To:
Andrew Griffith MP
Economic Secretary to the Treasury
1 Horse Guards Road
London SW1A 2HQ

30 June 2023

The digital pound: a new form of money for households and businesses?

Coinbase Global, Inc. and its UK subsidiary CB Payments Ltd. (together, **Coinbase**) welcome the opportunity to respond to the consultation published by the Bank of England (**Bank**) and His Majesty's Treasury (**HM Treasury**) regarding the potential development of a digital pound (**Consultation**).

Coinbase started in 2012 with the idea that anyone, anywhere, should be able to send and receive Bitcoin easily and securely. Today, we are a publicly listed company in the US, providing a trusted and easy-to-use platform relied on by millions of verified users in over 100 countries around the world to access the crypto economy.

We commend the Bank and HM Treasury for their thoughtful engagement with the public on the digital pound, and for proceeding to the second phase of the digital pound roadmap – design and further investment in technology exploration.

We look forward to continuing to support the Bank and HM Treasury in this important work, both for the benefit of people of the United Kingdom and as an example for other countries that are also considering how best to realize the benefits of financial innovation and new forms of money.

Yours sincerely,

Tom Duff Gordon
VP, International Policy
Coinbase Global, Inc.

Introduction

Coinbase's mission is to increase economic freedom in the world. We believe that the digital pound can help to advance this mission by giving people access to public money in digital form. We strongly support the vision set forth by the Bank and HM Treasury of delivering the digital pound as a public-private partnership. As the public sector provides a payments infrastructure that is open for use by all, the private sector can build and innovate on it to make financial services better for everyone.

Digital payments should be simple. They should comport with the intuition behind cash payments – an object with value moves from one person to another. That is not, however, how digital payments work today. Because there is no digital central bank money available to the public, digital payments make use of a complex, interconnected web of debtor-creditor relationships involving financial institutions. Specifically, a typical digital payment involves a sender's account being debited by the sender's bank, the recipient's account being credited by the recipient's bank, and the two banks settling the transaction between themselves through their accounts at the central bank. This process subjects the user of digital payments to credit and operational risks. Comprehensive prudential supervision and regulation are necessary to manage these risks.

A digital pound could make payments systems safer and more efficient by decoupling them from unnecessary credit and operational risks. An individual holding a digital pound would have exposure only to the Bank. Custody and transfer would be facilitated by providers of digital wallets and other payments services. This opens a wide realm of opportunity for innovation, where Coinbase and other technology companies are eager to get to work.

Below, we provide our views on the questions raised in the Consultation. We look forward to continuing to engage with the Bank and HM Treasury on these points and any opportunities that may arise as plans for a potential digital pound are further developed.

Responses to Consultation questions

Question 1: Do you have comments on how trends in payments may evolve and the opportunities and risks that they may entail?

We broadly agree with the description of the trends in payments in the Consultation, and with the Bank's and HM Treasury's conclusion that these trends drive the need for a digital pound.

Efficient and robust payments systems promote consumer and business confidence. If designed properly they can enable economic development and support economic freedom for individuals – outcomes that are not always true for existing systems. For example, the present costs in payments systems have made micropayments cost-prohibitive; it is not economically feasible to make payments of a pence or two. With the development of web3, and as individual consumers gain more control over the monetization of their digital identities, we see a growing need for the ability to make and receive micropayments, and efficient payments systems will help achieve this opportunity. And this is only one example – we do not yet know the extent of innovation possible in a system where digital payments can be made frictionlessly and at zero cost.

To realize these benefits, payment mechanisms must be interoperable. As the Consultation rightly recognizes, there is a risk of innovation flowing into walled gardens and closed loop systems.[1] A public digital payments system administered by a central bank, that can be used by payment services and products administered by the private sector, is one way to mitigate this risk. Without an open, public network at its foundation, the payments ecosystem could fragment and create unnecessary barriers or frictions, undermining the potential benefits of a digital form of public money.

Question 2: Do you have comments on our proposition for the roles and responsibilities of private sector digital wallets as set out in the platform model? Do you agree that private sector digital wallet providers should not hold end users' funds directly on their balance sheets?

Coinbase generally agrees with the platform model and roles and responsibilities as set out in the Consultation.

We support the idea of public-private collaboration to build out a digital pound. A privately intermediated digital pound will position the private sector to continue its fundamental role as a driver of innovation and economic growth. In addition, retail customers and small businesses have familiarity and pre-existing relationships with the private entities that currently intermediate payments.

[1] Consultation at 27.

We appreciate the Bank's and HM Treasury's recognition that nonbanks are as well placed as banks to serve as Payment Interface Providers (**PIPs**). Allowing regulated nonbanks to serve the users of a digital pound will promote innovation and lead to more customized and compelling services and user experiences. We strongly agree that nonbank PIPs should be regulated and held to rigorous standards with respect to their operational resilience, financial resources, technical expertise, risk management, and compliance programs. And, when held to high standards, we believe that nonbanks will be willing to take on the challenge of building out the full potential functionality of the digital pound, and that users of a digital pound will benefit as a result.

We agree with the Bank and HM Treasury that, as a general matter, consumers should have access to digital wallet providers that do not hold end users' funds directly on their balance sheets. As noted above, one benefit of a digital pound is that it returns to what the public expects a payment to be – a simple transfer of value from a sender to a receiver, that is not intermediated or controlled by a third party. Having private sector digital wallet providers hold end users' funds directly on their balance sheets for extended periods of time would diminish this specific benefit, particularly if it mirrored the complex webs of creditor and debtor relationships that currently exist for bank-intermediated payments. That said, we do not believe that digital wallet providers should be prohibited from holding users' funds on their balance sheet, as this may be necessary or beneficial in connection to services that a user may want to receive alongside a digital wallet.

Question 3: Do you agree that the Bank should not have access to users' personal data, but instead see anonymized transaction data and aggregated system-wide data for the running of the core ledger? What views do you have on a privacy-enhancing digital pound?

Privacy is of paramount importance in the development of a digital pound, and we strongly agree that the Bank should not as a matter of ordinary course have access to any individual user's personal data. We similarly agree with the principle that a digital pound should have privacy protections at least as strong as traditional deposit accounts today. We believe that it is acceptable for the Bank to use anonymized transaction data and aggregated system data in running the core ledger. Law enforcement, by contrast, should not have access to data of any kind except on a fair and lawful basis, in line with existing powers. This mirrors the existing balance that has become accepted for traditional deposit accounts – access to a user's personally identifiable information (**PII**) should be limited to their chosen, regulated intermediary, and to law enforcement when appropriate.

For such an outcome to be realized, we believe it should be not just legally impermissible, but technologically impossible, for government authorities to connect data from the core ledger to an individual's PII without a court order or other judicial authorization. Additional privacy safeguards may need to be established above what exists for traditional deposit accounts, given that the digital pound ledger would contain key transactional information

– such as the date and time, amount transacted, wallet addresses involved, and unique transaction identifiers – that could become traceable to an individual if enough information is collected.

For these reasons, the design of the digital pound is of critical importance to the effectiveness of its privacy protections. Holding transaction data and PII separately, one at the Bank and the other at PIPs, is an appropriate start to privacy protections. We also support a digital pound that incorporates privacy-enhancing technologies, and we encourage the Bank and HM Treasury to consider whether there are technologies that might enable even better privacy protections. For example, and as the Consultation recognizes, zero-knowledge proofs can further minimize the risk of inadvertent or intentional data exposure and can be built into the design of the digital pound.

Question 4: What are your views on the provision and utility of tiered access to the digital pound that is linked to user identity information?

We strongly support the proposal to adopt a system of tiered access to the digital pound. Users should be able to choose between the ability to engage in smaller value transactions with more anonymity or larger value transactions with less anonymity. One of the benefits of a cash-based payments economy is that it affords consumers a degree of anonymity and protects their PII. Lack of trust in the banking system is one of the main reasons that a large segment of society relies solely on cash.[2] A tiered access approach would make the digital pound more attractive for individuals who presently rely on cash and thus could promote financial inclusion.

We also believe that tiered access would make the digital pound more efficient in certain respects, including by reducing the onboarding and compliance burden for individuals to begin using the system for low value transactions. If the cost in time and lack of privacy is too high for transactions of low value, then consumers may be less likely to adopt the digital pound as a means of everyday spending. Importantly, collecting less information from low value transactions should not present a significant risk from an AML/CFT perspective. In particular, we believe the additional benefits of enabling more individuals to use the digital pound more easily will outweigh any incremental detriment to the ability of law enforcement to combat money laundering or terrorist financing schemes.

Question 5: What views do you have on the embedding of privacy-enhancing techniques to give users more control of the level of privacy that they can ascribe to their personal transactions data?

We strongly agree with the proposal to adopt privacy-enhancing techniques that give users more control over their data. As discussed in our response to Question 3, we generally support the adoption of privacy-enhancing techniques in the digital pound. We especially support those techniques when they promote individuals' autonomy over their

[2] FCA, Financial Lives Survey (October 2020).

own transaction and personal data, which we believe is one of the biggest benefits from blockchain technology and web3. Individuals create valuable data whenever they engage in online activity. Today the value of this data accrues almost entirely to for-profit web2 platforms, but in the future it could be shared directly with users.

To this end, we support a digital pound and other web3 innovations that give individuals the ability to share their data as they choose, in a fair and orderly market for companies seeking to use that data to provide better services. The key prerequisite for this system is for consumers to have enough information and understanding to make fully informed choices. That will require full and fair disclosure as well as education.

Question 6: Do you have comments on our proposal that in-store, online and person-to-person payments should be highest priority payments in scope? Are any other payments in scope which need further work?

We agree that these should be the highest priority. Retail customers and small businesses stand to benefit the most from the adoption of a digital pound. Poor digital payments resources could reduce the ability for these individuals and businesses to engage in the global economy. But a digital pound could have a significant positive impact for individuals and small businesses through lower cost payment solutions, better integration between payment accounts across platforms, and reduced credit risk exposures to banks and other existing payment services providers.

High-value payments between financial institutions and large businesses are already well served, with rapid settlement systems that are low risk. As a result, there is less immediate need to prioritize updates to this category of payments. It is nonetheless important to ensure that a digital pound will have instant, seamless interoperability with other forms of money regardless of the entity or person engaging in the transaction. This feature will be crucial to the widespread adoption of the digital pound by consumers and businesses of all sizes.

Question 7: What do you consider to be the appropriate level of limits on individuals' holdings in transition? Do you agree with our proposed limits within the £10,000-£20,000 range? Do you have views on the benefits and risks of a lower limit, such as £5,000?

We believe that any limit on an individual's holdings in transition should be set at levels high enough for individuals and families to be able to use the digital pound for ordinary day-to-day transactions. As such, we believe that, if the Bank and HM Treasury are considering a range of £10,000-£20,000, the higher end of this range (i.e., £20,000) is most appropriate. The Bank and HM Treasury should recognize that the practicality and adoption of a digital pound are likely to be undermined by limits on individuals' digital pound holdings. As a result, the limit needs to be set high enough so as not to be a determinative constraint on consumer choice. Adoption of the digital pound should be driven by other features, such as the user experience, quality of customer services, and commercial acceptance. And in these areas, the digital pound should seek to support excellence on the merits of the services. We believe that that will be the best path to positive uptake among UK residents and will lead to the development of a vibrant, competitive PIP ecosystem.

Question 8: Considering our proposal for limits on individual holdings, what views do you have on how corporates' use of digital pounds should be managed in transition? Should all corporates be able to hold digital pounds, or should some corporates be restricted?

All corporates should be able to hold digital pounds. Any prohibition on corporate digital pound holdings would limit the ability of businesses to accept digital pounds as payment. This would decrease the utility of digital pounds to consumers, who would not know whether a business would accept those digital pounds at any point in time. Digital pounds and cash would not be fully interchangeable under such circumstances, which is a core principle expressed in the Consultation.[3]

We believe that any such limit, if imposed, would disproportionately affect larger institutions and potentially lessen their incentive to participate in the digital pound system, rather than harnessing their resources to help drive large scale adoption. Any limit would need to be set at a level that enables corporates to receive digital pounds in payment with operational ease. This principle is crucial even if, following receipt of payment, the funds are quickly converted and held in some other form – for example, a bank account, money market fund, or stablecoin. Otherwise, businesses would face numerous practical challenges if limits are set on the amount of a digital pound they could hold. For example, a small business with a seasonal cycle may have significant mismatches in the timing of its annual revenues relative to its annual expenses. Limits on the amount of digital pound holdings at one time could impact such a business differently from one whose revenues and expenses are more aligned over the course of a year.

Question 9: Do you have comments on our proposal that non-UK residents should have access to the digital pound, on the same basis as UK residents?

We agree with the proposal that non-UK residents should have the same access to the digital pound as UK residents. Bank of England notes can be used by non-UK residents. If a digital pound is to be a digital analogue for traditional Bank of England notes, it too must be able to be used by non-UK residents.

[3] Consultation at 46.

Question 10: Given our primary motivations, does our proposed design for the digital pound meet its objectives?

In general, we are highly supportive of the Bank's and HM Treasury's proposed design and believe it is well-aligned with the motivations underpinning the proposal. We also strongly agree with the Bank's and HM Treasury's primary motivations of ensuring the role of central bank money as an anchor in the monetary system and promoting innovation, choice, and efficiency. The platform model set out in the Consultation – subject to some of our comments on the specific details – meets these objectives.

Question 11: Which design choices should we consider in order to support financial inclusion?

A digital pound must prioritize financial inclusion. Too many individuals in the UK remain disconnected from payments systems beyond cash. We are broadly supportive of the design choices that have already been included in the Consultation and believe that they will contribute to increased financial inclusion. For example, as we discussed in response to Question 4, we believe that a system of tiered access will promote the adoption of the digital pound, including by low-income individuals and households. This will be especially true if the lower tiers of access are designed to prioritize ease of onboarding. Moreover, one reason that UK adults may trust cash more than other options is because it represents a direct claim against the Bank, rather than a commercial bank that may be less trustworthy. For that reason, Coinbase agrees that a digital pound should represent a direct claim against the Bank rather than a private sector company.

However, supporting financial inclusion requires the Bank and HM Treasury to do more than just incorporate the right design features in the digital pound. The rollout of the digital pound and the messaging that goes with it will also be vitally important. The Bank and HM Treasury should develop educational programs to encourage the same level of trust in a digital pound that exists in cash. That level of education will require targeted campaigns and sustained outreach. The Bank and HM Treasury should likewise seek to instill commitment to the educational mission among PIPs, which should have both the ability and the incentive to proactively serve communities that have been underserved.

Last, the best thing the Bank and HM Treasury can do for financial inclusion may be to reassure individuals that physical cash and the digital pound can both be used easily for everyday payments wherever one goes within the United Kingdom.

Question 12: The Bank and HM Treasury have due regard to the public sector equality duty, including considering the impact of proposals for the design of the digital pound on those who share protected characteristics, as provided by the Equality Act of 2010. Please indicate if you believe any of the proposals in this Consultation Paper are likely to impact persons who share such protected characteristics and, if so, please explain

which groups of persons, what the impact on such groups might be and if you have any views on how impact could be mitigated.

We do not believe that any of the proposals in the Consultation are likely to impact those who share protected characteristics. Moreover, as we have discussed above in response to Question 11, we believe that a properly developed digital pound can make a significant positive difference for financial inclusion.

Conclusion

Coinbase appreciates the Bank's and HM Treasury's active engagement with the public on the design and implementation of the digital pound. We look forward to continuing to share our experience and expertise for the benefit of the public.