

# Central Bank Digital Currency

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# Central Bank Digital Currency (CBDC)

- The Federal Reserve recently published a discussion paper, [\*Money and Payments: The U.S. Dollar in the Age of Digital Transformation\*](#), as a first step in fostering a broad and transparent public dialogue about CBDCs.
- 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.