June 12, 2020

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INSTITUTE OF INTERNATIONAL FINANCE

Re: Discussion paper on Central Bank Digital Currency

The Institute of International Finance (IIF) welcomes the Bank of England (the Bank) discussion paper *Central Bank Digital Currency: opportunities, challenges and design*, published on March 12, 2020. This paper is an important contribution to this emerging field, and it identifies and fosters discussion on the key elements that warrant exploration.

We appreciate the opportunity to comment, and we also appreciate the substantive discussion on our webinar of May 11, 2020.

Our comments are primarily concentrated on the financial stability and bank funding implications, which are rightly raised in the paper, and we believe this is the specific area of primary interest for the overall health and efficiency of the broader financial system. There are a number of other important design considerations explored in the discussion paper, and those also warrant attention; the IIF refers to the comments that our UK members and various UK associations make on those other topics.

As we observed in the IIF's *Asymmetric Disintermediation* paper of December 2018, the design of a CBDC could have profound implications for the funding and liquidity stability of commercial banks, with a particular risk of disrupting the funding sources that are most valued under the Basel III Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR).[1] We refer to our more recent paper *Money Redesigned: CBDCs and Asymmetric Disintermediation* (attached) for refreshed analysis on this topic, including the observations we have seen from consumer and investors at the onset of the COVID-19 crisis.

These issues are all the more critical in the current environment, and the critical need to support economic recovery. The potential erosion of bank funding sources can have significant impacts for the capacity of banks to provide the lending that is so needed in the economy, and recent events have further highlighted the risks for non-bank lenders that rely on other, non-deposit sources of funding.

We similarly highlight the resiliency of the payment landscape, and where CBDC development needs to be considered in the context of other innovations (current or future) and other regulatory or policy avenues that may impact or increase resilience. As noted in the discussion paper, CBDC proponents advocate that it may enhance resiliency by ushering fiat currency into a modern technology framework, but this needs to be considered with the potential impacts on the stability of the financial system and monetary policy in mind. Accordingly, it will be crucial to undertake a

[1] https://www.iif.com/Publications/ID/3198/Asymmetric-Disintermediation

market failure study (and subsequent pilots with the industry) to test and evaluate implications prior to a CBDC implementation.

Additionally, while we agree and welcome this paper's very specific focus on a domestic, retail CBDC scenario, this of course cannot be viewed in a vacuum, given the very dynamic landscape we observe with digital currencies. In this context, we would also welcome further views from the Bank on how you might envisage potential partnerships with other providers.

For instance, a notable feature of the Libra 2.0 white paper of April 16, 2020, was its direct appeal to be a CBDC technology partner across multiple currencies.[2] We appreciate this discussion paper's focus on the domestic CBDC scenario in a stand-alone context, but we would welcome further discussion on how this may potentially intersect with stablecoins (particularly where issued from outside of the regulated sector), as well as the potential cross-border implications of an internationally accessible CBDC.

Lastly, in reiterating our thanks for your generous and insightful comments on our webinar, we also wish to share the set of online questions that were submitted during that session (please see Appendix). Several of these questions pick up the themes of international interoperability and cross-border payments; per above, we recognize these topics are beyond the scope of this discussion paper, but we believe these are nevertheless pertinent and will warrant further exploration and discussion. We would welcome the opportunity to further explore the intersection of a CBDC with Digital Identity, an important aspect that we touched on briefly during that webinar.

The IIF looks forward to working with the Bank on this important topic, and to contributing to the further development of safe and effective innovations that can benefit the economy and support stability. My colleague Conan French (cfrench@iif.com) and I (bcarr@iif.com) stand ready to engage in additional discussions and consultations.

Yours sincerely,

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[2] https://libra.org/en-US/white-paper/

Appendix

Questions submitted by audience members during the IIF Webinar on the Bank of England CBDC Discussion Paper, May 11, 2020.

In the UK wholesale and retail payments space are undergoing considerable regulatory & commercial reform right now. What specifically will be lacking in these next gen systems that having a retail CBDC will fix?
For the Bank of England: The World Economic Forum CBDC toolkit calls for user engagement as early in the CBCD process as feasible. How do you plan to take users in the journey to ensure the design choices meet their demands?
What are the prospects for a convergence in global standards and principles (in CBDC)? How would it potentially operate cross border?
If I understand correctly, BOE is one of the few central banks which allows non banks to access to its reserve account or settlement accounts. Is the platform model a kind of extension of this?
what are the parameters used to decide if you move to a CBDC. and what does the time frame look like for implementation if you go forward? 5 years- 10?
You mention in the paper that it's not necessary to have a DLT-based CBDC to achieve smart contracting like programmable functionality. Could you expand on that?
How much does ease of cross-border payments factor into design decisions? Following on this question, do you see countries designing CBDCs with the view of increasing the competitiveness and attractiveness of their currency with international/foreign users (e.g. China's DCEP)? Lastly, do you consider identity as a key part of the infrastructure of CBDC and in your design decisions? It seems that one of the key cost factors for cross-border payments is compliance with AML/CFT/KYC and that the key innovation for CBDC to be frictionless has to happen around better identity solutions.
You mentioned CBDC could improve cross-border payments. How would it do that, and in particular, what exactly might CBDC do better compared to commercial cross-border payment services available today?
What are the most effective ways of limiting the crowding out of bank deposits, both structurally and in crisis situations? What degree of programmability should CBs allow for a CB issues form of money?
What is the specific problem the CBDC project is trying to solve? That will determine the design of the solution. Can we have different problem statements and groups to investigate each of them?
How concerned are you about the unintended consequences of a parallel payment infrastructure?
How would the BoE's asset allocation policy have to change to deal with an influx of retail deposits?
What about compliance with Anti-Money Laundering and Terrorist Financing requirements?