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# Cross-border challenges of a Central Bank Digital Currency and Global Stablecoins

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The Digital Regulator



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## Executive summary

On 9 July 2021, the Bank for International Settlements (BIS), the International Monetary Fund (IMF) and the World Bank, issued a Joint Report to the G20, which analyses how CBDCs could facilitate faster, cheaper, more transparent, and more inclusive international payments. The report concludes that reaping such benefits will require significant conceptual and practical work and effective multilateral collaboration and the implementation of new infrastructures, in short, a long timeline. In these circumstances, could the implementation of a GSC in open collaboration with monetary authorities deliver those efficiency and inclusiveness enhancements to the international payments system more swiftly? After all, last year, the G20 made the enhancement of cross-border payment a priority, and the G7, in June this year, reiterated that no GSC should launch unless it is properly regulated. Open collaboration with the monetary authorities would ensure appropriate consideration to the impacts of a GSC rollout on monetary policies and on the management of cross-border flows. The alternative is to perpetuate the drawbacks of the current international payments system for the foreseeable future.

The last few weeks have offered several notable regulatory developments in the digital space. We continue to witness exponential growth in CBDC pronouncements by central banks, suggesting that many countries may be about to implement wholesale and/or retail CBDCs. In the USA, the Securities and Exchange Commission (SEC) continues to delay the authorisation of bitcoin Exchange-traded Funds (ETFs). Innovatively, the SEC has asked the public for its views on the potential for fraudulent and manipulative market acts and practices.

Developing and implementing a Central Bank Digital Currency (CBDC)-based cross-border payment system is a daunting task. The launch of a Global Stablecoin (GSC) in a regulatory-controlled environment could swiftly bring efficiency and inclusiveness to international payments.

## 1. Challenges of Implementing CBDC-based Cross-border Payments

On 9 July 2021, the BIS, the IMF and the World Bank issued a Joint Report titled, '[Central bank digital currencies for cross-border payments](#)' (henceforth, 'the report') for the G20. The report identifies crucial aspects in the design and implementation of a CBDC-based cross-border payment system to deliver faster, cheaper, more transparent and more inclusive international payments. The report examines the infrastructural aspects and macroeconomic issues surrounding a CBDC-based cross-border payment system. We summarise the report, draw conclusions and speculate about the opportunity for a GSC to deliver more swiftly efficient.

### CBDC-based international payments: Infrastructural aspects

- The report focuses on the so-called multi-CBDC scenario, which assumes the use of CBDCs by anybody, in the context of defined access and settlement arrangements between different (retail and / or wholesale) CBDCs. This scenario, based on interoperability arrangements between multiple CBDCs, is a direct alternative to GSC. The report distinguishes between three levels of payment system interoperability, each of which enhances international payments in different ways.

#### - Traditional model

This model achieves the interoperability of CBDC systems through 'adherence to common standards', akin to traditional cross-border payment arrangements. These include common message formats, cryptographic techniques, data requirements and aligned regulatory standards to simplify Know Your Customer and transaction monitoring processes<sup>1</sup>. This model can reduce fragmentation and concentration in international payments.

#### - Enhanced model

This model enhances the interoperability of CBDC systems by incorporating 'additional interlinkages, through either a shared technical interface or a common clearing mechanism'. The report warns that none of the possible interlinkages are likely to be easy to implement<sup>1</sup>. This model can generate safer and more efficient international payments.

#### - Cooperative model

This model achieves the interoperability of CBDC systems through 'a single multi-CBDC arrangement across jurisdictions', that is, a single set of shared rules, technical system and set of participants. This is tantamount to creating a new multilateral payment platform<sup>1</sup>. This model would boost the benefits associated with the enhanced model by granting additional integration.

### CBDC-based international payments: Macroeconomic issues

- The report clarifies that the macroeconomic implications of CBDC-based cross-border payments will depend on the level of adoption and actual utilisation of such a system and on the level of integration of CBDCs. Furthermore, traditionally, the control of such aspects has been achieved through financial regulation. The report concludes that the regulatory policy remit of international cross-border flows management should be extended to CBDC-based cross-border payments. This will prevent weaknesses in the management of exchange rates by individual countries. In practice, the application of proper regulatory policy control mechanisms should be easier for wholesale CBDC-based international payments than for retail CBDC-based international payments. Finally, the report emphasises that widespread adoption of CBDC-based cross-border payments could exacerbate currency substitution, undermine the independence of monetary policies, and alter the current reserve currencies landscape.

<sup>1</sup> BIS, [Central bank digital currencies for cross-border payments](#), July 2021, page 9.

### CBDC-based international payments: A long way to go

- The report underlines that the current use cases for CBDCs are domestic in nature, and thus far, few central banks have made a clear choice in the design of domestic CBDCs. The report shows that, conceptually, CBDC-based international payments could deliver faster, cheaper, more transparent, and more inclusive international payments, to a degree dependent on the specific arrangement or model. It concludes that CBDC-based international payments will require effective international collaboration, and the analysis of, and responses to, complex questions concerning ‘the interoperability between existing and new infrastructures’, ‘the distinction between wholesale and retail CBDC’ and ‘the role of the private sector’<sup>2</sup> – an intriguing point.

In conclusion, the report on CBDCs for cross-border payments issued by the BIS, the IMF and the World Bank for the G20 is a landmark analysis of the challenges that a CBDC-based international payment system needs to address to improve the current international payment system – unanimously perceived as slow, expensive, opaque and insufficiently inclusive.

The report shows that thus far, the development of CBDCs has focused on the domestic use case, with some actual implementations. However, the analysis of the cross-border use case is embryonic, and the report’s message is that a long timeline is necessary to analyse and resolve the issues surrounding the design and implementation of a CBDC-based international payment system. This situation is not optimal, because the pitfalls of the international payment system are unanimously recognised in their materiality and urgency. In fact, last year, the G20 made the enhancement of cross-border payment a policy priority.

Under these circumstances, it is legitimate to consider whether a GSC would be a better way to rapidly address the drawbacks of current international payments. We agree that no GSC project should begin operations until it adequately addresses relevant legal, regulatory, and oversight requirements, through appropriate design and by adhering to applicable standards. However, international monetary authorities can consider cooperating with GSC proponents to design operating conditions for GSC projects, which would allow their gradual implementation in a macroeconomic risk-controlled manner. The international community would be thankful, as it would benefit from more efficient and inclusive international payment systems. The alternative is perpetuating the status quo for the foreseeable future.

## 2. Other Noteworthy Developments

We continue to witness exponential growth in CBDC pronouncements by central banks. This suggests that many countries may be about to implement wholesale and / or retail CBDCs.

- The BIS discussed CBDCs extensively in their 2020 annual report. The report qualifies a CBDC as an opportunity for the (international) monetary system, and emphasises the need to design them considering public interest and to ensure open payment platforms and a competitive level playing field.
- The Atlantic Council reported that 81 countries are analysing the opportunities and challenges of CBDCs, with five nations fully implementing a digital version of their currency.
- The Monetary Authority of Singapore launched a competition for fintech firms and global financial institutions, encouraging them to formulate a CBDC design for retail use.
- The Bank of Ghana is planning to develop a CBDC. This will involve a pilot study, finalisation of a feasibility study, and eventually, actual implementation.
- The Central Bank of Brazil has specified the characteristics of its CBDC without indicating a timeline.
- The Hong Kong Monetary Authority is expanding its retail CBDC research and development efforts, as part of its Fintech 2025 Strategy. It will focus on understanding use cases, benefits, and related risks.

<sup>1</sup> BIS, Central bank digital currencies for cross-border payments, July 2021, page 19.

- Six members of the [East Africa Community](#) are exploring a CBDC use case as an alternative payment system for the region. The hope is to create a pathway leading eventually to a single currency for the region by 2024.
- The [Central Bank of Nigeria](#) is preparing for the launch of its CBDC, the Digital Naira, which it intends to launch before the end of 2021. It has set 1 October 2021 as the starting date for the pilot scheme. It believes that a CBDC would be beneficial for macro and growth management, cross-border trade support and financial inclusion.
- The [National Bank of Rwanda](#) is examining the possibilities of issuing its own CBDC. Its efforts concentrate on the economic, financial, and technical aspects of CBDC.
- The [Bank of Russia](#) established a pilot testing phase for its CBDC, with 12 major domestic banks.
- [Vietnam's](#) central bank will pilot the implementation of a CBDC during the next two years, as part of the country's new e-government strategy.
- [New Zealand's](#) central bank will publicly consult on CBDC. The step is part of a roadmap aimed to respond to digital innovations in money and payments.

The SEC continues to delay the authorisation of a bitcoin ETF in the USA. Yet, the general opinion is that the authorisation is a matter of 'when' as opposed to 'if' and that the SEC will authorise the first bitcoin ETF soon.

- Specifically, the SEC has delayed the [VanEck Bitcoin Trust](#), [Wisdom Tree's](#) and [Kryptoin](#) bitcoin ETF filings, and asked the public to comment on several key questions on the potential for fraudulent and manipulative acts and practices.

The Financial Action Task Force (FATF) informed that the revised Guidance on virtual assets and VASPs would be finalised in October. The EU intends to propose a new crypto-dedicated Anti-Money Laundering agency.

- The [FATF](#) agreed to finalise its revised Guidance on virtual assets and VASPs in October 2021. This deadline is important because the round of public consultation in spring showed that the proposed approach is highly controversial.
- The [EU](#) intends to set up a new agency dedicated to money laundering and transparency issues in crypto-assets transfers. The new agency is expected to become the 'centrepiece' of an integrated supervisory system that would include national authorities (member states).

### 3. Conclusion

Last year, the [G20](#) declared the enhancement of cross-border payment as a policy priority. In June 2021, the [G7](#) reiterated that no GSC should launch unless it is properly regulated. The report issued by the BIS, the IMF and the World Bank on 9 July 2021, 'Central bank digital currencies for cross-border payments', shows that the nature of the issues to analyse and resolve before the emergence of a CBDC-based international payment system necessitate that it will require a longer timeline. In these circumstances, it is worth speculating about the possibility of resolving the drawbacks of the current international payment system (inefficiency and lack of inclusion) by introducing a GSC in collaboration with the monetary authorities, to consider and prioritise unwanted macroeconomic risks. The alternative seems to be the perpetuation of the current pitfalls for the foreseeable future.

The period under review confirms that a growing number of countries are actively pursuing the introduction of CBDCs. In the USA, the SEC has delayed approvals of three bitcoin ETF submissions and encouraged the public to express its views on the materiality and preferred treatment of the primary risks responsible for the delays, namely, the potential for fraudulent and manipulative acts and practices associated with bitcoin ETF projects.

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