

## ICA answers to US Federal Reserve consultation on CBDC, May 2022

The below are the answers submitted by the ICA to Questions posed at the end of the Federal Reserve's January 2022 paper *'Money and Payments: the US Dollar in the Age of Digital Transformation'*.

The paper is available at <https://www.federalreserve.gov/publications/files/money-and-payments-0220120.pdf>

The answers were submitted using the form at <https://www.federalreserve.gov/apps/forms/cbdc> on 20 May 2022

### Section: CBDC Benefits, Risks, and Policy Considerations

#### **Question 1: What additional potential benefits, policy considerations, or risks of a CBDC may exist that have not been raised in this paper?**

The most important considerations that should characterise a public digital currency in order for it to be – like cash – a public good, are that it should be a private transaction, easy to use, widely accessible, with maximum safeguards for security and come at no additional cost to the users, the holders and the recipients.

#### **Question 2: Could some or all of the potential benefits of a CBDC be better achieved in a different way?**

For a digital currency to ensure full privacy, acceptance and availability, it must be the central bank that is the issuer of it.

Central banks are public institutions that the public can trust to issue a currency that truly guarantees privacy and the universality of acceptance and availability. Private initiators of currency i.e. cryptocurrencies can rightly never have the full trust of the public.

The Federal Reserve has clearly stated that the CBDC will complement cash, not replace it, and the ICA welcomes this clear stance. The ICA also highlights that central banks have a duty to protect cash and its role in society.

#### **Question 3: Could a CBDC affect financial inclusion? Would the net effect be positive or negative for inclusion?**

The contribution that a CBDC can make to financial inclusion will in part depend on its design. Any form of payment that wishes to be a public good should be easy to use. A simple user interface and non-expensive devices are important. People of all ages should be able to use it and any barriers to using should be carefully weighed against the need for universal accessibility. The ICA also hopes that the designers of a digital currency will take inspiration from the efforts of banknote and coins designers to ensure that persons with a visual disability can make full use of cash.

#### **Question 8: If cash usage declines, is it important to preserve the general public's access to a form of central bank money that can be used widely for payments?**

As e-commerce and digital interactions are on the rise, the discussion on a future digital currency to use for purchases made electronically is becoming increasingly prominent. The added value of a CBDC does not lie in being an alternative for cash. A purchase made electronically does not per se imply that it must

also be paid for electronically. Indeed, a number of merchants and applications have made it possible to pay for electronically-ordered goods or foods in cash upon delivery. However, the high charges that consumers and merchants face to be able to pay for transactions electronically, make it attractive to find a digital public alternative to these payments; a digital currency issued by the central bank could make this possible.

**Question 10: How should decisions by other large economy nations to issue CBDCs influence the decision whether the United States should do so?**

We take the opportunity of this question on other large economy nations and their development of CBDCs to recommend the free-of-cost exchange into a CBDC or physical currency of another country/trade zone, just as a digital and physical dollar must be mutually convertible.

**Question 12: How could a CBDC provide privacy to consumers without providing complete anonymity and facilitating illicit financial activity?**

It is essential for a future CBDC to guarantee full privacy to its users. A CBDC will only stand apart from existing and future private (cryptocurrency) means of electronic payments if that is what it achieves to do. For example, a CBDC needs to allow e.g. abuse victims to save for an escape without leaving any digital trail or for people to protest without fear of repercussions. Without the full privacy of physical cash, future personal freedoms and rights become threatened. No data should be collected from the user. However, AML/ATF – and KYC – procedures, where they are applicable to physical cash, need to be applicable to digital cash as well.

**Question 13: How could a CBDC be designed to foster operational and cyber resiliency? What operational or cyber risks might be unavoidable?**

A CBDC should offer maximum safeguards for security and protection against cyber-attacks. The risk to the economy posed by a cyber-attack as well as to public confidence in a CBDC could be devastating, particularly if a successful attack went unchecked or were undiscovered for a period of time. Even an unproven claim that the CBDC had been hacked could potentially be highly destabilising for the economy. This risk is an order of magnitude higher than for physical cash, as there is no easy/practical way for the public to authenticate whether a CBDC is genuine. Developing a public authentication solution for a CBDC should thus also be a key requirement to ensure that digital cash can be a public good.

**Section: CBDC Design**

**Question 17: What types of firms should serve as intermediaries for CBDC? What should be the role and regulatory structure for these intermediaries?**

While all stakeholders including commercial entities have their role to play in the process where a digital dollar should be as widely available as possible – and immediately convertible into physical cash – the end result must also be that a digital dollar is free of charge to use.

**Question 18: Should a CBDC have “offline” capabilities? If so, how might that be achieved?**

Digital cash should be usable also in offline mode, with some restrictions, notably to avoid multiple use of the “same Dollar”. AML/ATF procedures need to be applicable to digital cash, just as they are applied to physical cash. Mechanisms should be in place to avoid overspending by means of artificial friction, just as physical cash provides – it is not common to mistakenly spend 1000 Dollars instead of 10 Dollars in the physical world, the same should be ensured for the digital sphere.

**Question 19: Should a CBDC be designed to maximize ease of use and acceptance at the point of sale? If so, how?**

While it is likely to always require some electronic application/investment such as a smartphone, the hurdle for adoption should be kept as low as possible to ensure that the digital dollar is as straightforward as possible for consumers to use. A simple form factor of a digital device to store/access value could also be offered by the public authority, e.g. a chip in a card or wearable, a simple reader/display.

**Question 20: How could a CBDC be designed to achieve transferability across multiple payment platforms? Would new technology or technical standards be needed?**

A CBDC and physical cash must be mutually convertible. That means free and flexible conversion of a digital currency into physical cash and vice versa, in addition to the free exchange into any physical or digital or physical currency of another country/trade zone. It is important that exchangeability between its physical and digital forms is available at no cost and without any system to penalise one or the other, in order to offer a fair and free choice for consumers. A network allowing users to easily swap cash for their CBDC would contribute to maintaining the cash infrastructure.

We stress here the need to have a competitive environment. Paying for goods or services or exchanging money should not cost the user. Unfortunately, today's consumers and to a sometimes even larger extent, merchants, are facing a myriad of charges and hurdles for most transactions, including for bank account fees, credit card fees and fees to set up an electronic payment service to pay online. A CBDC should aim to be a counterforce to such costs and fees by demanding no additional cost.