Central Bank Digital Currency

David Mills, Associate Director
Federal Reserve Board
Central Bank Digital Currency (CBDC)


- A CBDC is defined as a digital liability of a central bank that is widely available to the general public. In this respect, it is analogous to a digital form of paper money.

- The discussion paper does not favor any policy outcome. It examines the pros and cons of a potential U.S. central bank digital currency (CBDC).
Potential Benefits and Uses

• CBDC transactions would be final and completed in real time, allowing users to buy goods and services and pay one another using a risk-free asset.

• The introduction of a CBDC could benefit consumers by:
  • Meeting future needs and demands for payment services by providing a safe foundation for **private-sector innovation**
  • Improving **cross-border payments**
  • Supporting the **dollar's international role**
  • Promoting **financial inclusion**, especially for the economically vulnerable
  • Extending **public access to safe central bank money** if currency use declines
Potential Risks and Policy Considerations

• Although the introduction of a CBDC could benefit U.S. consumers and the broader financial system, it would also raise complex policy issues and risks that need further analysis. These include:
  • Changes to financial-sector **market structure**
  • **Safety** and **stability** of the **financial system**
  • Efficacy of **monetary policy** implementation
  • Balancing **consumer privacy** and affording the transparency necessary to deter criminal activity
  • Operational **resilience** and **cybersecurity**
CBDC Design Principles

• Analysis to date suggests that any potential CBDC would best serve the needs of the United States by being:
  • **Privacy-protected** means striking the appropriate balance between safeguarding the privacy rights of consumers and affording the transparency necessary to deter criminal activity
  • **Intermediated** means the private sector would offer accounts or digital wallets to facilitate the management of CBDC holdings and payments
  • **Transferable** means CBDC would need to be transferable between customers of different intermediaries
  • **Identity-verified** means a CBDC intermediary would need to comply with rules designed to combat money laundering and the financing of terrorism
CBDC: Work Ahead

• Policy research and analysis coordinated by the Board
• Stakeholder outreach and engagement
• Technology research and experimentation
  • Federal Reserve Bank of Boston and MIT: Project Hamilton
  • Federal Reserve Bank of New York: Innovation Hub in collaboration with the Bank for International Settlements
  • Federal Reserve Board: Technology Lab
• International collaboration
  • Bank for International Settlements
  • Financial Stability Board
  • G7
Executive Order

• In March 2022, the Biden Administration issued an Executive Order to ensure the responsible development of digital assets to protect consumers, financial stability, and national security.

• The order calls for a coordinated, government-wide approach to addressing any regulatory gaps related to digital assets and continued research into the potential benefits, risks, and technological implementations for a CBDC.

• The Order recognizes the Federal Reserve’s independence from the Executive branch but invites it to collaborate with interagency colleagues.