



Global CBDC Policy

Cite

Group of Seven Finance Ministers and Central Bankers, Public-Policy Principles for Retail Central Bank Digital Currency

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Impact Assessment

- G7 finance ministers and central bankers reinforce the BIS/central-bank overall endorsement of CBDC, making implementation in many nations still more likely.
- Concerns about bank disintermediation and financial stability are largely dismissed on grounds that CBDC design makes them manageable.
- New privacy and data-use principles establish a global framework, attempting to strike a balance among anonymity, law enforcement, and accountability.
- Preliminary considerations are outlined for a CBDC-equivalent issued by international financial institutions.
- To preserve international monetary stability, the G7 posits limited non-resident access.
- The G7 also for the first time lays out a principle ensuring that CBDCs enhance competition, reinforcing the need for CBDC to operate in tandem with the private sector but going on to stipulate that those with whom CBDC interfaces must not hold concentrated market power.

Overview

Shortly after the BIS and a group of central banks endorsed a construct for retail-facing central-bank digital currency (CBDC),¹ the Group of Seven (G7) finance ministerial issued these public-policy principles to establish a still broader framework for future action. No G7 nation, including the U.S., has decided on CBDC, but their governments have generally developed these documents to ready themselves, enhance the odds of CBDC better suited to cross-border clearing and settlement, anticipate private stablecoins and the risks they raise, as well as counter China's efforts to build a CBDC that enhances its global macroeconomic might. In addition to setting principles by which the retail-focused CBDCs explored

¹ See *Client Report CBDC8*, October 8, 2021.

by the BIS should advance, the G7 tackles critical matters such as enhancing competitiveness, protecting privacy, ways to limit currency substitution and protect capital flows, and even how best to ensure that CBDC is green.

Impact

This paper is emphatic in its differentiation of CBDC from cryptoassets, including stablecoins. While this is in part definition-driven – CBDC is intrinsically fiat currency and thus not cryptography – the point is designed to ensure that simultaneous efforts by the BIS to govern stablecoin continue unabated.² By advancing CBDC in concert with these high-priority stablecoin-regulatory efforts, the G7 increases the likelihood not only of CBDC, but also of CBDCs and related systems that shrink private-stablecoin footprint.

One critical question surrounding CBDC is the extent to which a central bank's operations could supplant bank financial intermediation. As with the BIS/central-bank report, the G7 principles acknowledge this concern but conclude it can be readily managed. Threats to financial stability are similarly brushed away on grounds that appropriate CBDC design resolves them. The principles also reinforce other BIS conclusions – e.g., that CBDC should prevent money laundering, preserve privacy, and operate in tandem with cash and private-sector providers.

However, as noted, the G7 principles for the first time define the parameters of issues the BIS may have mentioned but did not develop. They also set policy on issues the BIS left for future consideration. Although these policies are phrased in very broad terms within over-arching principles, they lay the parameters for action on many remaining, critical CBDC policy questions such as personal privacy, competition, and even new forms of CBDC offered by international financial institutions such as the IMF and World Bank.

What's Next

The statement was issued on October 13. If followed, these principles would advance the broad public-policy framework in which the entire statement is framed. However, as is often the case with high-level G7 pronouncements, the extent to which member nations adhere to them remains to be seen.

The FRB's discussion draft on CBDC was initially promised for the summer of 2021 but has yet to be released. Chairman Powell has emphasized aspects of the G7 principles in Congressional testimony³ – for example, he stated that CBDC should not supplant cash or private financial institutions. And, although the Fed is also rapidly pursuing technical build-up, Mr. Powell emphasized not only that no CBDC decision has been made, but also that offering one may require Congressional authorization. Should that prove necessary, Democrats will likely

² See **CRYPTO20**, *Financial Services Management*, October 14, 2021.

³ See *Client Report REFORM209*, September 30, 2021.

press for CBDC that takes deposits directly from consumers and businesses (i.e., "FedAccounts").⁴

Analysis

A. Principles

The principles noted below were listed by the G7 in no particular order. Public-policy principles are:

- CBDC should meet public-policy objectives, remain within a central-bank ambit, and do no harm. Central banks will need to ensure that financial intermediation and stability are maintained, but the G7 sees little lasting risk with proper CBDC design.
- G7 values such as the rule of law and transparency should guide CBDC development.
- Rigorous and transparent privacy, security, and accountability standards are essential. User consent to data use should be required and provider access limited to short periods of time expressly related to CBDC transactions (e.g., re money laundering mitigation). Emerging global data-use standards should be honored and violations enforced.
- CBDC systems must be secure and resilient to cyber, fraud, and other threats. All parties accessing CBDC should have appropriate, inter-operable systems as well as ensure effective contingency planning and resilience.
- CBDC should coexist with existing payments mechanism via two-way interoperability and promote choice and diversity among payment options. CBDC is likely to reduce market concentration if interfaces with private vendors are open, transparent, and competitive. Additional measures may be needed to ensure ready consumer switching from CBDC to other payment options on and off the CBDC network. CBDC introduction may thus need to be accompanied by other measures to ensure payment-system competitiveness, (none detailed in the framework).
- CBDC's benefits must be weighed in the context of ensuring crime prevention and AML/CFT and sanctions enforcement. Cooperation and new technologies should be deployed, with national authority over CBDC use defined in law and made transparent.
- Harm to the international monetary system should be avoided, for example by limiting non-resident access to domestic retail transactions. Ongoing multilateral work to prevent currency substitution and capital-flow disruptions should continue.
- CBDC energy use should be as efficient as possible.
- CBDC should support and catalyze responsible innovation, with clearly-allocated public and private roles.
- CBDC should not impede and if possible, instead advance financial inclusion, with cash continuing in economies where this is appropriate.

⁴ See **CBDC**, *Financial Services Management*, April 16, 2020.

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- CBDCs that support government payments should be fast, inexpensive, inclusive, and resilient.
 - Central banks contemplating CBDC should also consider how they might advance cross-border payments.
 - CBDCs deployed for distributing international development assistance should ensure compliance with issuer and recipient objectives in a transparent fashion. CBDC may also be of immediate value in certain cases (e.g., humanitarian assistance), but legal, sovereignty, and other challenges must first be resolved.

B. Other Considerations

In addition to principles, the framework contains an annex detailing how different CBDC considerations may intersect with unintended consequences. The document lays out ways nations should weigh these inter-relationships, listing steps such as objective prioritization, technical understanding, and stakeholder engagement to guide decision-making.