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Bank of Japan

**Opening Remarks at the First Meeting of
the Liaison and Coordination Committee on
Central Bank Digital Currency**

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(English translation based on the Japanese original)

I would firstly like to thank all of you for attending the first meeting of the Liaison and Coordination Committee on Central Bank Digital Currency (CBDC) today.

Since the release of "The Bank of Japan's Approach to Central Bank Digital Currency" in October 2020, the Bank of Japan has been preparing to conduct experiments, such as specifying basic requirements of the test environment and selecting partners to collaborate with, in accordance with this approach.

We will begin to test the technical feasibility of the core functions and features required for CBDC through a Proof of Concept (PoC) from April 2021. If the Bank judges it necessary to go a step further, it will also consider a pilot program that involves payment service providers (PSPs; e.g., banks and non-bank PSPs) and end users.

While there is no change in the Bank's stance that it "currently has no plan to issue CBDC," we believe that initiating experiments at this stage is a necessary step. Essentially, the future of payment and settlement systems will depend on the technology available at the time. Safe and convenient payment and settlement systems will be developed using the technology of the time, and it is therefore uncertain whether CBDC will be required or not. However, given the current factors at play, including technology and developments at home and abroad, there is a reasonable possibility for CBDC to provide a means of payments and settlements and for such systems to become global standards.

It is only in this last year or two that CBDC projects have started to gain momentum worldwide. The initial reactions to CBDC in Japan were those that questioned the need: whether the issuance of CBDC would be critical in Japan, where people are able to use cash safely and most people hold bank accounts; or whether there were potential cases for the use of CBDC, and, if any, whether they could be addressed by alternative solutions that did not require such extensive and large-scale efforts as CBDC. While these points remain mostly true, it is also important to understand why CBDC is seriously considered in various jurisdictions.

International debate on global stablecoins has taken place at the Group of Seven (G7), the

Group of Twenty (G20), and other forums since 2019. Such debate, however, has merely been a starting point for wider discussion. In other words, we need to consider the nature of payment and settlement systems in a digital society. This exploration is essential to the payment and settlement ecosystem in that it sheds light on issues such as roles of banks and non-bank PSPs; public goods that the public sector, including central banks, should provide; and ways to balance data use and privacy. These are inevitable issues that need to be addressed, with or without CBDC.

We may not be able to answer these issues solely with the logic of payments and finance. The answers may also vary by jurisdiction. For example, the use of data in business as well as the expansion of customer touchpoints through data utilization are the main drivers for businesses in the digital society. How and to what extent data can be used with consideration for privacy are the fundamental rules for each jurisdiction to reference in the digital society. These considerations have, in fact, been serving as important factors in determining whether to issue a CBDC in each jurisdiction and will have substantial influence on the actual design of each CBDC.

There is no doubt that future payment and settlement systems will become more convenient with developments in technology. However, it is not clear whether these systems will be safer. In the modern world, while the risk of carrying cash has been reduced, online money theft and personal information leakage have become a source of concern. In this way, there is often a tradeoff between safety and convenience. Central banks and the deposit insurance system have played supplementary roles in mitigating this tradeoff. We need to consider the best balance between safety and convenience, as well as the roles central banks, banks, and non-bank PSPs should play in the digital society.

While it is not that we need to come up with solutions to these issues immediately, we need to remain aware that we might need to use CBDC as a part of our solutions at some time in the future. In this regard, I believe that it is important to start the experiments while at the same time exchanging views with stakeholders like yourselves at this point.

More specifically, if we were to issue CBDC, its design would need to be consistent with the

whole structure of future payment and settlement systems. The future payment and settlement systems as a whole would certainly need to be safer and more convenient, but this does not mean that the CBDC would need to have all the convenient features by itself. Cash, in fact, is somewhat inconvenient physically in that it could pile up and be stolen. However, this allows cash to coexist with bank deposits and other payment services in an appropriate way to balance the overall safety and convenience of the payment and settlement systems. These role-sharing arrangements will still be necessary even in a world with CBDC. I believe that it is the private sector, such as yourselves, that should be the chefs who serve up the dishes, or convenient payment services, by using CBDC -- provided as a public good -- as an ingredient.

It is not true to say that central banks cannot bring innovation. To date, we have implemented new ideas in areas such as monetary and prudential policies as well as payments and settlements. However, it will never be possible for central banks to serve as a point of contact between individuals and firms to meet their various needs. Moreover, there should be a competitive market for payment services. I believe that the PSPs that manage to offer more convenient services in accordance with the needs of the time and the customers' individual needs should earn profits. In designing a CBDC that serves as an "ingredient" or "seed" of an effective two-tiered system of a central bank and the private sector, we need to engage in close dialogue with the main providers of payment services. I hope that you will join forces with us in our project to consider payment and settlement systems suitable for the digital society while also incubating new business ideas within these systems.

Thank you for your attention.