wholesale CBDC: Cross-border payments efficiency among key drivers

#### Average importance

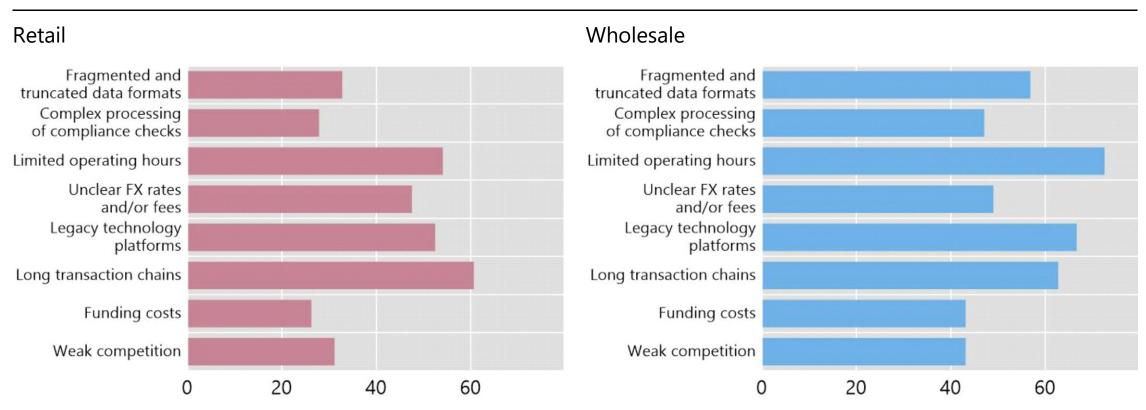


(1) = not so important; (2) = somewhat important; (3) = important; (4) = very important.

Source: 2021 BIS central bank survey on CBDCs and digital tokens.

# Long transaction chains and limited operating hours are key frictions that CBDCs could address

#### Share of respondents<sup>1</sup>



<sup>&</sup>lt;sup>1</sup> The sample includes jurisdictions that consider efficiency in cross-border payments as a somewhat important, important, and very important driver of their CBDC engagement.

### CBDCs can complement improvements to existing payment systems



Low speed



Addressing all challenges requires a comprehensive approach





High costs

Limited transparency

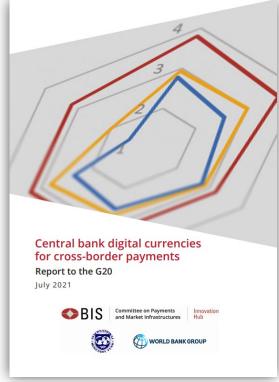
 Develop common cross-border payments vision and targets 2. Implement international guidance and principles 3. Define common features of crossborder payment service levels Public and private sector commitment 4. Align regulatory, supervisory 17. Consider the feasibility of and oversight frameworks new multilateral platforms 5. Apply AML/CFT consistently and arrangements for crossand comprehensively border payments New payment infrastructures Regulatory, Review interaction between supervisory and oversight data frameworks and of global stablecoins and cross-border payments angements frameworks **Enhance** arrangements Promote safe payment Factor an international crosscorridors dimension into CBDC designs Foster KYC and identity border information-sharing payments C D Existina payment infrastructures Data and market and practices arrangements 9. Facilitate increased adoption of PvP Improve (direct) access to payment 14. Adopt a harmonised version of ISO 20022 for message formats systems 11. Explore reciprocal liquidity 15. Harmonise API protocols for arrangements data exchange 16. Establish unique identifiers with 12. Extend and align operating hours Pursue interlinking of payment systems proxy registries

### Building block 19 – Factoring an international dimension into CBDC design



Report available <u>here</u>

#### Action 1 – published July 2021



Stock-take of provisional domestic CBDC designs and central bank experimentation and of the extent they could be used for cross-border payments

#### Action 2 – published July 2022



Identification and analysis of options for access to and interoperability of CBDCs that could improve cross-border payments

### Building block 19 – Action 2 report



- Identification of different access and interoperability options for CBDCs
- Assessment of options based on five criteria:\*
  - Do no harm
  - Enhancing efficiency
  - Increasing resilience
  - Assuring co-existence and interoperability with non-CBDC systems
  - Enhancing financial inclusion
- Assessment of implementation challenges of each option
- Annex with description of completed and ongoing cross-border wCBDC projects and circulating rCBDCs



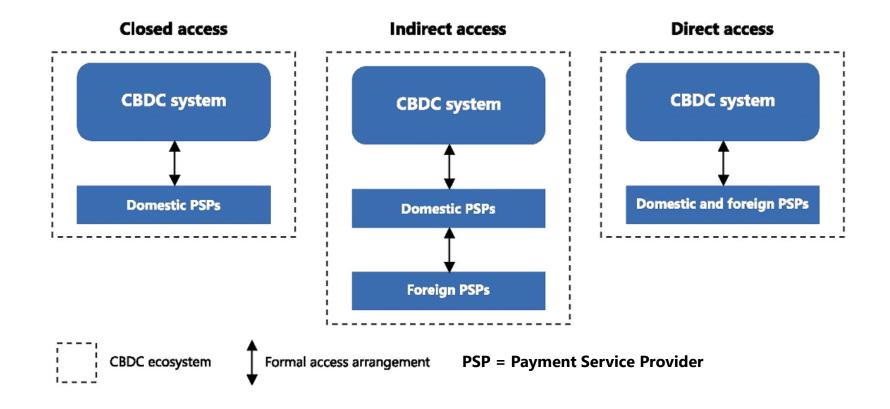
### Critical questions to address when development begins

- Who will be able to hold and transfer retail and wholesale CBDCs and under what conditions?
- Will non-residents be granted access to a retail CBDC or will it be residents only?
- Will there be restrictions to the access given to non-residents?
  - Only when visiting the country? Or also when abroad?
  - Caps or fees on holdings or transactions?
- Will foreign payment services providers be able to hold and distribute CBDCs?
- What model for interoperability and interlinking CBDCs of different jurisdictions?

Restricted

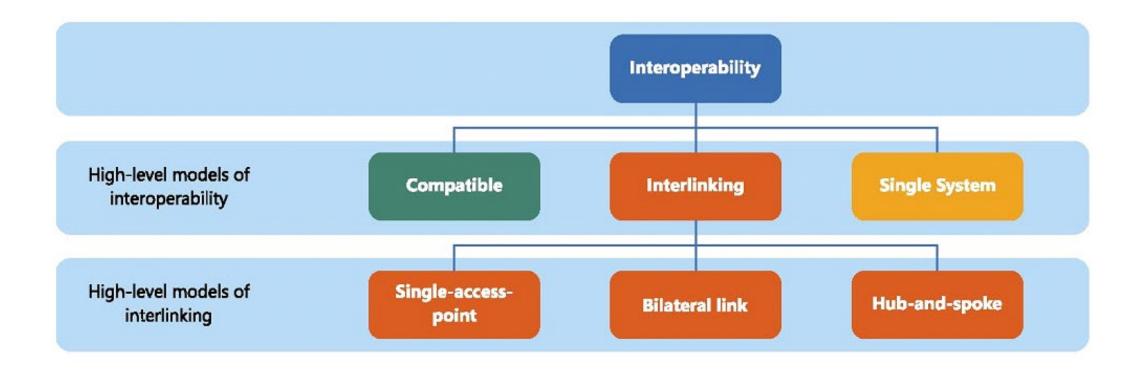
### High-level access options for foreign PSPs

Leveraging the work of building block 10 (access)



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### High-level models of interoperability and interlinking of CBDC systems Levering the work of building block 19 (Action 1 report) and building block 13 (interlinking)



Restricted

### Each access and interoperability model has different implications and challenges

Do no harm Domestic vs cross-Addressing illicit Technology Governance border finance vs privacy standardization arrangements framework protection Risk management Identity Offline payments and information Adoption and technology management sharing challenges



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#### Conclusions

#### Clean slate, but with an expiry date

CBDCs are new to all – international collaboration is needed at an early stage

#### One size does not fit all

- Central banks may have different motivations for CBDC
- BB 19 Action 2 report serves as a tool to assess different options given central banks' objectives

### Flexibility of CBDC design

Incl. interoperability with todays payment methods and with potential future types of money

#### A condition for success is international cooperation:

- Even if CBDC issuance is driven by domestic motives, convenient and inexpensive access to other currencies for remittances, travel and trade could incentivise adoption
- Current international initiatives are already laying the foundations for further cooperation
- CBDC experiments and dialogue benefit from the involvement of a broad and diverse set of countries

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Thank you!

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### Annex

### Details of 2021 BIS survey on central bank digital currencies

- 81 central banks
  - 76% of the world's population and 94% of global economic output
  - 25 advanced economies and 56 emerging market and developing economies
- Conducted in autumn 2021 for the fifth consecutive year
- Key topics:

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- Central banks' engagement in CBDC
- Motivations and intensions regarding CBDC issuance
- Current and potential future adoption of cryptocurrencies