

**Date: 31 October 2024**

**Response to The Bank of England's Discussion Paper on Its Approach to Innovation in Money and Payments**

**To: The Bank of England**

Coinbase Global, Inc. (together with its UK subsidiary CB Payments Ltd., **Coinbase**) welcomes the opportunity to respond to the discussion paper published by the Bank of England on Its Approach to Innovation in Money and Payments (the Discussion Paper).

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

We appreciate the thoughtful approach the Bank is taking to achieve sustained innovation in money and payment systems, and we stand ready to support this important mission. Our response highlights the importance of stablecoins operating on permissionless blockchains in a mixed payment ecosystem. We believe this is critical innovation that should be supported by the Bank through its policy objectives.

Coinbase remains committed to bringing advancements to UK financial markets and working with the Bank to achieve its goals.

Yours sincerely,



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## Introduction

Support for digital forms of fiat currency is critical to the development of a digital asset ecosystem and we appreciate the opportunity to share our views on how the Bank can safely and efficiently integrate emerging technology into the existing financial system. We agree that a holistic approach is needed for digital asset markets in the UK, and believe there are three key areas to recognize and address:

- **The Critical Role of Stablecoins.**

Stablecoins today play a key role in supporting digital asset markets and retail payments by acting as a safe medium for settling transactions, preserving value, transferring funds, and producing income for digital asset owners. Stablecoins have a clear track record of providing a solid foundation for innovation in retail payment practices even without a direct link to central bank money. When well-structured with reserve assets wholly backed by risk-free sovereign debt, stablecoins maintain an economic equivalence to central bank money (i.e. based on the same faith and trust in government). Moreover, because stablecoins can be held and used without the need of a bank account, they increase financial inclusion and support the development of new digitally-oriented business models. Such business models could increasingly include use of stablecoins as a settlement instrument to foster the growing use of tokenised real world assets.

For these reasons, we believe the Bank should affirmatively integrate stablecoins into a mixed payments ecosystem in the interests of improving financial stability by providing access to central bank services, and in doing so the Bank would resolve the singleness of money concern that may otherwise exist in the absence of such a relationship. Failing to do so could create new financial stability risks and drive UK-native commercial activity into imperfect substitutes that are offshore and in alternative digital fiat currencies.

- **The Mixed Payments Ecosystem Objective.**

Coinbase supports the UK's goal of delivering a "mixed payments ecosystem", with central bank digital currencies (**CBDC**), stablecoins, and tokenised deposits co-existing and delivering more competition and choice. Tokenised deposits and digital forms of central bank money and services are important enablers of a digital marketplace with features that complement the current role of stablecoins. The pound as public money is a risk-free asset that cannot be replicated by private parties. Deposits as a form of private money familiar to consumers and businesses are linked to banks' traditional roles in credit intermediation and entail a degree of risk to consumers. Stablecoins wholly backed by government debt are safer, but may entail greater operational risk than central bank money. While there is currently no GBP denominated stablecoin operating at significant scale, recent statistics indicate significant currency substitution is occurring through GBP denominated purchases of stablecoins. A UK financial system that allows central bank services to be used in support of centralised settlement of tokenized forms of private

money – stablecoins and deposits – would make money markets more complete and help to reshore this financial activity back to the UK. Failure to do so may increase the financial stability risks associated with capital flight and the use of imperfect currency substitutes. Accordingly, we encourage the Bank to include both stablecoins and tokenised bank deposits in its planned programme of experiments with digital central bank money and services.

- **The Importance of Permissionless DLT Systems.**

Coinbase applauds the Bank's recognition of the need to keep pace with technological advances in the marketplace to preserve the role of central bank money in the financial system. We also recognise and appreciate the considerable steps the Bank has already taken to accommodate the use of new technologies in the marketplace through changed practices for the RTGS system, omnibus accounts with the Bank for FMI, and the Digital Securities Sandbox, among others. What we still think is missing in the Discussion Paper, however, is affirmative recognition that the open architecture and governance of permissionless blockchain have a key role in this ecosystem that support achievement of the Bank's policy objectives.

Programmable, permissionless distributed ledger technology (DLT) systems on which the largest stablecoins now operate are the standout example in this respect, with widespread adoption and smart contract capabilities that could directly support contemplated initiatives of the Bank such as synchronising the RTGS system with external ledgers, enabling direct settlement connections between stablecoins and tokenised deposits, and extending the reach of digital forms of central bank money further into the marketplace. As senior Bank officials have been clear in stating, if central bank money is unable to interact with new technologies, there could be a risk of high value wholesale settlement activity moving abruptly away from central bank money to private settlement assets, weakening financial stability. This is why we urge the Bank to prioritise including programmable, permissionless DLT systems as an enabler of its primary policy objective of maintaining financial stability rather than as just one part of its secondary objectives of supporting competition, competitiveness and growth.

## **Programmable Platforms**

- 1. Are there areas in which programmable platforms, including those enabled by DLT might bring significant benefits and risks in payments and settlement?**
- 2. How likely are programmable platforms, including those enabled by DLT, to be taken up at scale by wholesale financial markets?**

### *Benefits of Programmable Platforms*

The potential benefits of programmable platforms are already widely recognised and particularly well suited to control risks in payment and settlement systems.<sup>1</sup> The use of smart contracts through programmable platforms can directly support several of the priority initiatives of the Bank, such as synchronising the settlement practices of an RTGS system with those of external ledgers<sup>2</sup>, enabling direct settlement connections between different forms of private and public money – e.g. CBDCs, stablecoins, and tokenised deposits – and their differing liquidity demands on settlement systems.<sup>3</sup> This will serve to extend the reach of both private and public money into previously underserved segments of consumer markets.<sup>4</sup>

### *Risks and Keeping Pace with Technology Developments*

We appreciate the Bank's concern for the potential divergence between its policy objectives and the rapid pace of technology developments, particularly as it relates to the role of central bank money in the financial system.<sup>5</sup> The Bank states that it has a low appetite for the financial stability risk associated with the potential shift in settlement to

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<sup>1</sup> International Monetary Fund, [Programmability in Payment and Settlement — Concepts and Implications](#) (Aug. 2024) at 11-12 (for example, application programmability interfaces (APIs) are collections of procedures and functions that enable authorized external parties to access digital resources. APIs facilitate automation, interoperability, and innovation across systems, and, as a result, advanced features can be built on top of simple interfaces).

<sup>2</sup> Bank for International Settlements – Innovation Hub London Centre and the Bank of England, [Project Meridian: innovating transactions with synchronisation](#) (19 Apr. 2023) at 3 (Project Meridian involves settling transactions “using central bank money in an RTGS system. Funds move if and only if an asset on another ledger also moves, reducing costs and risks, and increasing efficiencies. Synchronisation builds on the existing concept of interlinking asset ledgers with RTGS systems, seeking to develop functionality that allows synchronised settlement in central bank money for a wide range of assets”).

<sup>3</sup> Hong Kong Monetary Authority, et al., [Reimagining a future empowered by eHKD, tokenised deposits and stablecoins](#) (Mar. 2024) at 24 (“Much liquidity sits in assets and cannot be redirected to a more productive environment (or utilised effectively). New mediums of exchange facilitate the movement of tokenised assets as collateral to unlock liquidity to asset owners at a personalised financing rate, and hence, the value of the assets can be redirected for use in the real economy”).

<sup>4</sup> Bank for International Settlements – Representative Office for the Americas, [The future of money: a possible role for central bank digital currencies and their implications](#) (9 Nov. 2023) at 2-3 (“digital payments...serve as an essential entry point to the formal financial system for the unbanked and underbanked populations...[and they] can support economic growth and development by encouraging financial inclusion and improving access to credit...[Therefore] greater engagement with the formal financial sector should facilitate borrowing by previously credit-constrained actors); see also, Coinbase response, [The digital pound: a new form of money for households and businesses?](#) (Jun. 2023) at 5 (“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”).

<sup>5</sup> Discussion Paper, sec. 4.2: Innovations in the provision of central bank money.

private money. Moreover, as recently recognised by a senior Bank official, if central bank money is unable to interact with new technologies, there could be a risk of high value wholesale settlement activity moving away from central bank money to private settlement assets, weakening financial stability.<sup>6</sup>

However, it is not clear that such a technology-induced shift would impair financial stability beyond what exists today, particularly to the extent that private money is wholly backed by risk free assets and/or supported by central bank services. Extending access to central bank services to, for example, one or more stablecoins, would serve to promote a highly functional, mixed payment and settlement ecosystem. Doing so would help the Bank further understand, identify, and prioritise emerging technologies, including programmable, permissionless DLT systems. This has the potential for outsize impacts on its policy goals as a key aspect of its primary policy objective of maintaining financial stability and not just as one part of its secondary objectives of supporting competition, competitiveness and growth.

### *The Bank Should Take a Tech-Neutral Approach*

To date, the principle of technology neutrality has not been broadly followed for DLT systems, and this has hindered the adoption of programmable DLT systems when doing so would otherwise be consistent with the Bank's policy goals. For example, some of the most widely-used programmable DLT systems are public permissionless blockchains, but when used for the purpose of transferring value through stablecoins, they are currently subject to punitive capital charges that discourage their use by banks and their affiliates<sup>7</sup>, even when substantial steps are taken to mitigate the risks of such systems.<sup>8</sup> Such capital treatment discourages sustainable innovation by failing to recognise the value of investments made in developing and adopting safety enhancing features of permissionless systems and is inconsistent with the principle of "same activity, same risk, same regulatory treatment."<sup>9</sup>

<sup>6</sup> Speech by Sasha Mills at Digital Assets Week, [Innovation in Digital Assets in the Financial System and The Bank](#) (2 Oct. 2024).

<sup>7</sup> Basel Committee on Bank Supervision, [Prudential treatment of cryptoasset exposures](#) (Dec. 2022) at 13 (imposing capital requirement matching at the absolute exposure value of the crypto asset, and a 1250% risk weight for permissionless DLT systems).

<sup>8</sup> See, e.g., Basel Committee on Bank Supervision, [Working paper 44: Novel risks, mitigants and uncertainties with permissionless distributed ledger technologies](#) (28 Aug. 2024) at 7-9 (some proposed methods of mitigating potential risks for banks using DLT may include: business continuity planning, technology-based control over parties and transactions, technology to address privacy/confidentiality/consumer protection risks, and technology to address liquidity risk).

<sup>9</sup> Coinbase response to the Economic Secretary of the Treasury, [Consultation and call for evidence on the future financial services regulatory regime for cryptoassets](#) (Apr. 2023) at 1, 9 (suggesting the UK Government's proposal marks a departure from the its previously stated approach of "same risk, same regulatory outcome"); see also, Coinbase response to Basel Committee on Banking Supervision, [Cryptoasset Standard Amendments](#) (28 Mar. 2024) at 4-5 (discussing that the BCBS's proposed requirements were not based on the risk of the assets to a bank, but rather

Whether these technologies are adopted, and adopted at scale, should be left to market forces. To this end, the Bank should adhere to a technology neutral approach, and any inhibitors to adoption due to, e.g., prefunding requirements or liquidity fragmentation<sup>10</sup> should be less of a regulatory focus than ensuring that regulatory requirements do not unduly cause the frictions. More generally, the Bank should allow market demand to drive the rate of adoption of DLT in wholesale settlement systems. Market participants may initially prefer legacy payment systems based on trust in intermediaries over smart contracts operating on programmable platforms, but if the latter is appropriately regulated, particularly for stablecoins that can be transferred peer-to-peer and outside of correspondent banking rails, then efficiency gains available to broader (non bank) market participants will ultimately change the economics and drive adoption of alternative settlement systems. To this end, the Bank should be careful to not prematurely assign winners in the types and designs of tokenised assets losers with respect to the types and role of private money in tokenised form.

### *Options for Adopting Programmable, Permissionless DLT Systems*

As stated above, Coinbase supports a mixed payments ecosystem that includes stablecoins on permissionless DLT systems, and doing so may require the Bank to accommodate technology systems with different characteristics to achieve its policy objectives. Fortunately, existing programmable technology allows users to automate once incompatible processes of separate blockchains, including through interledger connectivity and settlement.<sup>11</sup> Alternatively, tokenised deposits and stablecoins with different characteristics can reside on the same blockchain infrastructure,<sup>12</sup> which could

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reflect other policy objectives which the Committee historically has not incorporated in capital requirements).

<sup>10</sup> Discussion Paper at 13.

<sup>11</sup> Monetary Authority of Singapore, et al., [Delivery versus Payment on Distributed Ledger Technologies - Project Ubin](#) (2018) at 12 (“...[Because] distributed ledgers [are] able to not only ascertain a buyer’s liquidity, but also effect settlement within the trading phase itself, the time and monetary costs associated with post-trade financing may soon be a thing of the past...This explains why a fully functional DLT-based RTGS system holds immense interest for industry players. Furthermore, DLT supports the use of smart contracts to automate or replace convoluted processes currently performed by clearing houses, back office systems, and registries”); *see also*, Hong Kong Exchanges and Clearing Limited, [Synapse: The Power of Connectivity](#) (Oct. 2020) at 1 (explaining HKEX Synapse, an “integrated settlement platform...to complement the existing post-trade infrastructure for Northbound Stock Connect. The solution aims to standardise and streamline post-trade processes and workflows, maximising connectivity and efficiencies for market participants in a transparent, secure and reliable manner”).

<sup>12</sup> Deloitte, et al., [Reimagining a future empowered by eHKD, tokenised deposits and stablecoins](#) at 11 (“Native use of DLT is one of the fundamental distinctions between digital mediums of exchange (such as retail CBDC, tokenised deposits and stablecoins) and the established forms (such as e-money and physical money)”...to leverage the benefits of “existing technical standards and DLT-native programmability (smart contracts) to reduce development and infrastructure cost”); *Project Meridian*.

help to achieve the Bank’s objectives more directly but would require different actions to operationalize.<sup>13</sup>

Regardless of the operational model for a blockchain-based system, programmability is just one of the factors that contributes to successful implementation. Programmable platforms must also be *permissionless* to achieve financial inclusion and to prevent one, central point of control from determining who can participate. In light of this, we believe that a CBDC can coexist with and complement privately issued stablecoins on permissionless blockchains, such as Ethereum. A CBDC’s functionality may be limited for policy reasons, such as interest rate and balance limits. In contrast, the private sector will always be more flexible and responsive to users’ needs and demands. Therefore, we believe the UK is best served by maintaining a balance between public and private money in the digital assets space through the use of permissionless blockchains. Harmonisation of UK laws with those around the globe, especially with other countries in Europe, would also help programmable platforms to be taken up at scale by wholesale financial markets in appropriate circumstances.<sup>14</sup>

## Innovations in Private Money

- 3. What are respondents’ views on the pace of innovation in private money – in particular, commercial bank money – used in retail payments?**
- 4. What are respondents’ views on the wholesale infrastructure that might support retail payments innovations, including to ensure that singleness of money can be maintained across stablecoins and tokenised deposits?**
- 5. What are the risks and benefits from the use of: a) tokenised deposits; and b) stablecoins for wholesale transactions?**

### *Pace of Innovation*

As the Bank acknowledges, the recent pace of innovation in private money has been rapid, resulting in what are now largely commoditized payment technologies being widely available to both banks and non-banks.<sup>15</sup> The most innovative segments of private money innovation activity – the emergence of stablecoins – has developed without using

<sup>13</sup> Bank for International Settlements Innovation Hub, SIX Group AG, and Swiss National Bank, [Project Helvetia: Settling tokenised assets using central bank money](#) (Dec. 2020) at 10 (“Using smart contracts, business logic such as corporate actions or dividend payments can be implemented directly on the distributed ledger. Issuers and platform participants can also add logic to tokens, allowing additional streamlining and automation of asset servicing”); *see also*, Jon Durfee, Jesse Leigh Maniff, and Priyanka Slattery, [Examining CBDC and Wholesale Payments](#) (8 Sep. 2023) (“If programmability is necessary for the transfer of value, there may be arguments for ensuring that it is tethered to the settlement system”).

<sup>14</sup> Coinbase response to ESMA, Qualification of Crypto-assets as Financial Instruments – Coinbase’s response to the European Securities and Markets Authority (Apr. 2024) at 2 (“A core promise of the single market is the harmonisation of laws, so that businesses such as Coinbase, and more importantly, consumers, know where they stand”).

<sup>15</sup> Discussion Paper at 22.

traditional forms of market infrastructure or relying on transaction (interchange) fees to cover the costs of providing services. This has supported the expansion of payment services into previously underserved sectors of the economy,<sup>16</sup> but reconciliation of the associated differences in payment practices adopted to reach underserved user communities may ultimately rely on their direct or indirect recognition by appropriate authorities to ensure the singleness of money.

### *Wholesale Payments Infrastructure*

Appropriately designed infrastructure for wholesale payments could support the singleness of money and sustainable safe operations by a wide range of market participants, while still promoting robust innovation and competition.<sup>17</sup> Achieving the Bank's several objectives would require expanding access to new types of participants when such infrastructure is administered by the Bank or supported by the Bank with central bank services or money, and we appreciate that the Bank has expressed its openness to those possibilities. Coinbase encourages the Bank to take these and other steps to integrate existing and new participants on to common market infrastructure to support both its singleness of money and sustainable innovation policy objectives.<sup>18</sup>

### *Stablecoins and Tokenised Deposits*

With this in mind, we strongly encourage the Bank to support private sector development and use of common market infrastructure for settlement using both stablecoins and tokenised deposits, which should include programmable, permissionless blockchains (e.g., the Ethereum network), while preserving appropriate differences in regulatory treatment that appropriately account for the different risk profiles of the two asset types . In particular, stablecoins play a key role in supporting digital asset markets and a growing role in retail payments and have a clear track record of providing a solid foundation for

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<sup>16</sup> Ana Aguilar, et al., [BIS Working Paper 1196: Digital payments, informality and economic growth](#) (Jul. 2024) at 4 (finding that the increased use of digital payments is linked to greater financial inclusion and credit access, and that a one-percentage point increase in digital payments use is associated with increases in the growth of GDP per capita of 0.10 percentage points over a two-year period, and a decline in the share of informal sector employment of 0.06 percentage points over a two-year period.)

<sup>17</sup> Digital Pound Foundation, [Preserving the singleness of money in a rapidly changing financial landscape](#) (28 Feb. 2024) (discussing that the future evolution of money and payments will require a "seamless, trusted and invisible conversion between cash, bank deposits, e-money and other new forms of public and private digital money" for a diverse, competitive, and effective ecosystem of digital money that is interoperable, convertible, and preserves the singleness and uniformity of a digital pound in all its varied formats). *But see* Rodney Garratt and Hyun Song Shin, [BIS Bulletin No. 73: Stablecoins versus tokenised deposits: implications for the singleness of money](#) (11 Apr. 2023) at 6 ("...singleness of money does not rule out varying credit risk across intermediaries. The value of private liabilities as stores of value could differ across intermediaries, in much the same way that in the current two-tier monetary system bank bonds or negotiable certificates of deposit (CDs) can trade at varying spreads. Singleness is an attribute of the payment, rather than private liabilities as a store of value").

<sup>18</sup> *Supra* note 13.



innovation in retail payment practices without a standing link to central bank money equivalent to those currently enjoyed by banks and FMIs. Notably, there is no credit intermediation involved, making it a safer form of private money than deposits. And users do not require a bank account, which expands access. Such innovation increases financial inclusion, and supports the development of new digitally-oriented business models, while the digitally native features of stablecoins themselves play a complementary role facilitating the growing use of tokenised real world assets.

### *Singleness of Money*

The inextricable relation between stablecoins and technological innovation in digital markets provides a strong financial stability rationale for the Bank to promote their use in a well regulated, mixed payments ecosystem, and in doing so the Bank could resolve the singleness of money concern that may otherwise exist in the absence of such a relationship.

As acknowledged by a senior Bank official, the inability to interact with new technologies may weaken financial stability by creating a risk of wholesale settlement activity migrating away from central bank money to private settlement assets in some circumstances, and that “confidence in the underlying technology used to transfer money is inseparable from confidence in money itself.”<sup>19</sup> Therefore, by choosing to interact with a payment technology to preserve financial stability – by making available central bank services – the Bank will also be supporting the public confidence needed to establish the singleness of money due to the central bank’s relationship to the state, its choice to interact with the technology, and the inseparable relationship between money and the technology used to transfer it.

Should the Bank choose to limit the standing or conditional nature of these interactions to better suit its policy objectives,<sup>20</sup> it is those choices, and not characteristics of either the technologies or the forms of digital money that are transferred using them, that impacts the singleness of money.<sup>21</sup> By choosing to establish a mixed payment ecosystem with economically equivalent treatment of stablecoins and tokenised deposits irrespective of their underlying technologies, the Bank would fulfil its stated priority of supporting safe and sustainable innovation. To deny either stablecoins or tokenised deposits access to central bank services could create new financial stability risks by driving UK native commercial activity into imperfect substitutes offshore or into digital currencies or other instruments that may challenge the desired singleness of money. If the Bank provided central bank services to issuers of tokenised deposits, but not stablecoins, this would suggest a predisposition in favour of incumbent banks in this still developing new

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<sup>19</sup> Speech by Sasha Mills at Digital Assets Week.

<sup>20</sup> Speech by Andrew Bailey at the Bloomberg Regulatory Forum, [Today’s Challenges in Financial Stability: The New and the Not So New](#) (22 Oct. 2024).

<sup>21</sup> Rodney Garratt and Hyun Song Shin, [BIS Bulletin No. 73: Stablecoins versus tokenised deposits: implications for the singleness of money](#) (11 Apr. 2023) at 5-6.

category of tokenised financial activity. Notably, this would be inconsistent with both the Bank's primary objective of maintaining financial stability, and its secondary objectives of supporting competition, competitiveness and growth, and all of its desired policy outcomes for retail payments, including particularly the policy of supporting safe and sustainable innovation.

### *Risks of Non-Action or Stablecoin Exclusion*

Today there are no GBP-denominated stablecoins operating at significant scale, and recent data indicate significant currency substitution through GBP-denominated fiat purchases of stablecoins.<sup>22</sup> There is an opportunity for UK financial markets to onshore this activity by allowing central bank services to connect digital forms of central bank money and bank deposits with GBP denominated stablecoins. Doing so would contribute to the completeness of UK money markets and while preserving the singleness of money.

Failing to introduce central bank services for GBP stablecoins – or prioritising the introduction of tokenised deposits at the expense of stablecoins – would likely increase financial stability risks associated with capital flight and the use of imperfect currency substitutes.<sup>23</sup> As global markets increasingly leverage the proven capabilities of stablecoins to become digitally native, it is critical for the UK to preserve its competitive position, and this can be done while also meeting its primary policy objective of preserving the singleness of money.

We strongly urge the Bank to preserve the gains from innovation that have already been made by stablecoins and related payment technologies and expand those benefits to other sectors of the economy, and thus promote sustained innovation in UK money and payment practices.

### *Risk Mitigation*

Many of the risk management and financial stability concerns associated with programmable systems are readily addressable with DLT applications. In particular, levels of permissioning and governance can be built onto programmable, permissionless blockchains to achieve prudential goals with respect to, for example, the security of the blockchain ledger. We note that there may be risks associated with the stablecoin issuer apart from the blockchain – i.e. management of reserve/reference assets – but those risks

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<sup>22</sup> Chainalysis, [The 2024 Geography of Crypto Report](#) (Oct. 2024) at 48-49 (demonstrating that the share of total value received by UK-based merchant services according to asset type is dominated by stablecoins, followed by BTC, ETH, and Alts).

<sup>23</sup> See generally, Alberto Giovannini and Bart Turtleboom, [National Bureau of Economic Research Working Paper No. 4232: Currency Substitution](#) (Dec. 1992) (“...restricted capital markets make financial assets illiquid, and provide a boost for money for store-of-value purposes. Whenever domestic-currency inflation is high, restricted financial markets are likely to increase the demand for more stable, foreign cash. The phenomenon of currency substitution might therefore be more pervasive in countries where financial assets are illiquid and domestic money loses purchasing power fast”).

should be considered under a separate regulatory framework.<sup>24</sup> This would be consistent with how payment systems regulation and payment service provider regulation are treated separately today. This would allow stablecoins to operate on programmable, permissionless blockchains while adhering to the principle of “same risk, same regulatory outcome.”<sup>25</sup>

## Innovations in Central Bank Money

- 6. Are there innovations that could support central bank money being equipped with the requisite functionality to ensure safe settlement in light of technological advances in financial markets?**
- 7. What are respondents’ views on potential functionalities of a wCBDC and how might these inform wCBDC design?**
- 8. Will the proposed programme of experiments help to assess these potential functionalities for central bank money?**

### *Role of the Pound*

When in the form of central bank money, the pound plays a unique role in the UK financial system that cannot be replicated by private money. Making central bank money too widely available, e.g. in the form of a retail CBDC could crowd out productive uses of private money and critically undermine the role of banks in the pricing and allocation of credit. Wholesale use cases, e.g. wCBDC, are therefore a natural place for experiments focused on innovations in central bank money to start. Of course, this risk of crowding out private money can also be mitigated by providing tokenized private money access to central bank services, thereby preserving by design the singleness of money. The Bank has rightly already been considering such a measure with systemically important stablecoins, which in many respects could operate with equivalence of retail CBDC managed by the private sector. We support this innovation.

### *Interoperability*

To realise the full benefits of digital payments, and as we stated in our response to the Bank’s Discussion Paper on the Digital Pound, payment mechanisms must be

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<sup>24</sup> See, e.g., Coinbase, *Consultation and call for evidence on the future of financial services regulatory regime for cryptoassets* at 5 (“We support leaving cryptoassets (other than cryptoassets that already fall within the definition of a financial instrument by virtue of their characteristics, e.g., tokenised securities) outside of the definition of ‘financial instrument.’ Otherwise cryptoassets would be shoehorned into existing rules that may be incompatible with the unique features of cryptoassets. We also support providing the FCA with the power to develop fit-for-purpose regulation that is tailored to the meaningful ways in which cryptoassets differ from assets in traditional finance”).

<sup>25</sup> *Supra* note 9.

interoperable through to the end user level.<sup>26</sup> That is, any end user should be able to use the digital pound across any network that supports its use, and networks should not be prohibited from providing that support. Otherwise, as the Bank already recognises, there is a risk of innovation flowing into walled gardens and closed loop systems.<sup>27</sup>

Creating a public digital payments system administered by a central bank that can be used by the private sector to issue and administer settlement instruments 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. Accordingly, for the Bank’s planned experiments to be useful, Coinbase believes they must include a representative sample of alternative forms of private money with the demonstrated potential to operate at scale in the market today, including stablecoins. Not doing so would be an artificial exercise that will not produce meaningful results, while adding stablecoins to the planned programme will provide the Bank with more information to support its review of potential challenges to the singleness of money and sustained innovation.

### *Key Features of a wCBDC*

It is paramount that any digital form of central bank money ensures safe settlement practices through to the end user level. This includes the integration of privacy-enhancing technologies, such as zero-knowledge proofs, that can minimise the risk of inadvertent or intentional data exposure, which can be built into the currency’s design to improve its safety, utility, and trustworthiness for end users in digital environments.<sup>28</sup> We further believe that the banks should make wCBDCs available for use by non bank financial intermediaries and commercial institutions, permit the payment of interest on balances held in central bank money, and refrain from placing limits on the amount of central bank money that banks and businesses can hold or use. Limits in particular would pose numerous practical challenges in connection with their monitoring and enforcement in a digitally native environment that critically undermine their intended value in practice.<sup>29</sup>

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<sup>26</sup> Coinbase response to the Bank of England, [The digital pound: a new form of money for households and businesses?](#) (Jun. 2023) at 5 (“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”).

<sup>27</sup> The Bank of England, [The digital pound: a new form of money for households and businesses?](#) (Feb. 2023) at 27.

<sup>28</sup> Coinbase response to *The digital pound* at 4 (“...as the [Bank of England’s] 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”).

<sup>29</sup> For further consideration of these and related concerns, see generally [Coinbase’s response to the Federal Reserve’s discussion paper on a U.S. CBDC](#) (May 2022).

## Policy Objectives for Retail Payments

### 9. What are respondents' views on the outcomes that the Bank seeks in retail payments and how can they be reflected in practical questions currently facing policymakers and industry?

#### Target Policy Outcomes

Coinbase supports the Bank's desired policy outcomes for retail payments: preserving the singleness of money, supporting safe and sustainable innovation, increasing the resilience of payments infrastructure and the wider ecosystem, and establishing effective governance frameworks and funding models. For the reasons stated above, we emphasise three key points of focus we believe will help the Bank to achieve its goals:

1. The critical role of stablecoins;
2. The mixed payments ecosystem objective; and
3. The importance of permissionless DLT payment systems.

We also encourage the Bank to prioritise identifying and embracing technologies – including programmable, permissionless DLT systems – with the potential for outside impacts on its policy goals as a key aspect of its primary policy objective of maintaining financial stability rather than as one part of its secondary objectives of supporting competition, competitiveness and growth.

#### Risk Appetite

Coinbase agrees that the holistic approach to addressing innovation in money and payments described by the Bank in the Discussion Paper is the right focus as digital assets continue to become more commonly adopted in the UK economy. While we understand the Bank's low-risk appetite for a significant shift away from settlement in central bank money toward commercial bank money and other forms of private money, we strongly encourage the Bank not to treat this position, in practice, as a *de facto* barrier to more expansive use of private money in appropriate circumstances. Such a "no risk" appetite position would run contrary to the Bank's stated policy objective of supporting safe and sustainable innovation in retail payments.

#### Flexible Approach

The Bank should also remain open to adjusting its approach in the future. As technologies that are new today mature, become more familiar, and develop new capabilities suited to achieving the Bank's policy objectives, the appropriate allocation of settlement activity between central bank money and different forms of private, commercial money may change. The Bank should be guided by whatever the appropriate balance may be to best achieve the public interest in present and future economic environments, and the best way to achieve that target balance over time, rather than remaining anchored on what that balance has been in the past.

## Conclusion

Coinbase appreciates the Bank's active engagement with the public on the policy considerations regarding innovation in money and payments. We look forward to continuing to share our experience and expertise for the benefit of the public.