

CBDC

Policy implication

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“INTERNATIONAL SANCTIONS EVASION THROUGH CENTRAL BANK DIGITAL CURRENCIES”

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OF WARSAW



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AGENDA

1. CBDC

Different jurisdictions different motivations:

Sand Dollar

e-Krone

Digital Euro

Digital Dollar?

2. Policy implications

3. Conclusions

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Sand Dollar (The Bahamas)

Objectives

- Increase the efficiency of the Bahamian payments systems
- Achieve greater financial inclusion
- Provide non-discriminatory access to payment systems
- Strengthen national defences against AML & CFT

Status

- Implemented

Source: Sand Dollar, *Objectives*, <https://www.sanddollar.bs/objectives>, (access: Nov. 9, 2024).



Sand Dollar

Legal basis

- Article 8 (1) of the Central Bank of the Bahamas Act: „The currency of the Bahamas shall comprise notes, coins and electronic money issued by the Bank under the provisions of this Act.

Source: Central Bank of the Bahamas, *Legal frameworks*,
<https://www.centralbankbahamas.com/legal-framework>, (access: Nov. 9, 2024).

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Models of CBDC

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3. What I've been working on at KU

e-krone in Denmark?

DANMARKS NATIONALBANK REJECTS THE NEED FOR A DANISH E-KRONE

Danmarks Nationalbank assesses that there are fewer advantages than disadvantages for introducing a digital e-krone. "Because we have a well-developed financial infrastructure, new initiatives and solutions have to contribute something even better in order to gain market share in Denmark", says Peter Ejler Storgaard, Head of Financial Stability at Danmarks Nationalbank.

8. FEB 2022

 5 MIN

AF REGNER HANSEN

Source: <https://finansforbundet.dk/en/news/2022/danmarks-nationalbank-rejects-the-need-for-a-danish-e-krone/>

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Digital euro Legislative proposals

- Single Currency Package was presented and issued in June 2023.
- The package consists of three regulations' proposals:
 - a) Regulation on establishment of digital euro
 - b) Regulation on the provision of digital euro services by payment services providers incorporated in Member States whose currency is not the euro
 - c) Regulation on legal tender of euro banknotes and coins

Concept of digital euro I

- Digital euro is meant to be another alternative to cash mean of payment. It won't be a new currency.
- Digital euro will be a digital form of retail central bank money.
- Both cash and digital euro will have their own legal tender status.



Concept of digital euro I

- The provider of digital euro will be the European Central Bank. This institution will be responsible for technical solutions and applied technology.
- Digital euro will not be programmable.
- The design of Digital euro will allow online and offline transactions providing cash-like experience.



Legal basis

The legal basis for the establishment and introduction of the Digital euro is set out in the regulation on the establishment of Digital euro to be Articles 133 and 114 of the TFEU.

The legal tender of the Digital euro is in Chapter III of the regulation. The provisions oblige to mandatory acceptance at full value with the power to discharge and territorial scope for online and offline payments. There are also exceptions to the acceptance as well prohibition of unilateral exclusion of payments in Digital euro.

It is of utmost importance to note, that legal tender of digital euro is intertwined with the legal tender of cash.

Key features of Digital euro

As mentioned earlier digital euro is supposed to allow online as well offline transactions.

It is planned to introduce holding limits of the Digital euro.


The use of Digital euro can't be burdened by additional charges imposed by the PSPs. Under the regulation the Digital euro would not bear interest.

Digital euro accounts can be connected with the standard accounts of the consumers. It is possible to top up the Digital euro account by using funds on the standard account. 1 euro equals 1 Digital euro.

Privacy and data protection are to be controlled by both PSPs and the ECB/NCBs.

PSP responsibilities:

- a) enforcement of holding limits
- b) funding and defunding
- c) registration and deregistration
- d) compliance with sanctions
- e) existing obligations set in PSD2
- f) AML/CFT checks for onboarding and transactions
- g) DORA, PAD



Role of ECB under digital euro

- ECB responsibilities:
 - a) support of function – connect PSPs to settlement + dispute settlement
 - b) settlement of online transactions
 - c) integrity of security of settlement – online and offline (local storage device)
 - d) single access point, support PSPs in their task to enforce holding limits and switching in exceptional circumstances

Remarks on Digital euro

Exploring the DLT technology

Multi-currency settlement

Global cross-border payments

One-leg out instant payment scheme

Interoperability

Factors having profound effect on EU's mandate:

- a) Digitalisation
- b) Risk of fragmentation

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Digital Dollar?

Fed's Powell: a U.S. digital dollar could help maintain international primacy

By Reuters

June 17, 2022 2:48 PM GMT+2 · Updated 3 years ago



Aa



Source: <https://www.reuters.com/markets/us/feds-powell-us-digital-dollar-could-help-maintain-international-primacy-2022-06-17/>

Digital Dollar?



PRESIDENTIAL ACTIONS

STRENGTHENING AMERICAN LEADERSHIP IN DIGITAL FINANCIAL TECHNOLOGY

EXECUTIVE ORDER

January 23, 2025

Source: <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/>

Digital Dollar?

Executive Order on Digital Assets

issued on 23.01.2025

Purpose and Policies

- a) Innovation: Support responsible growth of digital assets and blockchain in all sectors
- b) Liberty: Protect rights to access blockchain networks, develop software, mine, transact freely, and self-custody assets
- c) Dollar Sovereignty: Promote U.S. dollar leadership and growth of lawful, dollar-backed stablecoins
- d) Regulatory Clarity: Provide clear, technology-neutral regulations to foster innovation and fair financial access
- e) CBDC Risks: Ban the creation and use of CBDC to protect privacy, stability, and sovereignty

Key actions & timeline

Key Actions

- a) Revoke Past Policies: Cancel Executive Order 14067 and related Treasury frameworks
- b) New Working Group: Form a group to develop federal regulations and assess a digital asset stockpile
- c) Ban on CBDC: Prohibit creation or use of CBDCs in the U.S.

Timeline

- a) 30 Days: Agencies identify relevant regulations
- b) 60 Days: Submit recommendations for changes
- c) 180 Days: Deliver comprehensive report with regulatory and legislative proposals

~~Digital Dollar?~~

THE WHITE HOUSE

hearings and receive individual expertise from leaders in digital assets and digital markets.

Sec. 5. Prohibition of Central Bank Digital Currencies.

(a) Except to the extent required by law, agencies are hereby prohibited from undertaking any action to establish, issue, or promote CBDCs within the jurisdiction of the United States or abroad.

(b) Except to the extent required by law, any ongoing plans or initiatives at any agency related to the creation of a CBDC within the jurisdiction of the United States shall be immediately terminated, and no further actions may be taken to develop or implement such plans or initiatives.

CBDC overview. Summary

- Different democracies different motivations
- Main goal: ensuring universal access to central bank money, especially during the current transformation into the digital age
- „Global South” – struggle for financial inclusion, or lower cost of cross-border transfers
- Digital Euro - ensuring profile of Euro as a global reserve currency

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Structuring discussion on policy implications

- Sovereignty as the idea behind Central Bank Digital Currencies CBDCs
- New payment infrastructure as a game-changer
- CBDC vs crypto-assets
- Hard cash vs CBDC
- Geopolitical dimension of CBDCs

Sovereignty as the idea behind CBDCs



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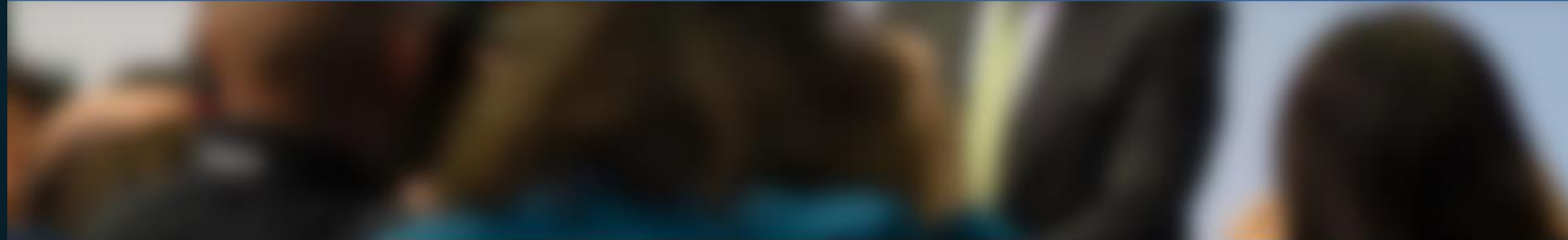
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Money and private currencies: reflections on Libra

Speech by Yves Mersch, Member of the Executive Board of the ECB, at the ECB Legal Conference, Frankfurt am Main, 2 September 2019

Sovereignty as the idea behind CBDCs

Libra: Facebook launches cryptocurrency in bid to shake up global finance

Digital currency will let billions of users make transactions, but is already facing opposition from US lawmakers amid privacy concerns

- [Facebook's Libra launch will extend its global domination](#)
- [All you need to know about Facebook's new cryptocurrency](#)

Kari Paul in San
Francisco

Tue 18 Jun 2019 11.00
CEST

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Sovereignty as the idea behind CBDCs

- a renewed struggle between private and public money
- CBDC as an instrument of an ongoing struggle to restore state power
- preserving the sovereignty of the states issuing their currency
- development of CBDCs is a direct measure to maintain or regain control over payment infrastructure

(source: C. Pfister, Monetary Sovereignty in the Digital Currency Era..., <http://dx.doi.org/10.4324/9781003258261-5>)

New payment infrastructure as a game-changer?

- revolutionary is creation of an infrastructure that will make it possible to combine the function of providing an official means of payment with linking it to the payment infrastructure
- simultaneous interoperability of these system
- developing a sovereign payment infrastructure

CBDC vs crypto-assets

➤ crypto-assets pursue
desovereignisation through
deinstitutionalization

(Source: F. Zatti, R. Barresi, *Beyond Digital Assets What is Next for Money and Payments?...*, DOI: 10.4324/9781003258261-25)

➤ Recent recommendations suggest:

1) regulating crypto-assets, 2)
developing CBDCs with universal
access to central bank money

(Source: J. Landau, S. Nicole, Monetary Sovereignty in a Digital World, „SciencesPo Policy Brief” June 2024)

Hard cash vs CBDC?

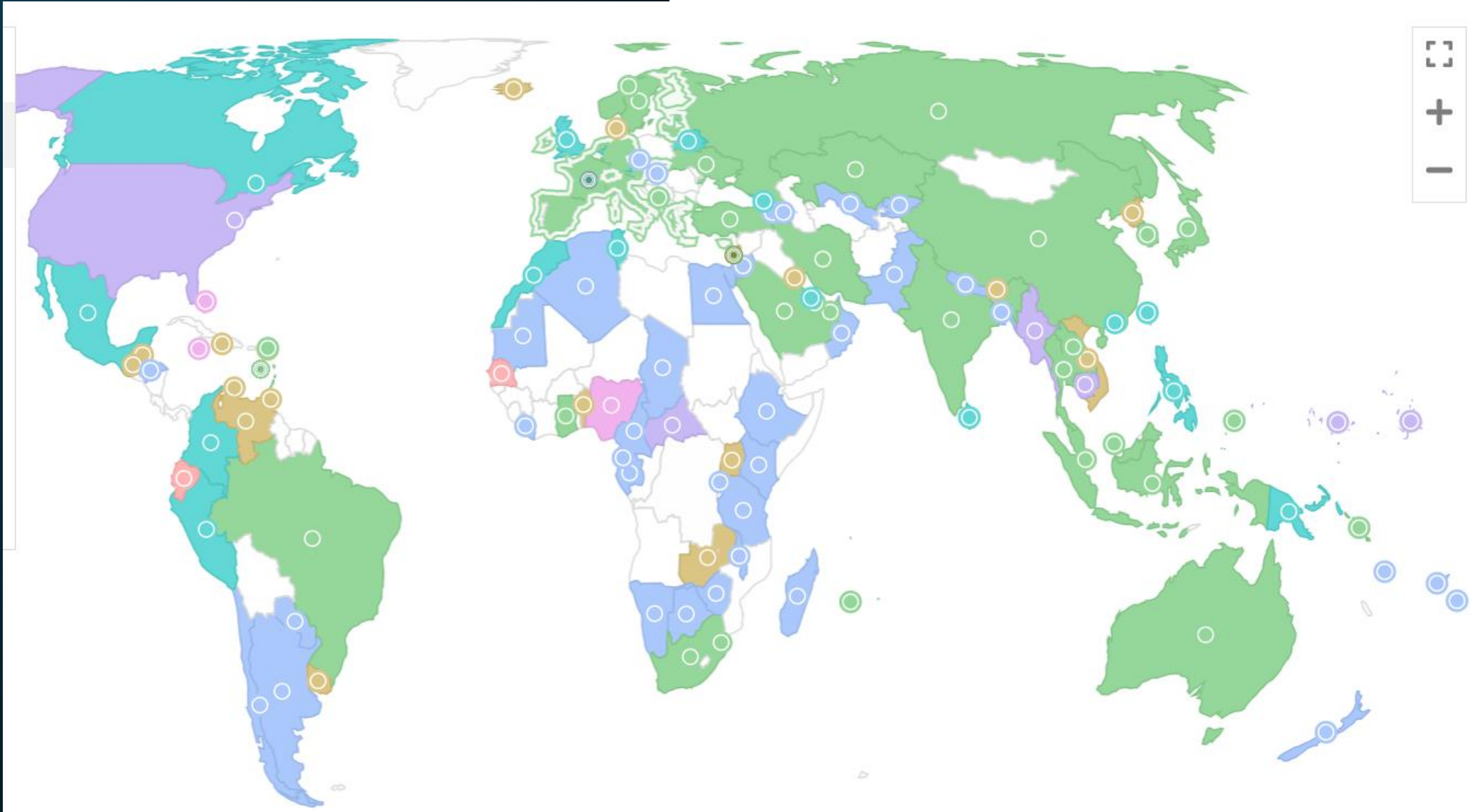
Cash phase-out scenarios

- 1) A factual one - current trend of using less and less hard cash (cash payments as exception)
- 2) users switch to other currency (dollarization or euroization of the economy)
- 3) the least probable scenario – when policymakers decide to reject cash

Hard cash vs CBDC?

- Originally: central banks developed CBDC for the scenario of phasing out of banknotes
- Current approach: introducing CBDC does not mean getting rid of cash - central banks specifically communicated that they will keep issuing banknotes

Geopolitical dimension of CBDCs



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Conclusions:

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- New payment infrastructure as a game-changer
- CBDC vs crypto-assets
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- Geopolitical dimension of CBDCs

Thank you!

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