



Economic Affairs Committee

Corrected oral evidence: Central bank digital currencies

Tuesday 16 November 2021

3 pm

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Members present: Lord Forsyth of Drumlean (The Chair); Lord Bridges of Headley; Viscount Chandos; Lord Fox; Baroness Harding of Winscombe; Lord Haskel; Lord King of Lothbury; Baroness Kingsmill; Baroness Kramer; Lord Livingston of Parkhead; Lord Monks; Lord Skidelsky; Lord Stern of Brentford.

Evidence Session No. 9

Heard in Public

Questions 81 - 90

Witnesses

I: John Glen MP, Economic Secretary to the Treasury; Charles Roxburgh, Second Permanent Secretary, HM Treasury.

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Examination of witnesses

John Glen MP and Charles Roxburgh.

Q81 **The Chair:** Welcome, Minister and Charles Roxburgh, to the Economic Affairs Committee. I understand that there may be a Division in the Commons, in which case we will suspend the sitting until you can leg it back.

Given the shortage of time, I will begin by asking the first question. I think the committee has been left wondering exactly what the problem is that you are trying to solve by looking at a central bank digital currency. There is a diagram in one of the Bank's papers, which was drawn to my attention, headed "Opportunity for the Bank's objectives". It would be good if you could clarify the objectives that are leading you to look at a central bank digital currency.

John Glen: Thank you for the opportunity to be with you this afternoon. I will answer that question by saying that we are in a situation where there is a lot of innovation. There is an opportunity to look at the concept of central bank digital currencies, but we have not made a decision whether or not to do so. What we have done quite deliberately over the last 18 months, working closely with the Bank—the Bank issued a discussion paper in March last year and at FinTech Week in April this year the Chancellor set up a task force jointly with the Bank of England—we have set up an engagement forum and a technology forum and we recognise that the technical possibilities exist for a central bank digital currency and the issuance of digital currency by the central bank.

We know that is also being looked at in other jurisdictions. On the international level we have built up the principles by which the G7 would observe a central bank digital currency and the evolution of, but last week we announced the intention to launch a consultation next year. We are trying to establish views on the desirability of a central bank digital currency.

The Chair: But what is the problem that you are trying to solve?

John Glen: There is an opportunity for a central bank that issues currency to do that digitally and which could offer different ways of making transactions with individuals or businesses or banks. There is not a problem but the Bank, in real-time gross settlement since 1996, has a mechanism to deal with the core settlement and this is an opportunity that we need to be at the forefront of examining. I would not say that there is a problem. The question is: is there a desirable opportunity for us to take forward as a country?

The Chair: What is the opportunity that you see?

John Glen: I do not necessarily want to commit to that because we are trying to have an open consultation on that matter.

Lord Bridges of Headley: Fabio Panetta from the ECB gave a speech in

Madrid a couple of weeks ago in which he said that the primary reason why the ECB would issue a digital euro is: "With digitalisation at full speed, central banks must prepare for a digital future in which demand for cash as a medium of exchange may weaken, requiring the convertibility of private money into cash to be complemented by convertibility into central bank digital money". That is a problem. That is something that he clearly sees as a direct challenge, which is what is motivating the ECB. Are you saying that you share that concern or you do not share that concern as the prime motive for doing this?

John Glen: There are different analyses going on in different jurisdictions. The ECB is in an investigation phase. I went to Washington and there is a range of views over its desirability and applicability there; they have Project Hamilton looking at it. The Bahamas have issued their sand dollar; the Swedes are doing other things; China has experimented and intends to take that forward. It is not about what other countries are doing. In the due course of time, through thorough analysis, wide public consultation and the scrutiny of committees such as this on, the UK will come to a view. What I recognise, and your question points to, is the diminishing use of physical cash and that is another significant concern that I have. We have committed to legislate for the retention of the issuance of cash but we also have to come to terms with the opportunities that exist on the other side of the spectrum.

Lord Fox: On potential issues, you talked about cash. What about the burgeoning role of stablecoin—large, powerful stablecoin? Are the Government including that in their analysis? Where are you on that?

John Glen: That is a discrete, separate track of work that we undertook to evaluate earlier this year. There is a number of initiatives in the marketplace, Facebook most famously, which has evolved from Libra to Diem. There are concerns about how that would be implemented and interact with regulation, the regulation we would need to have and the principles to underpin that. I think that is distinct and separate from a central bank digital currency that obviously would be issued by the Bank if we decided to move ahead with it.

The Chair: Will the Government clarify for what monetary policy purposes the Bank could and could not use a CBDC? Would it be up to the Bank or would it be up to the Government?

John Glen: At the moment it is a joint investigative exercise. The Government would decide whether we have one. Broadly, the Bank would be responsible for implementing it if we decided to move forward and we got to the build and design phase and that was required.

The Chair: When you say "implementing it", could you specify what you mean by that for monetary policy purposes?

John Glen: No, not yet because we have not decided whether or not we are going to do one. At that point we would make the decision in the course of the consultation that we will have under way next year.

The Chair: It sounds a bit cart before the horse.

John Glen: No, not really. If I may, you would not expect us to prejudge the outcome of an open consultation. I have set out the fact that a central bank digital currency gives the opportunity for a central bank to issue digital money. The purposes of that, the principles underlying its subsequent design and implementation, are obviously to be determined because we have not resolved the first question.

The Chair: No, but my question goes to whether or not you would see an increase in the role and responsibilities of the Bank of England.

John Glen: I do not foresee that because in the end, while it retains the responsibility for monetary policy, the terms of reference for digital issuance would be framed around the principles and resolution that we make should we decide to move forward.

The Chair: It would not be up to the Bank?

John Glen: It would not be up to the Bank whether we did one. It would be up to the Bank to help design the platform and mechanism for delivering it.

Q82 **Lord Bridges of Headley:** The decision for moving ahead lies with government. The decision tree would be, therefore, government makes a decision and it comes to Parliament—just to map this out?

John Glen: The question would be whether it was necessary for legislation to be passed. I would expect Parliament to be intimately involved in this process.

Lord Bridges of Headley: Sorry, let me stop you there. Under what scenario might there not be legislation requiring to be passed? Are you saying this could be done without any legislation at all?

John Glen: I think that it would be inconceivable that we would not be working closely with Parliament, but the necessary legislative vehicle to issue it would be dependent on what we were intending to do.

Lord Bridges of Headley: There could be a scenario that this is launched without Parliament having a vote on it?

John Glen: I will not be drawn on that because we have not made that decision. It is clear that Parliament would need to discuss and debate what we are trying to do on the basis of the consultation next year and determine how we will move forward. If the underlying question is, which seems to be the motive behind this, perhaps, could the Bank decide to issue a digital currency and it be completely without the approval of Parliament, I do not think that is where we would end up, no.

Lord Bridges of Headley: I can understand that a lot of that depends on the design of the CBDC.

John Glen: Yes, and the decision on whether or not to do one and the basis of it.

Lord Bridges of Headley: Assuming we do one, I am trying to see a scenario in which there would be a design that would not have quite a direct impact, not just on the economy as a whole and the role of the Bank but potentially upon the IDs of the individuals who participate in it. I am trying to think how you could possibly have a scenario where there could be a CBDC without legislation. Sorry, I am thinking out loud but can you help me here?

John Glen: There will be issues around privacy and data. The broad discussion paper that the Bank issued has a core central ledger that would be interacted by wallets and banks and third-party payment providers, but that is a conceptual framework at this level at this time. I fully expect that the consultation will draw out the views on how that would function, concerns about data privacy and lots of other matters around security, anti-money laundering and so on. That would lead to the framing of the build and design phase.

Lord Bridges of Headley: I understand that. I will come back to the question I posed earlier about the purpose of all this. We have heard a number of descriptions of customer benefit of a CBDC and, as you know better than anyone, usage of cash is in decline. Can you tell us what the benefits of a CBDC would be to the man and woman in the street?

John Glen: There are those who depict the benefits as easing the speed of payments from a central bank without removing the friction that intermediary banks have. There are those who say that that provides an advantage. In the UK our payments system is pretty effective compared with that in the US. When I visited the US it was quite clear that we are in a very good place. I have read some of the evidence you have taken and your lines of questioning and I recognise the degree of scepticism that exists, but the whole point of an open consultation is to examine the case and the relative benefits it would give us in the UK.

The Chair: I am still not clear as to who would take the final decision. Is it the Government, the Bank or Parliament? Presumably Parliament?

John Glen: Yes, I thought I made that clear in my previous answer. We will have a consultation and then the Government will make a decision.

The Chair: So not Parliament?

John Glen: The Government will make a decision but it is scrutinised by Parliament. The legislative vehicle will need to be determined as a consequence of the decision we make. I cannot prejudge the decision that Government will make following the consultation.

The Chair: No, I am just asking you to make it clear that Parliament will have the say on whether or not we do this.

John Glen: Yes, I made it absolutely clear that this committee, other committees—I expect this to be debated fully in both Houses. It is impossible to have a situation where such a significant development would not have Parliament involved in it.

The Chair: Parliament being involved and Parliament deciding are not the same thing.

John Glen: Until we have got to a point where we have decided whether we will have one or not and on what terms and what basis, it is difficult to determine the legislative vehicle that would need to underpin that. Forgive me, I cannot determine what role Parliament will have in a hypothetical legislative endeavour because I cannot determine the outcome of the consultation over how a CBDC would—

The Chair: I am not asking you to do that. If the Government decided that they wanted to do a central bank digital currency, would Parliament have the final say in whether that went ahead?

John Glen: It would depend on what we were agreeing to and what legislative vehicle was necessary to establish it.

The Chair: Well, that is not a yes.

John Glen: It is not a no either.

Q83 **Viscount Chandos:** How plausible is it to suggest that the City of London's competitiveness might decline if the UK falls behind other countries' development of a CBDC?

John Glen: I do not think that the early adoption of a CBDC is a prerequisite of London's competitiveness. I have been in this job for nearly four years and I am very clear about the competitiveness of the City of London despite the uncertainties that have existed. I do not think a retail CBDC would greatly impact the competitiveness of the City at all and it is possible that it could boost productivity in the environment that Lord Bridges mentioned of declining use of cash and the possibility of more innovative payment mechanisms.

I think that the issue that perhaps is important for us to focus on is a wholesale CBDC. I looked at the exchange with Peter Randall from Aurora concerning a wholesale CBDC and at this point it is worth looking at what the Bank of England is already doing in that regard. The renewal of the wholesale payment settlement system, the real-time gross settlement system, offers some significant evolutions in the wholesale settlement, and increased interoperability. There is a number of initiatives there that are significant in that regard; for example, the wider access to central bank money by non-banks and the atomic settlement and innovation that is described as a benefit of wholesale CBDC. In addition, we have the work that the Bank of England issued earlier this year on a new account model to enable private sector innovation in wholesale payments. The Treasury has proposed a new sandbox for the use of distributed ledger technology in financial market infrastructures. Finally, I draw your

attention to the fact that London is now home to the new Bank for International Settlements Innovation Hub.

We are clearly keen to be aligned to evolving best practice and to evolving thinking but I do not think that we will gain a significant competitive advantage by being the earliest adopter of a central bank digital currency. What I see in other jurisdictions with different payment infrastructures, different rationales for issuance—obviously it is very different in the Bahamas compared with Nigeria, Sweden and China—is the context, the use of technology, the timespan in which they are doing it. In the context of what the Bank and the Treasury are doing on the wholesale changes of RTGS, I think we can be confident that we are already moving forward in the right direction.

Q84 Viscount Chandos: If there may not be advantages of being first mover, what are the dangers of being last mover? When members of the joint working group gave us a briefing—not a public session—they indicated that the earliest that they could envisage a UK CBDC being introduced is 2030.

John Glen: We said the second half of this decade in the Written Ministerial Statement last week.

Viscount Chandos: Other central banks may move more quickly and the one thing we can be fairly confident of is the private sector will move more quickly. If there is a defensive argument for it, is the rather leisurely timetable not a bit self-defeating?

John Glen: I do not think I accept that we have a leisurely timetable. I think we are broadly aligned with what is happening in the EU. I met the representatives of the Boston Reserve in Washington who have Project Hamilton looking at the options the US might adopt. Certainly, the priority in the US is to get it right rather than to be the first. What we are trying to deal with here is the relationship between banks, citizens and the central bank with an individual currency in an individual jurisdiction. Often people get concerned when they hear of an innovation in another jurisdiction. I find it very interesting and we should learn the lessons from that. What the Chancellor has done through the work at the G7 on the principles that should underpin this is to try to create a common framework for analysis that broadly several countries are doing at the moment.

Viscount Chandos: You think the key competitive path is between different central banks, different countries and their prospective CBDCs and that the private sector, the decentralised, whether stablecoins or other types of digital asset, is not a fundamental issue or threat?

John Glen: I think that stablecoins present a whole different set of issues about how they are regulated and backed, how they function, what sorts of rules underpin and enable them, but I do not see this as a competitive race between different jurisdictions. My responsibility is to make sure that this consultation is rigorous and gets to the right outcome

for the right reasons but to do it in a way that is cognisant of what is happening in other jurisdictions, in the same way that with the access to cash discussion people say, "Look what happened in Sweden where they did one thing and then moved to another position". Obviously we look very carefully at that when we think about what legislation we would require next year in terms of securing access to cash.

Of course we listen carefully but I do not see myself in a race. I see myself as trying to steward the evolution of this new phenomenon in the right direction to come to the right conclusion based on a full consultation of the tangible benefits we can discern—or not.

The Chair: I think we were told that should you decide that you wanted to go ahead with this the earliest would be the second half of this decade. Is that not a leisurely pace?

John Glen: Not in the context of the complexity of what we are trying to do. This is not something in the normal course of legislation and has potentially wide implications.

Lord Fox: Coming back to your last point about the consultation, there have been task forces mobilised for a while. What do you hope to get from the consultation that you do not really know already?

John Glen: Answers to some of the questions you have already asked about what the benefits would be. I talked about the retail and wholesale distinction, what would it mean, what advantages would it give us.

Lord Fox: Are you saying that the task forces to date have not been looking at the benefits that this could bring?

John Glen: They have, but they have also been setting out the concepts of a potential central ledger and a framework for how that might operate to provoke views to come to an understanding of what consensus is. If you have a situation where the Chancellor is leading a conversation with the G7 plus another few countries on a set of principles about how to develop this, it is not a question of racing ahead to come to a premature conclusion when clearly there is a lot of complexity in determining what you are trying to do and what value it might have.

Lord Fox: Coming back to the point of stablecoins, which you may think I am obsessing about, if I am consumer and I am faced with an electronic stablecoin and a central bank digital currency, what differences will I appreciate? You have tried to separate them but these two things will coalesce very quickly in terms of consumer use. Why are you taking them so far apart when quite clearly from a consumer point of view they will be conflated?

John Glen: I do not think we are taking them so far apart. I would say we are taking them in parallel and there is clearly—

Lord Fox: You said they are very different, I think was the phrase.

John Glen: They are not merged in with this because one is a central bank digital currency and one is a private matter. I agree that the implications in how it is backed and what the regulatory imperatives are underpinning their use may have some common principles. You are right to draw attention to the fact that they could co-exist and what does that mean, but in being clear about what we are trying to do with two distinct and different things I think it is entirely appropriate we should look at them separately.

Lord Fox: But to be clear—and, sorry, I will shut up about them in a minute—if there were one or two very large, very successful digital stablecoins practising in the UK, would that hasten the need for a central bank digital currency or have no effect on it?

John Glen: Not necessarily. It just depends how we move forward with it. I had representatives of some of those proposing stablecoins come and speak to me two or three years ago and their prospectus has evolved significantly over the last two years. This is not a fixed concept that one can take and align to CBDC. That is why it is important that we do this in quite a careful, deliberative and reasoned way.

Lord King of Lothbury: I will start by taking you back to an answer you gave a few minutes ago.

John Glen: One I am sure I am going to regret, am I?

Lord King of Lothbury: No, not at all. You spoke persuasively about all the work that is going on to try to improve the wholesale payment system and you explained the benefits of improving the wholesale payment system. I was struck, as perhaps with other witnesses, that all the things that you said you could say without using the words “central bank digital currency”. In a sense, as far as banks are concerned we already have one; reserve accounts with the Bank of England or the equivalent are a CBDC. Is it not possible to obtain at the wholesale level all the benefits that could be imagined for a CBDC by focusing on improvements in the payment system that we already have?

John Glen: I think you make a very wise and sensible point. Many of these innovations that I have set out, that you are obviously very familiar with, constitute what we see as a wholesale CBDC in essence. Yes, I think that is a reasonable assessment of what is happening with the innovation that is under way. That is why with the sandbox on the application of DLT to financial market infrastructure we want to keep the dialogue open with industry over how things evolve in widening access and looking at, together with the FCA and the Bank, how we can get to the best outcome. I recognise if I think about the PSR and the open banking and the evolution in payments, this is a fast-moving environment where regulatory intervention and enablement is instrumental in moving things forward. I go back to that people can get very excited about a central bank digital currency but, as you have said, on the wholesale side the Bank is already moving forward significantly with new models of innovation in wholesale payments.

Q85 Lord King of Lothbury: You mentioned the G7 principles. There are standards that may be implemented with respect to CBDCs. What is striking about the payment system is that each country has its own payment system for its own currency. We try to learn from each other but we do not have a common standard. Where principles and standards may have more impact is in the area of cross-border transactions. Do you have thoughts about the relevance of a CBDC to cross-border transactions?

John Glen: I think it is very complicated and some of the written evidence you have had demonstrates the complexity if you are dealing with a global system with 200 currencies. To create the sort of bilateral arrangements and protocols to deal with an exchange between those currencies at the central bank level would be incredibly complicated. You put your finger on the key issue. That is why, in answer to the previous question about whether this is a race and is it leisurely or not, I want to get it right for the UK, not because I am isolationist or anything but because the dominant concern is what is right in the context of our operating environment in the City and domestically here. Once you get into that kind of issue it is far more complicated. I imagine that it would be very difficult to establish a global system very easily, given the different ways that central bank digital currencies may evolve in different jurisdictions.

Lord King of Lothbury: Can I bring in Mr Roxburgh? I always enjoyed hearing Charles talk when he attended the Financial Policy Committee, which I believe you still do.

Charles Roxburgh: I do, yes.

Lord King of Lothbury: Have you discussed on the FPC the implications of any dimensions of CBDCs for financial stability?

Charles Roxburgh: Yes, we have. As you know, Jon Cunliffe, another member of the FPC, is extremely active in this agenda. He co-chairs the task force with me here in the UK but he is also very active globally. He is one of the thought leaders globally on this topic. We have not had an in-depth discussion on it at the FPC yet but we have discussed it and, like all aspects of CBDC, there are positives and negatives. One positive could be that consumers would have a high degree of confidence in a central bank retail digital currency and that they might not have as much confidence in, say, a private stablecoin. But we need to be mindful of the risk that if we sucked deposits out of the commercial banking system too far, that could have a negative impact on financial stability.

We need to keep those balances in mind. That is a consideration and as this work develops through Jon's leadership and his representation on the FPC and my role, the FPC will be kept fully abreast of the work that we are doing.

Lord King of Lothbury: Do you think that if there had been a retail CBDC in 2008 every bank would have collapsed and the Bank of England

would have been in the position of having to lend all the money back from the retail deposits that would have fled to the Bank of England and would have had to support the banking system?

Charles Roxburgh: That is why one of the interesting questions that we are exploring is whether there should be limits—whether you have wallet sizes—on how much of this retail currency you would want anybody to have. That is a very live question. You would not want to create a system where you were sucking deposits out of the commercial banking system because then the commercial banks could not lend and that would be a negative impact on the economy. That is exactly the sort of issue what we have to think through.

If I can pick up your point on cross-border payments, one of the potential uses for digital currencies is in areas such as remittances and cross-border payments, which are currently extremely inefficient and costly. While we have made huge progress in the UK with efficient and cheap retail payments electronically, that is not true internationally. One of the potential use cases is on whether you can make cross-border payments in a single currency for remittances or small-scale cross-border payments.

Q86 Lord Monks: I have the impression that the joint task force is getting its questions straight and trying to clear its mind about what kinds of issues need to be tackled but it is some way away from any judgments. Do you have any sort of timetable or schedule that you expect to operate to? A specific example is there is a trade-off between privacy questions and the need to ensure that the money laundering possibilities and all that are covered properly and other compliance requirements and the need for efficient transmission of data. Has any work been done on this particular trade-off yet? Can you say how far it has reached? Have you come to any preliminary conclusions yet and what is your timetable?

John Glen: We have determined that we will come forward with a consultation next year and you draw attention to the issues of the privacy of transactions and how that would work. I think that would be a key part, or one of the key parts, of it. We would have to work with the Information Commissioner's Office. Lots of government departments would have an interest; for example, economic crime and how we would deal with anti-money laundering. The UK, through its work at the G7, has been clear on the rigorous standards of privacy, accountability and transparency that we wish to work under. Those principles would guide us in how we frame the consultation. Clearly, we would not be doing this without evaluating all the concerns that we know exist out there.

Lord Monks: You said next year—next year starts in five or six weeks—or it could be another 12 months after that. Do you have any—

John Glen: Have a specific date? No. We have multiple streams of work on at the moment. We will do it as quickly as we can, as we always do.

Lord Monks: We have heard from one witness that digital ID would be

needed to make the CBDCs work effectively. Is that something that you agree with that? You mentioned the Information Commissioner but what about the Department for Digital, Culture, Media and Sport, which is doing a consultation on digital identity at the moment?

John Glen: That will lead us to the nature of the consultation because we would draw out the terms of reference for that. We would have to work through the degree of anonymity and privacy requirements in the design of the protocols for an interacting bank or payments wallet provider with a central ledger, if that is the framework we use, as we moved into a design and build phase subsequent to making that decision.

Lord Monks: Do you think you are in the foothills of this exercise?

John Glen: I would not say the foothills. I am just trying to demonstrate the complexity of it and that there are lots of elements that we clearly need to get right if we do this.

The Chair: Is HMRC involved in considering these privacy issues and digital identities?

John Glen: I am sure it will have views about it and we will draw those into the process going forward.

The Chair: But you have not done so?

John Glen: Not so far, no, not that I am familiar at least.

Charles Roxburgh: To explain the process we have set up through the joint task force between the Treasury and the Bank, I have written to all my fellow Permanent Secretaries across Whitehall to ask whether they want to nominate someone from their department to be part of it. They have been coming back to me to offer names. It is important that all departments in government, including HMRC, are part of this process to think through what impact a digital currency could have on them and what opportunities they see for it. They will be feeding into this process.

The Chair: As far as they are concerned, HMRC is very much linked with the issues of privacy.

Charles Roxburgh: Yes, and also financial crime. We have made sure that we are linking up with our colleagues on the security side as well.

Q87 **Lord Skidelsky:** You mentioned that one of the opportunities of a CBDC was to make the international payment system more efficient. What do you think it means for the UK if central bank digital currencies provided options outside something such as the SWIFT system, which is largely dominated by the dollar?

John Glen: The most recent SWIFT data suggests that the dollar is the currency of choice for about two-fifths of global cross-border payments; it is about the same for the euro; and the remaining payments are in pounds, yen or the Chinese renminbi. It is still uncertain whether a CBDC would represent a genuinely attractive alternative in the international

payment system. I think it is a live discussion over whether it would reinforce or detract from the dominance of the dollar. I note that the IMF has suggested recently that one scenario is that the dollar could become even more dominant if it were available digitally at a lower cost and to a wider user base. In another scenario, it would see other reserve currencies used more frequently.

I think you have put your finger on something that is quite challenging to resolve clearly. One of the key issues is payment costs and what the CBDC does to improve cross-border payments that would mean potentially lower costs for British people and businesses. That would probably be a net good for the economy but the way it would affect payment flows could mean more or less according to how it worked.

I think it is difficult at this point to come up with a complete assessment here. You have received some written evidence from academics at Berkeley and elsewhere that, as I mentioned in my previous answer, points to the degree of international co-ordination required to change or create something that is different or distinct from or superior to the SWIFT system. We will have to look at that.

Lord Skidelsky: There is a foreign policy issue here as well, is there not? SWIFT offers “a next generation platform which enables seamless, instant and frictionless transactions from one account to another anywhere in the world” but, of course, Governments put lots of frictions in the way of the seamless transmission of money everywhere in the world, and one of them is sanctions. Two questions arise there. One is to what extent would the CBDCs be a sanctions-evading mechanism—make them more difficult—and the other is to what extent in practice the United States would become even more dominant in deciding on sanctions policy for the world.

John Glen: The way that the US sanctions policy operates in prohibiting designated individuals and the entities associated with them from using dollars has significant reach, but I go back to the quote I gave you from the IMF concerning the outcome. It is difficult to come to a clear conclusion at this point. US sanctions have led SWIFT to suspend certain banks from the network and that is a powerful tool but it is difficult to fully anticipate how this work through.

Lord Skidelsky: I know you have talked about the opportunities offered by technology, and these are very substantial, but do your consultations include any research into historical currency systems—I am thinking of the gold standard or Bretton Woods—or historical relations between the central bank and private money. That would enable one to maybe clarify what advantages there might be now in developing this system. We are talking of history. Do you think history may be important to any of this?

John Glen: Despite the reservations I have detected so far, we are trying to make this a forward-oriented exercise to come up with a clear, reasoned case for making a decision. Of course we are aware of the context of history but it also gives us some questions about the risks

associated with all innovation. We try to mitigate that risk with the principles and the application of those principles to deal with the concerns that have been expressed.

Charles Roxburgh: I am sure you have read them but Jon Cunliffe's speeches have rooted some of these developments in the longer-term perspective about getting down to fundamental questions of what is money and why do we need it. At one level that is a fairly obvious question but then what is the difference between public money, what is private money, are quite complicated questions. I think Jon's speeches have done a very good job of setting out those concepts in a broader historical context and making it more accessible.

Lord Skidelsky: I wondered whether you need to have quite a strong sense of that historical context to decide whether what you are proposing or considering is an improvement on what you have already. That is all.

John Glen: Outside of a central bank digital currency, digital payments and digital activity evolve regardless of what Governments do. We have to try to understand it, apply the principles of it to this matter and this decision but certainly we do not want to take the lessons of history lightly. Jon Cunliffe is an extremely well respected authority on this subject and when I have been to Washington I have seen that he is held in very high regard and we are grateful for the input that he has.

Q88 **Lord Stern of Brentford:** Thank you for the answers. I want to ask about security risks. Have you considered what kinds of security risks could arise with a CBDC that might not arise now or would they be more intense or even perhaps lighter under a CBDC? Have you looked into the security risk part of the story?

John Glen: I acknowledge that demonstrating operational resilience and resolving and being clear about issues of data security and cybersecurity are core to the safe and credible evolution of a central bank digital currency. We will need to make very careful decisions in the design and configuration of any CBDC, as well as the ongoing operation, maintenance and evolution of it, to make sure that those issues are addressed. I think it is important to recognise that now the financial authorities work closely with the intelligence agencies, the National Cyber Security Centre and law enforcement. I encounter those issues in my role. Economic crime is in my portfolio and there is a common conversation about these matters. That would need to be front and centre of the design of a central bank digital currency should that be determined as the way forward.

Lord Stern of Brentford: It is not quite the same as economic crime, although it is in the same ballpark. This would be a malevolent attack by a foreign state or some other element, such as organised crime. Would that be easier and have you studied whether it would be easier under a CBDC?

John Glen: Any payment system is subject to the existing stringent UK security and resilience requirements. Those would need to be applied in the case of a central bank digital currency.

Lord Stern of Brentford: The question is: have you studied what those risks might be?

John Glen: I think we are familiar with the range of concerns that exist. The question is: do some of those concerns exist outwith the decision over how we would design and implement it? The considerations and concerns and the application of the existing obligations around payment security would need to be embedded and applied within the design and development of a central bank digital currency.

Lord Stern of Brentford: You have not actually studied that. Is that how I should understand the answer?

Charles Roxburgh: If you think about the phases that we have laid out, we are studying it at each phase and then there will be a more in-depth, more detailed evaluation at the next stage. Very much part of the first stage leading up to the consultation will be thinking through the security issues and were it to proceed to the development phase, an absolutely critical part of any design is how to design a system that you are confident in digital terms is as secure as the Bank of England's walls and those big doors. It is exactly the same analogy; it has to be that secure and to have public trust. People have to be confident that it is secure. Security will be a critical theme in each stage of the work. At the end of this, if we do have central bank digital currency, we have to be as confident as we can be that it is as protected as anything can be these days from that sort of cyberattack.

Lord Stern of Brentford: That work is down the line, is it?

Charles Roxburgh: The different levels of detail. We are thinking about the issues now but the detail of technical issues will be in subsequent phases.

John Glen: The fundamental principles of cybersecurity that were developed for the financial sector at the G7 five years ago are a guiding framework for us to apply for this. But as Charles said, we need to have a comprehensive framework to answer those questions to give us the assurance about how it would operate.

Lord Stern of Brentford: I understand. Charles, you mentioned that you had written round to the Permanent Secretaries. In my experience of Wednesday morning meetings, which are usually quite interesting—or at least they were 20 years ago—some of the most interesting people there were from the security services. I take it you have written to them if you have written round to all the Permanent Secretaries.

Charles Roxburgh: Yes. We have discussions with all our colleagues including on the security side.

The Chair: Tom Keatinge told us that he did not think the Government and intelligence services were approaching CBDCs in a joined-up way.

John Glen: I do not agree with that. That is a whole separate issue. Tom speaks a lot about where we are on cyber and economic crime. I think he also made some comments about the speed of delivery of CBDC.

The Chair: Can we just stick on the security point? Is it fair to say that the various institutions lack an understanding of how CBDCs might affect the UK's economic security strategy?

John Glen: No, I do not think we are at the stage where that issue is in evaluation. What Tom is referring to is a hypothetical scenario that we have not yet arrived at.

The Chair: You can see why people might think—to quote Winston Churchill—putting all your baskets in one egg might increase the chances of disaster.

John Glen: It would if that is what we decided to do. I sense that you find my answers evasive, but the point is that we have set out a deliberate process that will evolve. I have tried to set out where we have different elements that we need to bind into that design and build phase if that decision is made. The concerns that Tom legitimately raises around cyber would need to be front and centre of that, building out from the principles of the G7 five years ago, and its evolution. The mechanics of who is involved in that and the configuration of it would be led from the responses that Charles will provoke from his letter.

The Chair: Minister, I have not found your answers at all evasive. I think given the nature of the subject your answers are pretty much as we would have expected.

John Glen: Okay. Well, that is reassuring—perhaps.

Lord Fox: I have a follow-up question to Charles Roxburgh on the subject of cross-border settlement. The Minister was doubting whether first-mover status confers much advantage. We heard from some witnesses, I believe, that on the issue of cross-border settlement there is an opportunity for first movers to establish quite a strong bridgehead in that area. Do you have a sense that in that area there might be an advantage to being the first currency on the block?

Charles Roxburgh: You may get different answers on wholesale and retail. My personal view on the wholesale side is that the existing electronic infrastructure, through the innovations that the Minister talked about, will offer more potential than a brand new digital currency operating on the wholesale side, but that is just a personal view. On the retail side I am more sceptical that just because you are the first, if you are in a currency that consumers do not want to use I do not think people will suddenly switch to using different currencies they are not familiar with.

On the retail side it will be important for major jurisdictions to get their domestic digital currencies, if that is where they end up, working well and effectively and then you may see those being used cross-border. You could see that emerging over time and I do not think we should rush this programme to try to stake out some cross-border position. I think that is a very elusive and remote advantage. We should concentrate, as we are, on getting a robust work plan to deliver, if that is where it ends up, a robust digital currency that works in the UK.

Lord Fox: Thank you. That is very clear.

Lord Bridges of Headley: I want to come back to the customer benefit. We were told by one of our witnesses in no uncertain terms that if a retail CBDC is non-remunerated it would have zero user benefit. Do you agree with that, if it is not interest rate-backed?

John Glen: I think the question is: what would it replace and what would it be superior to in existing payments? That would have some bearing on it. Charles mentioned the parameters you put around it with respect to what limits you might put because there are obviously stability risks. It is difficult, George—sorry, Lord Bridges—to give a clear answer on this because we have not yet got to answer some of those fundamental design questions.

Lord Bridges of Headley: You may be being a bit evasive here, Minister, but entirely understandably. Would you not agree, though, that it is quite a difficult one to sell to the man and woman in the street if it does not have any discernible benefit over what exists in the credit cards that they use for contactless payments?

John Glen: There is a fast-moving, fast-evolving payments landscape. We have live work going on with the implications of open banking for alternatives to credit cards and the full extension of open banking next year. In parallel with but no less urgency than the work that we are doing on stablecoin, central bank digital currency, that would give us a clearer view, to answer your question.

Lord Bridges of Headley: To pick up on the point that Lord King made about those changes in the payments landscape and your own payments review, could those innovations and changes yield the benefits that might be necessary or required for the future without moving down the route of a CBDC?

John Glen: I think that is difficult to answer at this point. I am impressed by the degree of innovation that we have in the UK with our fintechs. I spoke about the interaction with the wholesale innovation that the Bank is undertaking. We are in a very forward-leaning place in the UK when it comes to this and I welcome that. The interaction with our conclusions on this piece of work remain to be seen.

Q89 **Lord King of Lothbury:** I think that you have a great service that you could contribute in this debate. You stressed the difference between

private sector cryptocurrencies, which are in current use, and what the central bank does. The CBDC is not actually a currency. We are not going to create a new currency. Could you not lead the world in rechristening this debate into CBDPs—central bank digital payment systems? That would be a big step forward.

John Glen: I do not want to complicate matters further, but I make a distinction between a CBDC, a stablecoin and a crypto asset; a third stream is a speculative asset. Perhaps we do not have time for that today. I think you have highlighted the fact that there needs to be a clear, measured analysis of what we are trying to do and a clear case made and the benefits of a central bank digital currency made really clear when the conclusions of this consultation come forward.

Lord King of Lothbury: It is not to create a new currency. The Bank of England will still be—

John Glen: No, it is certainly not to create a new currency. It is a digital expression of our existing currency and I am very happy to put that on the record.

Q90 **The Chair:** I will have the last question, which is: how are you going to take our report into account during the consultation process?

John Glen: I find that this committee is always one of the most thoughtful and thorough. Of course I will look at the report, study it very carefully, and my excellent officials, who have helped me prepare for this, will also be looking at it very carefully. I have already examined some of the evidence that you have taken over your meetings last week and previously. It is absolutely instrumental. We live in a cynical age but I take Parliament very seriously. I take all-party parliamentary groups and Select Committees and this committee very seriously and I will examine the conclusions you come to in a very thoughtful way, I hope.

The Chair: Thank you very much. I think this session has had more known unknowns than any other session I can remember. I am very grateful to you for answering the questions without evasion but not always with complete clarification.

John Glen: That is fair, Chair. Thank you very much.

The Chair: Thank you very much and thank you to Mr Roxburgh.