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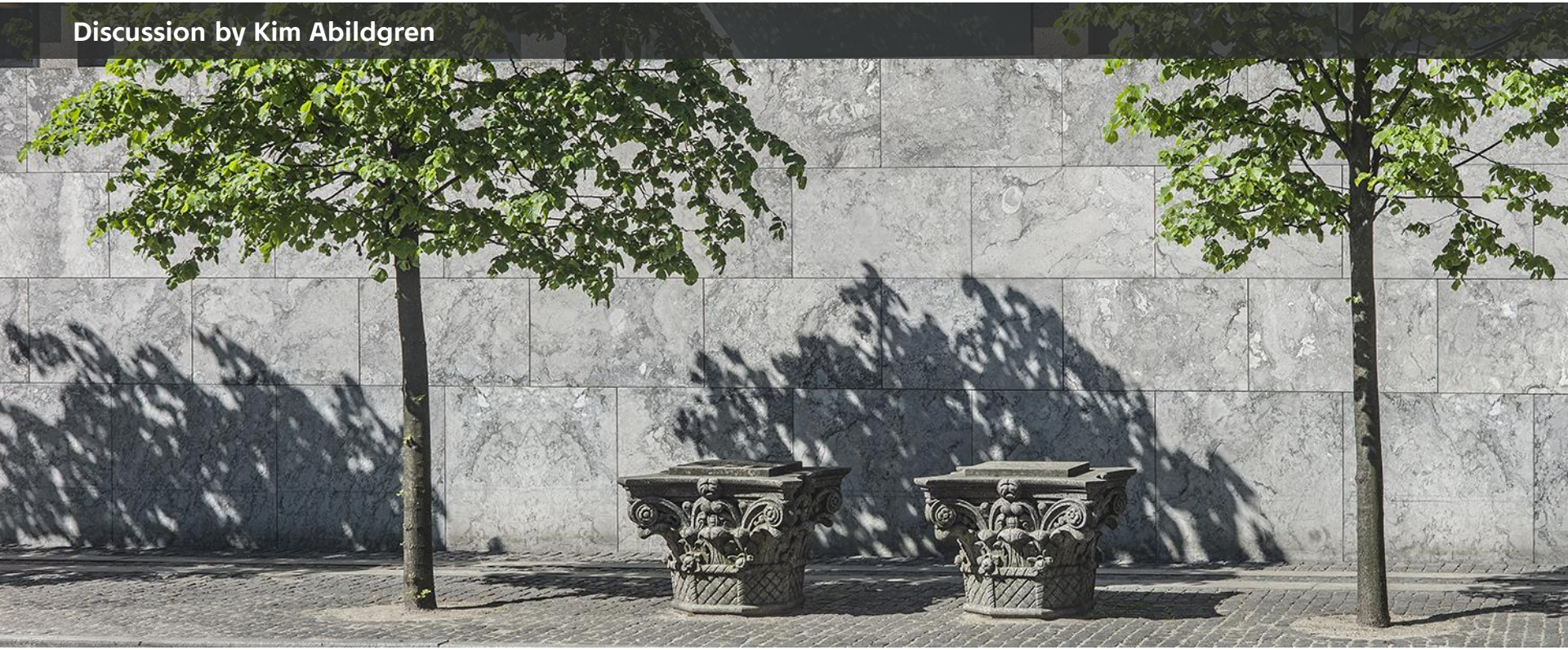
2020 EBA POLICY RESEARCH WORKSHOP on "New technologies in the banking sector – impacts, risks and opportunities", virtual event, 12-13 November 2020

CASTRÉN, KAVONIUS, RANCAN: "DIGITAL CURRENCIES IN FINANCIAL NETWORKS"

Discussion by Kim Abildgren



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Views and conclusions expressed in the presentation are those of the author and do not necessarily represent those of Danmarks Nationalbank.

Brief recap of the paper

Research questions:

- How to treat DC within SNA/ESA?
- Effects of shift to DC on financial structures?

Key findings:

- CBDC/stable coin fits into financial accounts framework.
- Shift towards DC might cause significant adjustments in balance sheets of all sectors.

Overall assessment

Main strengths:

- Topic of great interest for policy makers and regulators.
- Clear focus and easy to follow.
- One of first studies on treatment of DC within SNA/ESA.

Scope for further work:

- No guidance to readers on the probability distribution (relevance) of the different scenarios.
- Makes it hard for the reader to grasp the key takeaways from the scenario analysis.

Why would households and firms shift towards digital currencies?

- Lower transaction costs?
- Better functionalities (convenience yield)?

And if so:

- Why have DC lower transaction costs/better functionality?
- Why would banks not just start to issue DC themselves?

Answers could indicate relevance of scenarios.

Do we need additional dimensions to SNA/ESA classification to assess the potential for switching to non-bank DC?

(a) Functional attributes?

(b) Legal and regulatory attributes?

(a) Functional attributes

Which functionalities do (non-bank) digital currencies and more traditional (bank-based) payment instruments possess?

- General-purpose (generally accepted means of payments)?
- Cross-border use?
- Accessibility - requirement of special hardware?
- Stable value relative to goods/services (store of value)?
- Measured in same units as prices (unit of account)?
- Anonymity of payment transactions (bearer instrument)?
- Additional services available?
- User costs? And societal costs?
- Fast execution and settlement (domestic/cross-border)?
- Operational stability?
- Cyber-resilience?

(b) Legal and regulatory attributes

- Legal tender?
- Regulated by the FSA?
- Direct (or indirect) claim on a clearly identified issuer?
  - If stable coin, legal claim on the underlying asset?
  - If stable coin, is there a living will?
- Deposit insurance?
- Non- or hard-transferable network effects?
- Other *de facto* monopoly/monopolistic elements (technology/knowledge)?

Summing up

I like this timely paper!

Offers a framework for thinking about DC within SNA/ESA.

Readers could benefit from a more throughout discussion of the probability and relevance of the various scenarios.

Adding more dimensions to the standard SNA/ESA classifications might be useful in this context. Ongoing work at the BIS could serve as inspiration.

The paper might be developed into an important input into future versions of statistical compilation manuals.