

Government Policy

- In the “Basic Policy on Economic and Fiscal Management and Reform 2024,” the policy was determined as follows, “The government and the Bank of Japan deepen discussions based on the interim report, taking into account international trends to clearly identify the basic considerations on main issues and possible options for the introduction of a CBDC, outlining its design. Afterward, we will consider the feasibility and legal aspects of issuing a CBDC.” Based on this, the issues related to CBDC were discussed at the Director-General level Relevant Ministries and the Bank of Japan Liaison Meeting on CBDC (hereinafter referred to as “the Liaison Meeting”).

Discussion

- This year, the following three topics were discussed at the Working Level Meetings
 - (1) Legal Framework under Private Law; The discussion focused on the need to ensure legal certainty equivalent to cash regarding the attribution and transfer of CBDC. Additionally, it explored the possibility of leveraging traceability of CBDC to provide stronger protection against unauthorized use than is possible with cash.
 - (2) Coexistence of Privacy and Data Utilization / Public Policy Objectives; The importance of balancing public policy requirements such as AML/CFT compliance and privacy protection was discussed, while assuming that the Bank of Japan does not handle user or transaction information. Additionally, the importance of designing such a system to facilitate the acquisition of user consent for the use of socially beneficial data was also emphasized.
 - (3) The Division of Roles with Private Payment Instruments; Interviews were conducted with private operators to understand their concerns and expectations. Specific use cases were discussed, such as the potential use of CBDC in situations where cash is mainly used, and its role as a bridge/platform for money transfers between existing payment providers.

Nature of the Discussion

- This report is a summary of the current discussions and does not imply any predetermined decision regarding the introduction of CBDC. Before examining the feasibility of issuance, the contents and suggestions of this report will be re-evaluated in the future, taking into consideration developments in other jurisdictions, changes in Japan's economic and social conditions, evolving payment-related issues, and future technological advancements.

Next Steps

- In addition to the three topics discussed this time, other issues—such as the division of roles between the Bank of Japan and intermediary institutions (vertical coexistence), cross-border payments, and cost-sharing—will be addressed in future discussions. These discussions will continue at the Liaison Meeting and Working Level Meetings, with the aim of articulating Design Outline of CBDC, while keeping in mind the essential principle that the anticipated benefits, such as enhanced convenience, must outweigh the expected social costs.

Second Interim Report of Relevant Ministries and BOJ Liaison Meeting on CBDC 5/22/2025 –summary–

(1) Legal Framework under Private Law

【Assumptions for Discussion】

- For CBDC to be widely accepted as a means of payment, it should be recognized as legal tender. Accordingly, users' rights must be protected in a manner equivalent to that of physical money.
- It is important that the legal framework remains technology-neutral. Institutional design and technical considerations should be developed in parallel and in close alignment.

【Review of Existing Digital Assets, etc.】

- The principle of "unity of ownership and possession" applies to money: ownership is vested in the possessor, and ownership is transferred along with possession.
- As for the private law characteristics of CBDC, references can be made not only to bank deposits but also to existing examples of digital assets.
 - i. Electronically recorded monetary claims, book-entry transfer shares, and book-entry transfer corporate bonds rely on entries or records in monetary claims records and book-entry transfer account registers as the legal basis for the attribution and transfer of rights.
 - ii. There has also been discussion of electronic money, electronic payment instruments and cryptoassets, in which the protection of rights is implemented through business regulations and guidelines, even though the legal classification may not be fully defined, and there has also been discussion on the digitization of bill of lading.
- The Civil Enforcement Act stipulates the methods of judicial enforcement based on the type of property to be enforced against. However, there are also various enforcement approaches, including those specially provided for in other laws and regulations, as well as case-by-case measures where no specific legal provisions exist. With regard to the civil enforcement against CBDC, it is desirable to consider these matters in light of its characteristics. In cases where an organization is responsible for managing a given type of property, a key consideration is how to involve such an organization.

【Private Law Considerations for CBDC】

- In examining the legal nature of CBDC and the protection of users' rights, the current legal treatment of money serves as a reference point. However, further discussion is required on whether CBDC should be included in the legal definition of "money", and if not, how it should be classified. As with existing forms of money, it is desirable to emphasize protection of payees—ensuring that transfers to payees or subsequent acquirers remain valid and unaffected in principle, even in cases of unauthorized acquisition or identity theft.

- In cases of misuse, traceability may make it easier to restore users' rights. In the event of data loss or tampering, rights could potentially be protected to a greater extent than with current forms of money—such as by restoring legitimate balances from ledger records—provided that the accuracy of those records is assured.
- Regarding judicial enforcement, one possible approach would be to establish a system in which intermediaries for customer management are in charge. However, further examination is required to determine what specific measures these institutions should take and how to structure a system that enables referral to the appropriate intermediary.

【Basic approach as the Liaison Meeting】

- As legal tender, CBDC should provide legal certainty equivalent to cash regarding the transfer of CBDC.
- In cases of unauthorized use, the system should aim to offer a higher level of rights protection than current forms of physical money—for example by leveraging its digital traceability to facilitate claims for restitution in cases of unjust enrichment, and by restoring legitimate balances from ledger records in the event of data loss or record tampering.
- Judicial enforcement related to CBDC is expected to be carried out through intermediary.

【Issues for Further Considerations】

- In terms of user rights protection, should the legal nature of CBDC be clearly defined through new legislation, or should it be addressed on a case-by-case basis by referencing existing precedents related to cash?
- With respect to Judicial enforcement, should the current provisions—such as those applicable to "any other property rights"—serve as the legal basis, or should dedicated provisions be established?
- Will a centralized procedure be developed for identifying intermediaries responsible for dealing with judicial enforcement?
- When examining the legal and regulatory aspects of CBDC, it is essential to ensure that discussions remain technology-neutral and evolve in parallel with technological developments. Going forward, careful consideration must be given not only to the specific structure of legal provisions, but also to the supervisory and regulatory framework governing intermediaries and the broader CBDC ecosystem.
- This discussion should proceed in parallel with efforts to define the legal status of CBDC as a form of currency and to update the overall framework of Currency law.

(2) Coexistence of Privacy and Data / Public Policy Objectives

【System Design Based on Privacy Protection】

- To ensure privacy protection, data handled by the central bank will be minimized. Most user and transaction information will be managed by the customer management component of intermediaries under a two-tier architecture (i.e., an indirect issuance model), in which private-sector intermediaries facilitate the transfer of funds (see figure).
- There is a need to pay attention to ensure that ledger information does not become personal information by being combined with other data.

(Figure) Main data handled in the Bank of Japan's experimental system

| Examples of Handled Data | | Customer Management Component | Ledger Management Component |
|--------------------------------|--|-------------------------------|-----------------------------|
| User and Transaction Data | Account ID (a unique identifier for a CBDC account that may be disclosed to users), name, address, date of birth, authentication data (e.g., passwords), general account information | ✓ | - |
| Settlement-Related Information | Internal control number (used within the system for ledger operations and not disclosed to users), balance, transaction serial number (assigned to each transaction), transaction amount | ✓ | ✓ |

【Response to Public Requirements in the Use of CBDC】

- As with other private payment instruments, it is essential to respond appropriately to public requirements such as AML/CFT. Assuming that user information is handled entirely by intermediaries responsible for customer management, these intermediaries could be expected to fulfill AML/CFT obligations in the same manner as they do for other private payment methods.
- Regarding AML/CFT measures for CBDC, since it is expected to ensure broad accessibility as legal tender, it is necessary to consider institutional design elements—such as setting caps on holdings and transaction amounts—while also taking into account the status of international discussions and developments.

【Use of Data in CBDC】

- By utilizing data such as payment amounts that are separated from user information, CBDC can be used in areas such as business accounting operations and various types of surveys, including those conducted by the public sector. When combined with existing data and commercial sources such as POS data, it has the potential to offer greater informational value and operational efficiency than current practices.

- When linking CBDC with payment data from other payment methods, it is necessary to design data fields and standardize data formats with interoperability in mind. At the same time, care must be taken to ensure that the aggregation of such data does not infringe upon the rights and interests of data owners. It is advisable to consider how data should be structured and how personal information should be protected to allow for a flexible response when collaboration in the private sector gains momentum.

【Integrated Use of Data】

- The integrated use of data is expected to enhance the value added to CBDC and serve the public interest through features such as alias functionality, joint AML/CFT measures, and the use of data for statistical and other purposes.
- In managing integrated data, one possible approach is the establishment of a centralized management system or a joint database. It is important to ensure that the overall database design complies with Act on the Protection of Personal Information. Consideration must also be given to how a managing entity should oversee information across multiple intermediaries in a unified and secure manner.

【Basic-approach as the Liaison Meeting】

- To minimize the handling of personal information by the central bank, the system will be designed so that the Bank of Japan does not process user or transaction data.
- The system must be designed to protect privacy while also appropriately responding to public requirements such as AML/CFT.
- When utilizing socially beneficial data, such as for statistical purposes, it should be capable of efficiently handling situations where user consent should be obtained, measures for managing the security of personal data should be implemented, and purposes of data use should be clearly stated.

【Issues for Further Considerations】

- How should data be handled by intermediary institutions in order to protect the rights and interests of individuals—including privacy—while facilitating effective use of CBDC-related data? Should a joint database be established for integrated data use? If so, which entity should be responsible for its governance and management?

(3) The Division of Roles with Private Payment Instruments

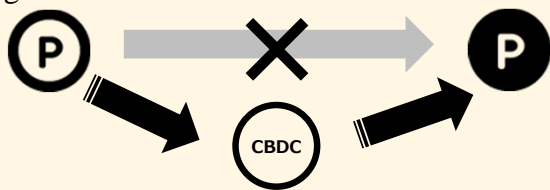
【Interviews with Private Operators】

- Some participants expressed concern about the potential impact of introducing CBDC, particularly regarding existing cashless payment fees. They requested that consideration be given to how it might affect the operations of current businesses.
- There were also expectations that CBDC, as a form of public infrastructure, could promote the broader use of digital payments and services, and serve as an alternative payment method in the event of disruptions to existing systems.

【Usage Formats of CBDC and Considerations for Its Utilization】

- When CBDC is used in cash-heavy environment:
 - There is potential to provide a user-friendly UI/UX, especially for basic services such as payments and remittances, that is accessible to all users, including the elderly.
 - It is also necessary to create an environment that encourages the participation of individuals and businesses that do not currently use cashless payment systems.
- When CBDC acts as bridge/platform for interoperability among PSPs/private monies (see figure):
 - CBDC could serve as a bridge between different payment instruments, enhancing interoperability, reducing settlement risks, and improving the convenience of payment procedures.
 - It is essential to establish an environment that supports the participation by and integration of a wide range of payment service providers.

(Figure) Image of usage format



- Additionally, CBDC has the potential to enhance the overall resilience of the payment system by connecting with and supporting existing systems as public infrastructure.
- Ongoing dialogue with stakeholders is crucial in order to maximize societal benefits and reduce costs, particularly by considering specific use cases.

【Possibility of Secondary Use of the System】

- If the system developed for CBDC were to be secondarily offered as a common infrastructure—for example, to enable the issuance of digital local currencies—it could help reduce costs for local governments and other entities, increase the number of participating merchants, and facilitate broader regional initiatives and data integration.

【Competition Policy Issues in the Payment Market】

- Ensuring fair and free competition among various electronic payment services is essential. The introduction of CBDC is expected to increase consumer choice and help promote fair and free competition.
- The greater the interoperability among private payment instruments enabled by CBDC, the easier it becomes for consumers to choose convenient payment methods, regardless of the store in which they are used.
- It is also desirable to create an environment where many service providers can actively enter the market, thereby fostering healthy competition.

【Basic approach as the Liaison Meeting】

- It is important to ensure that CBDC is easy to use and accessible for individuals, local governments, and merchants who are not currently using cashless payment systems.
- An environment should be created that enables the participation by and integration of private operators who already offer payment instruments or could act as intermediaries in the event of CBDC implementation.
- While carefully considering the potential impact on existing businesses, CBDC can complement cash and enhance interoperability by providing features and convenience that serve as a foundation for improving overall societal efficiency through appropriate integration with existing cashless payment systems.

【Issues for Further Considerations】

- How to promote the adoption of cashless payment systems among merchants, taking into account the challenges of introducing cashless payment at merchants that do not yet support.
- How to ensure the active participation of intermediaries, especially small and medium-sized financial institutions in the relevant systems.
- Whether incentives should be provided to users, merchants, and other stakeholders to encourage adoption of CBDC.
- It is essential to explore the potential for utilizing CBDC as a form of public payment infrastructure that is adaptable to future technological innovation and emerging use cases.