



October 19, 2021

House of Lords Economic Affairs Committee
United Kingdom Parliament
Westminster, London SW1A 0AA

RE: Call for Evidence on Central Bank Digital Currencies

Dear House of Lords Economic Affairs Committee,

The Blockchain Association (the “Association”) appreciates the opportunity to share its views regarding the House of Lords Economic Affairs Committee’s (the “Committee”) call for comment on the main issues confronting HM Treasury and the Bank regarding central bank digital currencies (CBDC), and how a CBDC might affect the role of the Bank, monetary policy, and the financial sector.

The Blockchain Association is a not-for-profit organization dedicated to improving the public policy environment for public blockchain networks to allow them to develop and prosper in the United States. The Association endeavors to educate policymakers, courts, law enforcement, and the public about the inner-workings of crypto networks and the need for regulatory clarity to make way for a more secure, competitive, and innovative digital marketplace. The Association is composed of industry leaders who are committed to responsibly developing and supporting public blockchain networks fueled by cryptocurrencies. Its diverse membership reflects the range of this dynamic market and includes projects that contribute to cryptocurrency and blockchain networks, cryptocurrency exchanges, and early stage investors that support the entire ecosystem.

We feel that our perspectives can help provide the Committee with answers to their questions regarding the benefits and risks that HM Treasury and the Bank might face when deciding whether to incorporate CBDCs into the UK’s financial system. As a threshold matter, it is important to note that the Association does not feel it has the expertise or authority to comment on a foreign government’s ability to digitize its currency through a CBDC due to our strong focus on US crypto policy. However, we believe we can provide insight into guiding principles and aspects of CBDCs that ought to be considered during your investigation. Specifically, we would like to address the fact that there is a thriving ecosystem based in the private sector that already achieves many of the benefits that CBDCs would offer.

Specifically, stablecoins, or a cryptocurrency whose value is fixed to another asset, are a private sector development that benefits individuals and the national economy. Some of the benefits of stablecoins include, but are not limited to, enhancing financial inclusion, generating more efficient and cost effective cross-border transactions, and creating a stable store of value for users. Stablecoins have flourished in the existing private financial sector because individuals view these asset-backed tokens as a way to exercise low-cost financial autonomy while

maintaining their individual privacy, a benefit that CBDCs cannot necessarily claim to offer. In fact, CBDCs could potentially grant the Bank and HM Treasury an unprecedented amount of data on individual transactions and Personal Identification Information (PII), which could increase users' fears that the government is surveilling their personal lives. Additionally, CBDCs would centralize this very sensitive information, creating a data "honey pot" that represents a new and significant threat of hacking from hostile actors. Privacy provisions can be built into a CBDC, but stablecoins already offer this feature and can be used as a great tool that the state does not necessarily have to reinvent. While the Association acknowledges the importance of the Bank and HM Treasury maintaining oversight on AML/CFT related issues, we believe the House of Lords Economic Affairs Committee should consider individuals' right to privacy paramount when considering whether to develop or implement a CBDC.

Another factor that the Bank and HM Treasury must consider when deciding whether to develop and implement a CBDC into their financial system is that such development and implementation could limit, if not stagnate, the private sector's growth and innovation in creating competitive financial products. If Parliament does not properly balance the public and private sectors, i.e. if Parliament develops a CBDC that prevents stablecoins from competing with this national digital currency, the innovative potential that comes from a competitive marketplace will surely be lost. Should the United Kingdom develop and integrate a CBDC into their financial system, Parliament must ensure that private stablecoins can coexist and integrate with the financial ecosystems that these CBDCs create.

On a global scale, a CBDC could provide for greater currency and price stability for the Pound, facilitate more efficient international trade and exchange, and increase financial inclusion, all goals which were highlighted in the G7's recent [publication](#) of its Public Policy Principles for Retail CBDCs. The Association believes that as more nations follow the United Kingdom's lead in investigating and potentially incorporating CBDCs built on a blockchain, the aforementioned benefits may very well be met. However, the importance of Principle 5: Competition, and Principle 9: Digital Economy and Innovation, are crucial to the success not only of a potential UK CBDC, but the overall health of the digital finance ecosystem. If integrated, the association believes a CBDC should serve as a complement to the existing digital and physical currency spaces, rather than a replacement for either. A CBDC will greatly benefit from the success of stablecoins, as citizens will receive greater benefits from increased competition derived from private sector innovations. Additionally, increased consumer choice from healthy competition within the digital finance space, alongside incentivized innovation from the private sector will allow the aforementioned benefits to exist when private stablecoins and CBDCs can coexist.

In conclusion, the Association believes that while the United Kingdom could adopt a CBDC, the myriad domestic and international benefits for both its citizens and economy is currently being afforded to the UK's citizens through the private sector. At a minimum, it is crucial that Parliament, throughout this exploration process, acknowledge the many benefits that innovative cryptocurrency products derived from the private sector have provided to British society and citizens. The Association applauds the House of Lords Economic Committee's efforts to investigate the potential of cryptocurrency and blockchain technology for the UK and its financial system, and we offer ourselves as a resource that the Parliament can leverage when

crafting policy aimed at further developing and integrating this technology whether it be through a CBDC or the continued development of the stablecoin ecosystem in the UK.

Sincerely,

A handwritten signature in grey ink that reads "Kristin Smith". The signature is written in a cursive, flowing style.

Kristin Smith
Executive Director