DEGF High-Level Workshop

Organising CBDCs-and-Private-Stablecoins Coexistence

While many other sorts of FinTechs are bringing disrupting changes to financial markets, none is able to bring as much disruption as CBDCs and private stablecoins can today.

However, if much effort is dedicated to understand how CBDCs could work, and what the potential of private stablecoins is, few targets what's needed for the new types of digital currencies and associated payment systems to coexist, i.e., to compete and/or to be complementary and interoperable.

This is why maybe there are many completely different approaches, completely different understandings, and, hence, completely different responses to the CBDCs-&-private-stablecoins potential coexistence, which creates a need to take a step back to assess every point of view.

The cep Paris argues this is essentially due to the different ways of conceiving digital money itself, which in certain cases will result in promoting coexistence between CBDCs and private stablecoins, while discouraging it in other cases.

Hence, digital money can first simply be conceived as the instrument, which will provide the three traditional features of money, but this time in the digital world: unit of account, means of payment, and store of value. But what if the "platformization" led BigTech companies of the economy going digital is profoundly changing the nature of digital money, whose use could be unbundled – separating its three core features – and rebundled with data and financial services, which would result in specialised digital currency competition? This would result in promoting coexistence and competition of CBDCs and private stablecoins without incentives for interoperability and, hence, complementarity.

Digital money could also be shaped international currency competition, in which case private stablecoins would find a market in countries with very weak currencies and, hence, strong inflation, while CBDCs would compete between countries with strong currencies. This would trigger a competition at the world scale between CBDCs themselves, as well as between CBDCs and private stablecoins, in which case interoperability remains an option.

Digital money might also be coerced into replicating the current scriptural and fiduciary money model in the digital world for regulatory purpose. Central banks would supposedly create a use for central bank money in the digital world, as they do in the physical world for coins and banknotes, while the supervised banking sector would do it for private money. If digital money *must* be built like this, no coexistence between CBDCs and private stablecoins sounds possible.

Nevertheless, due to strong network effects, the currently largely unregulated and by-construction-fragile private stablecoins issuers could reach a systemic status and become "de facto" CBDCs as they would be "too big to fail". This could incentivise central banks to eventually let them hold reserves on central banks' balance sheet while remaining profit-driven, which can be an advantage on the very competitive retail payments markets. Hence, in this case, coexistence would not be possible either, as (not so) private stablecoins would takeover CBDCs.

All in all, the systemic status of either private stablecoins or CBDCs will justify their existence over the long-term. However, beyond the above mentioned factors, what could also underlie this status? Ubiquity? Superior cost-efficiency and quality? Superior technology and digital infrastructure? Superior safety? Superior convenience for consumers and merchants due to the addressed use cases? Innovative use cases linked to programmability and composability? Superior "attractivity" for cultural, social, or "branding" reasons? Is there a way for CBDCs and private stablecoins to coexist (also with incumbent digital currencies) given this whole set of parameters?

As a result, it sounds CBDCs and private stablecoins can coexist, or cannot coexist, depending on whether we adopt a technological, geopolitical, economic, market-oriented, or regulatory point of view.

Nevertheless, *assuming that the two types of instruments are going to exist*, coexistence *could* be welfare-improving, as CBDCs and private stablecoins have the potential to be very different instruments serving different purpose. It is a matter of choices.

Hence, Coexistence could for instance be welfare-improving if CBDCs are the assets transferred on central bank payment rails, while private stablecoins are the assets distributed to consumers and merchants (Libra/Diem model). It could be welfare-improving if interoperability between CBDCs and private stablecoins addressing different use cases is built and sustained. It could be welfare-improving if the emergence of CBDCs and private stablecoins triggers more competition for deposits resulting in better financial services and lower costs for consumers and merchants. It could finally be welfare-improving of consumers and merchants finally have improved trust in financial systems thanks to CBDCs-and-private-stablecoins complementarity and increase as a result the volume of transactions. Finally, as financial digitalization – characterized by the exponential availability of computing power and data storage capacity for financial services – has made new payment infrastructures fragile because of a decrease of entry costs in their market, coexistence might be a way to avoid tremendous public and private investments to be wasted.

This is why the DEGF High-Level Workshop will first aim at better characterising the competition dynamics surrounding CBDCs and private stablecoins. Then, it will focus on their use cases. Finally, it will aim at better understanding what is regulatory needed to foster coexistence.

November 29, 2022

(subject to changes and additions)

10:00 – 10:45
ARE CBDCS AND PRIVATE STABLECOINS COMPLEMENTARY, SUBSTITUTABLE, OR BOTH?

2022 has seen many evolutions related to competition dynamics between CBDCs and private stablecoins projects. While central banks have never been so keen on exploring CBDC options, private stablecoins have started the year with an all-time-high level of use before enduring some difficulties characterized by the downfall of Terra last spring and now suffer from the aftermath of the FTX demise. More than ever, policymakers and private companies need to understand how both new instruments can coexist.

Speakers

Daniel Eidan
Advisor and Solution Architect at Bank for International Settlements (BIS)

Daniel is an Adviser and Solution Architect at the Bank for International Settlements (BIS) Innovation Hub where he builds technology solutions for the central banking community with a special focus on block chain and CBDC. Before the BIS he led the digital currency work at R3, was a software engineer and a technical educator. He started his career as an Infantry Combat Commander in the Israeli army and received an honors degree in Computer Science and Mathematics from the University of Toronto.

Christian Pfister
Lecturer at Sciences Po and Digital Currency Expert

Christian Pfister is an economist and consultant in digital currencies. He was before Banque de France Deputy Director General and Advisor to the Governor on CBDC. He teaches at Sciences Po. He has extensively published in monetary economics, financial stability and central bank policies.

Ousmene Mandeng
Senior Advisor and Lead of Economic and Financial Strategy at Accenture, Blockchain and Multiparty Systems

Dr Ousmène Jacques Mandeng is a Senior Advisor and Lead of Economic and Financial Strategy with Accènturè's Blockchain and Multiparty Systèms. Hè co-leads Accenturè's campaign globally for the dissemination of central bank digital currencies and thought leadership on the wider implication of the digital transformation in payments.

He worked more than 20 years in the financial sector and international organisations on international investment and economic policy analyses. He was a Managing Director with Prudential Financial and UBS Investment Bank heading official financial institutions coverage globally and with the International Monetary Fund last as a Deputy Division Chief on IMF financial resources and Latin America including as resident representative. Ousmène has commented regularly in the financial press and presented in international forums on the increasing importance of emerging markets and actual and pending reforms of the international monetary system. He is a Visiting Fellow at the Institute of Global Affairs at the London School of Economics and Political Science, a Member of the Bretton Woods Committee, Fellow of the Reinventing Bretton Woods Committee and Member of Robert Triffin International and writes a blog at www.economicsadvisory.com. He holds a PhD from the LSE and is fluent in German, English, French and Spanish.

Kimmo Soramäki
CEO of FNA

Kimmo Soramäki is the Founder and CEO of FNA and the author of the book Network Theory and Financial Risk. Kimmo started his career as an economist at the Bank of Finland where in 1997, he developed the first simulator for optimizing intraday liquidity in interbank payment systems. In 2004, while at the research department of the Federal Reserve Bank of New York, he was among the first to apply methods from network theory to improve our understanding of financial systems. During the financial crisis of 2007-2008, Kimmo advised several central banks, including the Bank of England and European Central Bank, in modeling interconnections and systemic risk. This work led him to found FNA for making systemic risks visible and financial market infrastructures more resilient and efficient. Kimmo holds a Doctor of Science in Operations Research and a Master of Science in Economics (Finance), both from Aalto University in Helsinki.

10:45 – 11:30
WHAT ARE THE USE CASES OF CDBCS AND PRIVATE STABLECOINS?

Stablecoins have experienced a large surge in use since 2021, while first CBDCs have been fully rolled out since last year. It is time to draw first lessons regarding implementations, use cases for both types of instruments, and to see where both instruments are heading.

Speakers

Jay Joe
Cofounder and CEO of Movmint (Technologist for Sand Dollar)

Jay is a tech entrepreneur that has been at the forefront of innovation across a broad spectrum of industries. He is cofounder and CEO of Movmint, pioneer of the world's first retail CBDC in production, the Sand Dollar issued by the Central Bank of The Bahamas. Jay has spearheaded numerous ground breaking innovations that have shaped the evolution of CBDC and the future of money for all people.

Prior to Movmint, he led a risk management firm providing advanced technologies to protect nuclear, critical national infrastructure and governments. Jay also pioneered innovative solutions to solve complex problems for US transit systems that had remained unresolved for decades to provide better safety for people. Jay's experience also includes innovative development of renewable energy technologies, transport projects with Hyundai Rotem, port infrastructure with Doosan Heavy Industries, petrochemicals, and the Innovation and Science Council of British Columbia. Jay began in the early days of dotcom as COO of 2dobiz, an enterprise solutions provider that developed an online B2B platform in partnership with the United Nations Industrial Development Organization (UNIDO).

Jay has a degree in Chemical Engineering from the University of British Columbia and holds a CISSP for information systems security.

Islam Yerzhan
Chief Economist at Financial Technologies Development Center of the National Bank of Kazakhstan

Islam Yerzhan is a Chief Economist, Adviser to the Chairman of the Payment and Financial Technologies Development Center of the National Bank of Kazakhstan on economic issues. He previously worked in the Monetary policy department of the National Bank and was responsible for forecasting and analyzing inflation processes. Islam is author of different academic articles and working papers, as well as a lecturer on monetary policy and economics at leading economic universities of Kazakhstan.

Patrick Hansen
Director of EU Strategy and Policy at Circle

Patrick Hansen is Director, EU Strategy & Policy at Circle, a global financial technology company that enables businesses to harness the power of digital currencies and public blockchains for payments, commerce and financial applications. Circle is the sole issuer of USDC, a fully-reserved dollar digital currency built on blockchain-technology and recently introduced Euro Coin, a euro-backed digital currency. Prior to that, Patrick was head of strategy & business development at crypto-wallet startup Unstoppable Finance and head of blockchain policy at Bitkom, Europe's largest tech trade association. Patrick holds master degrees in business and political science. You can contact Patrick via Twitter and connect with him on Linkedin.

11:30 – 12:15
HOW CAN WE BETTER REGULATE CBDCS-AND-PRIVATE-STABLECOINS COEXISTENCE?

If CBDC and private stablecoin regulations flourish all around the world, few aim at conceiving coexistence. Hence, where should we start to organize coexistence legally speaking?

Speakers

Jiaying Jiang
Assistant Professor of Law at the University of Florida Levin College of Law

Dr. Jiaying Jiang is an Assistant Professor of Law at the University of Florida Levin College of Law. She focuses her research on policies and regulations on emerging technologies, including artificial intelligence, FinTech, blockchain technology, cryptocurrencies, and central bank digital currencies, from a comparative perspective. Her scholarship has been published in multiple law reviews and peer-reviewed journals in the United States, China, and Europe.

Prior to joining the University of Florida Levin College of Law in 2022, she was a Hauser Global Fellow at New York University School of Law from 2020 to 2022. At NYU Law, she was affiliated with the Information Law Institute and co-led the central bank digital currency project in collaboration with Paul Tsai China Center at Yale Law School. In addition, she has been a contributor of the RegTrax Initiative at Stanford Law School since 2020. She is also a member of the bar in China and New York.

Anastasia Kotovskaia
Head of Division of the Financial Markets and Information Technologies at the Centre for European Policy in Berlin

Anastasia Kotovskaia is a policy expert at the Centre for European Policy in Berlin. She leads the Division of the Financial Markets and Information Technologies. She had previously worked at the Policy Center of the Leibniz Institute for Financial Market Research SAFE in Frankfurt am Main with a focus on sustainable finance, digitization of finance, and capital market integration in the EU.

She studied law at Lomonosov University in Moscow and did her Ph.D. at Goethe University in Frankfurt am Main.

Xavier Lavayssière
Lecturer at University Paris Panthéon-Sorbonne

Xavier Lavayssière is an independent researcher on digital finance. Graduated in Public Law of the Economy and Computer Science, Xavier focuses on the intersection of technical architectures, policy objectives and regulations of cryptoassets and Central Bank Digital Currencies. Mr Lavayssière is a lecturer at University Paris Panthéon-Sorbonne, participates in the work of the blockchain center of École Polytechnique and the Digital Advisory Unit of the IMF.

Simon Polrot
President of the European Crypto Initative

Simon Polrot est Président de l'European Crypto Initiative, une organisation à but non lucratif basée à Bruxelles visant à informer les décideurs politiques sur les crypto-actifs, les blockchains publiques et leurs cas d'utilisation. Depuis 2015, il est un expert reconnu qui a occupé des postes de direction chez VariabL, ConsenSys et LGO Exchange. Il est co-fondateur et ancien Président des associations ADAN et Ethereum France. Il est l'auteur de plus de 70 articles sur la blockchain et les actifs numériques.

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Digitalising European and Global Finance (DEGF)

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A New Geopolitical Balance
A New Technological Advance
A New International Finance

After the Second World War, a global monetary and financial system was built on institutions, which are still relevant today (IMF and World Bank, special drawing rights, WTO, etc.). Later, the European Economic and Monetary Union also led to more-than-ever-relevant institutions organising the financial and monetary system within the EU (Monetary Union, Banking Union, European Stability Mechanism, common debt instrument, soon Capital Markets Union, etc.) supported by an encompassing legislation targeting the financial sector (DSP2, MiCA, AML-FT regulations, etc.).

However, these institutions and sets of rules are facing an unprecedented upheaval. First, the decrease of entry costs on financial markets linked to digitalisation allows for new European and global financial players to challenge incumbents and the implemented supervisory system. Second, it becomes increasingly clear that certain countries want to reshape the international financial and monetary order through digitalisation, which is why rising tensions - on currency use for instance - can be observed, especially between China, the EU and the US.

To help the private sector and policymakers sort out these new phenomena and to contribute to the decision-making process, the Project Digitalising European and Global Finance aims at analysing these new European and global realities to formulate standards and provide policy recommendations for central banks, governments, the private sector and other relevant institutions.

Hence, the Project Digitalising European and Global Finance is dedicated to improving the functioning of the European and global financial and monetary systems in a world facing many challenges.

Finally, it wants to act as a bridge between the public authorities and innovative private companies, to promote free, innovative, safe and well-regulated European and global financial and monetary systems.

Digitalising European and Global Finance is a project of the Centre for European Policy of Paris.

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