

Interim Report of Relevant Ministries and BOJ Liaison Meeting on CBDC as of 4/17/2024 – summary –

I. Introduction

- Digitalization of the economy and society is rapidly proceeding. Cashless payments are becoming more prevalent.
- The announcement of a global stablecoin project in 2019 triggered many jurisdictions to consider the possibility of introducing retail CBDC. Major jurisdictions have not made a decision to issue CBDC, and their researches and studies are underway.
- At this meeting, CBDC is envisaged to be a digital form of currency that users would pay with their smartphone apps and/or cards. CBDC would be widely available for day-to-day payments just like cash. Anyone would be able to use anytime and anywhere. CBDC is credit-risk free and its payment will have finality.
- This interim report does not prejudge whether or not to introduce CBDC in Japan. Following the report of the Expert Panel, this report's aim is to summarize the discussion on the Liaison Meeting regarding "Design Outline of CBDC," which clearly identifies the basic considerations on main issues and its possible options for CBDC introduction.

II. Developments in Japan and abroad

Cash usage and other payment services in Japan / Situations in other jurisdictions / BOJ's experiments

III. Key Considerations for the Design Outline of CBDC

**See following pages for details.*

- People's life style, daily transactions and means of payments vary in each jurisdiction. Goals and motivations for CBDC are also different in each jurisdiction. Taking into account Japan's economic/social situations and current payment circumstances, discussions should be continued from multifaceted perspectives for CBDC to fit well into economic/social situations and meet the demand of users. In addition, Japan should contribute to set the relevant international standards, and also make its design of CBDC aligned with those standards.
- CBDC should be designed as a currency for the digital economy. This meeting lays out the basic considerations and possible options for the following issues.
 - (1) Relationship between BOJ and intermediaries - *How to provide a payment means with better user experience*
 - (2) Relationship between CBDC and other payment services - *How to improve the stability/efficiency of the overall payment systems*
 - (3) Security & user data - *How to make the infrastructure always available & how to address public concerns about privacy*
 - (4) Legal consideration - *How to address legislative issues when CBDC may have various effects on the current legal framework*
 - (5) Other issues (*cost / cross-border payment / other administrative issues*)

IV. Conclusion

- The meeting will continue to discuss based on this interim report and articulate the Design Outline of CBDC, and then elaborate the Design Outline with further assessment of the development of digital technology and progress in other jurisdictions. This preparation will help Japan introduce CBDC in the future without delay if the decision were made after discussions among the Japanese public.
- It is essential to clearly explain the rationale behind CBDC to the public. It is particularly important to answer questions such as how CBDC could address social challenges and how privacy would be protected. Discussions among a wide range of stakeholders, including related private entities, will be important.

(1) Relationship between BOJ and intermediaries

- A “two-tiered model” in which intermediaries stand between BOJ and users would be appropriate.

【Role of BOJ】

- As the CBDC issuer, BOJ would manage arrangements including a ledger to ensure the accuracy and verification of recording. BOJ would also play as a “catalyst” for developments of private payment services.
- Technical aspects need further exploration (*e.g., possible introduction of token-based CBDC or DLT.*)

【Role of intermediaries】

- Intermediaries would provide the following basic payment services;
 - issuance and redemption vis-à-vis BOJ
 - services regarding distribution vis-à-vis users (*e.g., opening/closing accounts, customer management, providing interfaces, operations for payout/transfer/acceptance*)Intermediaries could flexibly provide services among broad options in accordance with their judgment and capacities.
- Other private entities may provide “add-on services” (*e.g., accounting service for households, conditional payments*) for promoting private-sector innovation while keeping level playing field among intermediaries and those entities.

【Scope & Regulation for intermediaries】

- Scope of intermediaries should be specified as their tasks are further clarified. Deposit institutions, such as commercial banks, and other payment service providers are likely to play intermediary roles.
- Regulations should be considered in connection with the elaboration of the design of CBDC.

(2) Relationship between CBDC and other payment services

- Payment services should play their respective roles, while interacting with each other, to provide a variety of options for users to improve usability and to maintain overall stability and efficiency in payment systems.

【vis-à-vis cash】

- Government and BOJ will maintain their commitment to supplying cash as long as there is demand from the public.
- In principle, CBDC and cash will complement each other. To be specific;
 - there is no strong reason for offline functions to be introduced at the outset considering risks of double spending and counterfeiting;
 - discussion on AML/CFT and anonymity should take into account the possibility that CBDC might create frequent and large payment flows for users;
 - remuneration on CBDC is unlikely to be adopted for the time being as it could undermine the convertibility with cash at par.

【vis-à-vis bank deposit】

- If rapid and/or consistent outflow from bank deposit to CBDC takes place, it could be likely to generate a negative impact on the financial system and economy; as such, safeguard measures should be considered based on the assessment of the impact on financial intermediation, deposit insurance system, and economic activities.
 - Holding limit could directly cap a shift from bank deposit to CBDC. Therefore, it would be the main option to limit the shift. Fees on the holdings might not work as intended in times of financial stress.
 - It should be considered how a holding limit works effectively when users are allowed to have multiple accounts. Auto-swing of excess CBDC to a bank account may also be an option.

【vis-à-vis other payment services】

- CBDC supports other payment services as a common infrastructure and thereby brings more competitions and network effects. While complementing each other in normal times, CBDC may serve as a backup for other means of payment in case of system failure.
- Authorities should have sufficient communication with related private parties, such as businesses and users (merchants/ retail customers) as CBDC could have an impact on their business models.

(3) Security & user data

【Ensuring security】

- CBDC should always be available as a means of payment. All appropriate and effective measures for cybersecurity/information security should be in place. It is important to take additional measures in accordance with the technological progress.
- It is important not only to take *ex ante* measures to prevent security incidents but also to adopt *ex post* recovery measures.

【Handling user & transaction data】

- CBDC design shall put priority on privacy protection. Balances need to be taken into consideration between (i) privacy protection and (ii) usability of data and public policy requirements.
 - Intermediaries should handle their data in compliance with related law and regulations regarding personal info protection.
 - BOJ should minimize the scope of data it handles. CBDC should be designed for BOJ to have as minimum data as possible. If it obtains /holds data, measures such as anonymization should be used. Data should be deleted when it is no longer needed.
 - Government could receive data for the public policy requirements such as AML/CFT, as is the case under the current frameworks. Purpose and scope of data should be identified in advance.
- To prevent illicit activities, CBDC users need to be subject to identity verification process similar to the existing payment services. From the perspective of law enforcement with regard to money laundering/terrorist financing and cybercrimes, it would be beneficial to identify the users and to trace footprints of illegal transfer and data leakage caused by hacking if needed. Other considerations are;
 - the extent of KYC procedures might be based on the level of transaction limits, while considering the international trend;
 - CBDC access by non-residents would encounter the difficulty of identity verification, and they could easily use other payment services in Japan. The primary scope of users, for the time being, would be residents in Japan, and access by non-residents remains to be considered going forward.
- Provided CBDC can be used for remittance with non-residents, CBDC design should be compatible with the objectives of Foreign Exchange and Foreign Trade Act, including securing effectiveness of economic sanction.

(4) Legal consideration

- Legal consideration should be developed as elaboration of CBDC design progresses. The three aspects of CBDC discussions (i.e. the design-related, legal and technological ones) should be orchestrated
- The CBDC design should be able to flexibly respond to potential technological innovation and the legal framework should avoid preempting the application of specific technology.

【Currency Act】

- CBDC would be legal tender as it should be accepted by a wide range of users as a means of payment. It is necessary to consider how to establish an appropriate environment conducive to universal access, taking into account that monetary obligations are supposed to be discharged by the tender of CBDC even in the case of statutory claims that are not based on any contract.

【Civil Laws】

- Unlike cash, since CBDC takes a digital form, legal foundation for the ownership and transfer of CBDC need to be clarified. This requires balancing the need to support smooth circulation of CBDC while protecting users who have incurred losses caused by illegitimate transfers.
- How to seize CBDC as a matter of Civil Execution Law also needs to be considered.

【Criminal Laws】

- The current law prescribes that only tangibles such as banknotes are subject of the crimes of currency counterfeiting. Therefore, criminal penalties should be considered to cover unauthorized creation of intangible CBDC.
- From the perspective of law enforcement, it is desirable that unauthorized creation is difficult and that counterfeiting is identifiable. Procedure of seizure and confiscation also need to be pursued from the perspective of depriving criminal proceeds and restoration of damage.

【Regulation for intermediaries】

- The regulation for intermediaries should be considered, examining the existing regulations & supervision and whether to introduce additional arrangements for the intermediation of CBDC.

(5) Other issues

【Cost】

- Following further elaboration for more detailed design of CBDC and discussions among the Japanese public, a decision would be made whether or not to issue CBDC. When making such a decision, the overview of costs should be presented.
- In addition to the overview, the way in which it is allocated should be assessed carefully from a wide range of perspectives, taking into account that (i) beneficiaries may bear its costs and (ii) public sector may bear costs for providing public infrastructure.

【Cross-border payment】

- Achieving faster, cheaper and more transparent cross-border payments is a global challenge.
- First and foremost, international cooperation through technology standardization is the key to ensure interoperability among CBDCs in different jurisdictions.
- Interoperability among CBDCs or among other payment systems alone does not entirely solve this challenge. Harmonization among regulations and practices in each jurisdiction is also a key for addressing this global challenge.
- Japan would proactively contribute to discussions on international standards regarding cross-border payment.

【Other administrative issues】

- How to leverage digital technology, such as in the area of identity verification process, should be explored. As CBDC will be used by diverse users, a vision; “Human-friendly digitalization: No one left behind” should be pursued.
- Relevant ministries and BOJ need to consider plans to alert people in order to prevent them from being victims of fraud and fraudulent business practices.

(References)Image of main issues

