

CIRCLE – WRITTEN EVIDENCE (CDC0022)

CENTRAL BANK DIGITAL CURRENCIES INQUIRY

My name is Dante Disparte and I am the Chief Strategy Officer and Head of Global Policy for Circle. Circle is a leading company operating in the digital currency, blockchain-based payments and financial technology market. We are the issuer of USD Coin (USDC) and the supporting payments, treasury and transaction services that are spurring a wave of responsible financial services innovation and competition. USDC is the world's leading dollar digital currency and now stands at over \$33 billion in circulation and has cumulatively supported over \$1 trillion in on-chain transactions - helping power a veritable internet of value built and designed around important first principles and regulatory expectations. Many of these public policy expectations are in line with emerging standards for [CBDC design principles](#), as well as broad goals of accelerating economic competitiveness in the UK and around the world.

As the Committee will undoubtedly appreciate, in order to understand the future of money and payments (for which the rise of CBDCs are a potential policy option), the past is prologue. Global payments, financial innovations and the extensibility of pounds, dollars, euros or other globally trusted currencies, in no small measure rides on private sector, free market innovations and global consortia operating in line with harmonized expectations on market conduct, consumer protection and financial integrity. The sum of these parts are the proverbial "rails" (in payments parlance) on which money moves. The rise of CBDCs in answer to the specter of large technology dominance of global payment systems, or in response to a veritable [digital currency space race](#) should be carefully contemplated, in the spirit of the cure should not be worse than the ailment.

To this end, let me share some brief reflections on the prompts in your call for evidence:

1. What are the main issues driving central banks to explore CBDCs?

While CBDCs have been on the radar of central banks for a number of years, the review of both the technical and policy challenges relating to implementation, along with [improved sentiment towards CBDCs](#), gained traction over the last 3 years. This acceleration appears to be driven by a competitive geopolitical and geoeconomic response to large scale private sector projects with so called stablecoins, as well as national deployments of CBDC prototypes - the largest of which is the People's Bank of China (PBOC) e-CNY experiments.

2. What are the main benefits and risks of a CBDC?

While much work and actual deployment of CBDCs remains abstract to experimental, some of the benefits that are cited include possibilities to: improve financial inclusion, lower payment costs, create possibilities for faster government payments to citizens, promote competition and level the playing field in banking and payments, and protect monetary sovereignty, among others. There is also a broad interest in unlocking the programmability of money, as well as supporting machine-to-machine payments or micro transactions, which remain elusive by today's dominant payment standards.

On the [potential risks posed by CBDCs](#), there are a number of concerns, including: erosion of privacy and the specter of "deplatforming" people from their money, deposit pressure on the two-tiered banking system as a CBDC may be perceived to be a "safer" asset, technological risks and obsolescence, blunting free market competition and economic competitiveness, vendor capture, single point of failure risks, and interoperability, among others.

In short, the "air gap" between central banks and the two-tiered banking and payment system is a healthy feature, not a bug - especially in a world rife with technological obsolescence risk and cyber threats. Functionally, a CBDC would shift billions in free market investments and competition in digital payments to becoming a taxpayer borne R&D investment and liability, notwithstanding the fact that money is a public good and should remain under sovereign oversight. How money moves, however, benefits immeasurably from private sector innovation. After all, the preponderance of "value added" money in circulation is in fact privately issued or rides on private sector rails with public oversight. A CBDC potentially poses a threat to this ongoing innovation and competition and brings with it the specter of other negative externalities.

3. Could the proposed benefits of a CBDC be achieved through improvements to existing payment systems?

Yes. Many of the prospective gains central banks are seeking with CBDCs can and already are being met by existing blockchain-based payment system innovations, among others. This is particularly true as the technology of public blockchains reach scale and begin to integrate as a settlement option among leading global payment providers, banks, startups, among others. Similarly, gains with real time payment systems, wholesale payment integrations, among others, can satisfy broad public policy goals on how people send, spend, save and secure their money - including in internet-native form.

Indeed, the best prospect for a pound sterling to exist on the internet is through the co-creation of a regulatory framework that enables free market competition for the movement of money and payments, while enshrining the fundamental public trust and oversight of the domestic and cross-border financial system. A CBDC on its own, would be like building a high speed train engine without building the rail network on which it rides. Herein, continuous market improvements on open source, public financial infrastructure represents the best rails for moving value on the internet.

4. How should the Bank of England and HM Treasury address concerns over privacy and traceability of payments when exploring CBDC design?

The presumption of privacy and the universally free and lawful use of money is an important first principle and human right. CBDCs and centralized payment system innovations, particularly those that are government-led or developed by potentially repressive countries, pose serious potential breaches of this public trust. Indeed, the prospect of social credit scoring, deplatforming people from money or creating veritable financial redlines, among others risks, are real public policy challenges that must be addressed with CBDCs. This is particularly true in retail or general purpose CBDCs.

In a retail implementation of CBDCs, end-users may have to have access to a government-issued digital wallet, mobile money platform or other banking service that is universally accessible. In this CBDC implementation, personally identifiable information (PII), transaction records, geolocations and other spending habits that could [erode privacy](#) would be widely known and potentially stored in vulnerable “honey pot” databases. While blockchain-based payment systems leverage pseudonymity or anonymity, which can be privacy preserving (potentially posing financial compliance challenges), the technological frameworks being evaluated for CBDCs are not necessarily skewing to open-source, decentralized technologies. Centralized frameworks create single sources of failure, attractive targets for cyber threats, and place the government in the business of picking technological winners and losers, rather than promoting competition.

5. What effects might a CBDC have on the financial sector?

Early evidence suggests the advent of CBDCs could put [domestic capital flight pressure](#) on the two-tiered banking system. This is so because the presumption could emerge that a CBDC represents a lower risk currency when compared to fractional reserve banking or other forms of money and payments in circulation. Additionally, depending on which form of CBDC is adopted, noting that central banks are far from a consensus on the technological and policy blueprint for digitizing their national thrift, CBDCs could also disrupt other forms of payment and money circulation such as e-money and card networks, among others.

Another challenge in the financial sector is that CBDCs would ostensibly force banks, e-money issuers, card networks, and financial technology firms, among others, to adopt a government-issued or mandated technology standard. This alone could blunt economic competitiveness and growth, potentially limiting payment system and money movement optionality in a domestic, regional and cross-border setting. Finally, CBDCs could potentially diffuse critical financial crime compliance, anti-money laundering and other shared responsibilities in the financial sector for combating illicit finance. Here too, the advent of competitive blockchain-based payment systems is producing exponential gains in financial integrity and forensics that would shift from the private sector to a public obligation.

6. What effect might a CBDC have on competition and innovation in the payments and fintech sectors?

Depending on the architecture of a CBDC, the stated goal of promoting financial inclusion, competition and responsible financial services innovation (while protecting and enhancing the integrity of the financial system), may be blunted. The acknowledgement that the vast majority of value added money in circulation is in fact privately issued and the best actors in the financial system build in line with public policy and regulatory goals, cannot be ignored. CBDCs potentially remove the free market incentive for healthy competition in financial services and transition this activity into a state-led initiative that picks technology winners and losers.

Ironically, the advent of the digital assets industry and blockchain-based payment systems, which were originally framed as threats to traditional banks and financial services firms, have created and protected wholesale industries in both the analog and digital financial markets. Continuing to harness this private sector innovation, while attracting the billions in investor capital and entrepreneurial talent into important financial centers like the city of London can ensure an always-on internet economy finds homes amid global regulatory competition.

7. How might a CBDC affect monetary policy?

Monetary policy is fundamentally conveyed through the two-tiered banking system. This is and should always remain a public sector sovereign activity under the independent, watchful and steely eyes of central bankers. The advent of CBDCs, which have already demonstrated potentially corrosive pressure on bank deposits or various levels of consumer trust in which forms of money are presumed to be the safest, could dull the transmission chain of monetary policy. Moreover, the broad economic competitiveness and national security objective of having a broad payment system and banking optionality - including physical forms of money for when the lights are off - cannot be ignored.

Promoting fair, responsible free market competition for the movement of money under the line of sight of central banks, public policy and inside the regulatory

perimeter is possible. One way of achieving this standard is to review the possibility of granting *digital legal tender* status to various forms of privately issued electronic money and digital currencies, where the underlying reserve assets are in the care, custody and control of the UK regulated banking system - possibly even custodied directly with the Bank of England.

8. How might a CBDC change the Bank of England's role and responsibilities?

In the extreme, the retail circulation of a CBDC would ostensibly convert the Bank of England into a retail entity with the customer service, privacy, management and operational accountabilities that follow suit. Alternatively, a liability-based CBDC implementation would potentially transition the technological and operational risks currently carried by a competitive free market environment that is not only evolving domestically in the UK but in line with global competition, to a public sector activity.

In short, the technological implications for how money and value are circulating on the internet are evolving according to Moore's law, rather than a point in time approach, which would be necessitated by government procurement. Many varieties of CBDC implementations negate this reality and transition substantial operational and other risks to the public sector.

9. How should HM Treasury and the Bank of England engage with the public on the research and development of a CBDC?

Unquestionably, money and trust in national currencies is a sovereign activity and the ultimate expression of public trust. This, however, does not mean central banks should be compelled to keep up with the proverbial digital currency or CBDC space race by directly competing with their national banking, payments and financial systems. Rather, the continued, thoughtful study of getting it right versus getting it first is laudable among central banks, for which the Bank of England, Her Majesty's Treasury, the Financial Conduct Authority, among other UK authorities have taken a measured approach. The recent publication of 13 public policy principles for CBDCs by G7 finance ministers offers a good test of whether private sector innovations can meet these very threshold objectives. If the answer is yes, and it should be, then a CBDC may be a moot innovation.

10. How might CBDCs affect the economic foreign policies or geopolitical influence of different countries and economic areas? Are there implications for the effectiveness of economic sanctions?

CBDCs are fundamentally a domestic monetary innovation or risk depending on how they are implemented. The rails that enhance the extensibility and cross-border reach of globally trusted currencies are nearly all private sector or consortia led, yet answerable to financial crime compliance, integrity and geopolitical sanction requirements. CBDCs will pose major interoperability challenges as countries vie to

compete for whose technological standards shall reign in the movement of money and value around the world. In this contest, the value systems of potentially rival approaches (and rival nations) to financial technology will come to a head.

Business models on the extensibility and cross-border reach of national digital currencies may not be conversant, let alone compliant with privacy expectations, sanctions regimes, anti-money laundering, countering the financing of terrorism and other methods for pushing back against illicit actors. Indeed, one could argue the geoeconomic and geopolitical challenge of CBDCs borrows heavily from the so called 5G wars, in which two versions of the mobile internet surfaced. One that espoused openness, consumer choice, portability, competition and fair access and one that did not.

I hope the foregoing is helpful to your Committee's deliberations on the public policy and economic competitiveness implications of digitizing your national thrift.

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