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Committee Secretariat
Select Committee on Financial Technology and Regulatory Technology
Department of the Senate
Parliament House
Canberra ACT 2600

By Email – fintech.sen@aph.gov.au

Dear Ms Beverley

Central Bank Digital Currency and Global Stablecoins – Submission

The Reserve Bank of Australia (the Bank) welcomes the opportunity to provide this additional information on digital currency developments to assist the Committee's work. There has been increasing international focus on the possible issuance of central bank digital currencies (CBDC) and global stablecoin arrangements, such as Diem (formerly Libra). This submission provides a summary of the Bank's views on CBDC and recent developments in global stablecoins.

It is useful to distinguish between a *retail* CBDC, which would be like a digital version of cash that is essentially universally accessible, and a *wholesale* CBDC, which would be accessible only to a more limited range of wholesale market participants and/or restricted for use in specialised payment and settlement systems.

Retail CBDC

The Bank has recently outlined in some detail the key concepts and issues associated with retail CBDC, including the various ways in which it could be designed, the problems it might address, the possible opportunities created and the potential consequences of issuance.[1]

Many of the suggested reasons for issuing a CBDC point to the declining role of cash and the prospect of a significant reduction in the availability of cash deposit and withdrawal services, and the growing reliance of the economy on electronic payment services provided by the private sector. The prospect of issuance of global stablecoins has also prompted some to suggest that CBDC should be introduced as a precautionary or defensive measure, while others have suggested a CBDC could provide a stimulus for further payments innovation.

A project to launch a CBDC would be a major, multi-year project for the Bank, the payments industry, technology partners, and a wide range of stakeholders in the public and private sectors. It would be costly in financial terms and quite risky from both a financial and technology

[1] See the attached RBA Bulletin article (September 2020) 'Retail Central Bank Digital Currency: Design Considerations, Rationales and Implications' and speech by Tony Richards 'Retail Central Bank Digital Currency: Design Considerations and Rationales' (October 2020).

perspective. It is not clear how much demand there would be for a CBDC, and whether it would be large enough to justify the work that would be required to launch a CBDC.

The Bank's current assessment – like that of many other central banks – is that the public policy case for issuing a CBDC for general use in Australia has not been established. While the use of cash for transactions is declining, cash is still widely available and accepted as a means of payment in Australia. Households and businesses are also well served by a modern, efficient and resilient electronic payment system that has undergone significant innovation in recent years, including the introduction of the New Payments Platform, a real-time, 24/7 and data-rich electronic payments system. The Bank is committed to providing high-quality banknotes, and ensuring reasonable access to them, for as long as Australians wish to keep using them.

Consistent with its mandate to promote competition and efficiency in the payments system and contribute to the stability of the financial system, the Bank will continue to consider the case for a retail CBDC, including researching the future conditions in which demand for a CBDC might emerge and closely watching the experiences of some other jurisdictions that are considering retail CBDC projects.

Wholesale CBDC

Separate to its work monitoring the case for a retail CBDC, the Bank has been conducting research on the technological and policy implications of a wholesale CBDC. A wholesale CBDC would be accessible only to a more limited range of participants and/or restricted for use in specialised payment and settlement systems. While the case for the use of a CBDC in these types of systems remains an open question, there are a number of potential benefits that could arise. For example, a CBDC could improve the speed, cost and robustness of payments, reduce settlement risk in certain transactions and enable new kinds of 'programmable money'.

The Bank undertook an initial project in its in-house Innovation Lab in the first half of 2019 that developed a proof-of-concept for a wholesale CBDC system based on distributed ledger technology (DLT). The scope of this project was fairly narrow as it only simulated the issuance of CBDC to commercial banks in exchange for the balances that commercial banks hold in their exchange settlement accounts (ESAs) at the Reserve Bank.

Building on the first project, the Bank recently commenced a collaborative project with Commonwealth Bank, National Australia Bank, Perpetual and ConsenSys Software, a blockchain technology company, to further explore the potential use and implications of a wholesale form of CBDC.[2] The project will develop a proof-of-concept for the issuance of a tokenised CBDC that could be used by wholesale market participants for the funding, settlement and repayment of a tokenised syndicated loan. The wider scope of the project will allow us to examine the consequences of extending issuance of CBDC to non-bank wholesale market participants that ordinarily do not have direct access to ESAs. Moreover, the addition of a tokenised financial asset will allow us to explore the implications of 'atomic' delivery-versus-payment settlement on a DLT platform as well as other potential programmability and automation features of combining tokenised CBDC and financial assets. The project is expected to be completed around the end of this year and the parties intend to publish a public report on the project and its main findings during the first half of 2021. There is likely to be significant further research required for us to determine whether there is a case for a wholesale CBDC, and we may look to collaborate with other parties on different potential use cases in the future.

Global stablecoins

The Bank is continuing to monitor developments related to so-called stablecoins, a number of which have been launched or proposed in recent years. Stablecoins are a type of cryptocurrency that are designed to avoid the price volatility experienced by many other cryptocurrencies, such

[2] See the attached RBA media release announcing the commencement of this project.

as Bitcoin, typically by backing the stablecoins on issue with safe assets or using algorithmic techniques to try and match the supply of coins with demand. By seeking to reduce price volatility, the intention is to make the stablecoin more attractive to hold as a store of value and medium of exchange.

Stablecoins that became widely used in multiple countries could make cross-border payments less expensive and overcome some of the challenges associated with financial exclusion. However, without appropriate oversight and regulation, stablecoins have the potential to be used for money laundering or illicit activities and could raise consumer protection and privacy concerns. A stablecoin that became widely used could also have adverse implications for monetary and financial stability, at least in smaller economies. Recognising the importance of these issues, Bank staff are participating in several global regulatory groups focused on stablecoins, including a group that developed recommendations on the appropriate regulatory and oversight approach for global stablecoin arrangements.

At present, there are few Australian dollar-denominated stablecoins and use of stablecoins as a payment method has been very limited in Australia. The most prominent global stablecoin initiative to emerge in recent years is called 'Diem' (formerly called Libra). The project was originally conceived by Facebook but is now overseen by the Diem Association, a consortium of predominantly payments and technology companies (including Facebook) based in Switzerland. The stated goals of the Diem project are to create an efficient global payments system and improve financial inclusion. The plan is to issue Diem 'coins' on a blockchain-based network that users will access via third-party digital wallets and other services to make payments to other users. The intention is that all of the coins issued will be fully backed by assets held in cash or cash-equivalents and short-term government securities and managed by a Swiss-based entity. It was initially proposed that there would only be multi-currency Diem coins, but the project now also envisages the possibility of issuing coins that are denominated in (or linked to) a single currency (e.g. the US dollar), which may be more appealing to many users. We are not aware of any plans by the Diem Association to issue an Australian dollar stablecoin.

In April the Diem Association applied for a payment system licence from the Swiss Financial Market Supervisory Authority (FINMA). FINMA is considering the application and has indicated that Diem will be subject to the principle of 'same risks, same rules' – that is, if Diem poses bank-like risks it will be subject to bank-like regulatory requirements. It remains to be seen if it will gain regulatory approval and become operational.

Given the international scope of the project and the need for a coordinated approach, FINMA has established a regulatory college to incorporate feedback from other supervisory authorities and central banks from around the world. The Bank is participating in these discussions on behalf of other Australian financial regulators. Separately, the Bank and other Australian regulators have been engaging with Facebook on its plans to launch a digital wallet for the Diem payment system called Novi, through which users would be able to purchase and hold Diem. These discussions have focused on how Novi – and the Diem payment system more broadly – would be treated under Australian regulatory requirements.

The Bank would be happy to discuss any of these matters further with the Committee.

Yours sincerely

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