BIS: CBDC Roll-outs may require changing The Constitution

1 Comments

BY MARK E. JEFTOVIC | July 8, 2023 lockheight: 797,695

Also: "Tiered remuneration" means no privacy and negative interest rates.

The IMF is warning that with all these CBDCs about to launch, there need to be global inter-operability standards between them all, and they're working on a global platform to facilitate just that.

Speaking at a conference of African central banks in Rabat, Morocco, IMF Managing Director Kristalina Georgieva said that there needs to be agreement among CBDC implementations,

> *"on a common regulatory framework for digital currencies that will allow global interoperability. Failure to agree on a common platform would create a vacuum that would likely be filled by cryptocurrencies"*

Not to be outdone, the Bank of International Settlements (BIS) worked with seven central banks to publish YARP (Yet Another Research Paper) on CBDC policy, entitled "Central Bank Digital Currencies: ongoing policy perspectives"… (*yawn*).

The central banks involved were: Japan, Sweden, Switzerland, England, the United States, Canada, and the European Union.

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The paper is *mostly* a snoozer:

> *"Development of CBDC work requires careful consideration and engagement with a wide range of stakeholders, including the private sector and legislators"...*
> *"To successfully meet its public policy objectives, a CBDC ecosystem should allow a wide range of private and public stakeholders to participate and, in doing so, deliver services which benefit end users."...*
> *"The complex design questions and the potential risks arising from the implementation of any CBDC require careful consideration."*

Until you get to the rather innocuous sounding Annexes, like "Box 2: Legal Considerations".

This is where it starts to get interesting.

What are retail CBDCs, exactly?

The paper wonders: Are they cash? Deposits? Or something else entirely?

This is quite the question, because if CBDCs *aren't* cash, there has to be a reason why they wouldn't be. When you start to see where CBDCs are going: expiry dates, programability, *social credit scores* – what we're talking about is almost a kind of *anti-cash* (my observation, not the paper's).

Further, the paper wonders, would there need to be changes to banking charters, legislation or even *the constitutions* of the countries issuing them:

> *"Legislation may need to be enacted or adjusted to specifically authorise the issuance and distribution of a retail CBDC (eg changes to central bank charters/statutes, legislation in other areas related to payments or to the constitution itself)"*

Who had "new Constitutional convention" on their bingo card for the roll-out of CBDCs? We do now.

Box 3: What tools may be needed to manage stressed conditions?

Here we truly get a peak behind the curtain – and it's all dressed up in that Davos-dialect of benign-sounding euphemisms that belie a Brave New World (like how "recontextualizing food chains" basically means banning the peasants from eating meat).

They get right to it:

> *"When considering potential tools and policies to manage stressed conditions (eg limiting or managing fund outflows from bank deposits), there are price and quantity control approaches, with a mix of the two also being possible"*

Those would be *your* bank deposits. In this section they're gaming out how to contain bank runs.

> *"Quantity holding limits have the advantage of directly limiting the extent of potentially harmful levels of disintermediation (eg structural changes resulting from CBDC adoption that increase the cost or availability of credit across the economy), and being relatively simple to implement.*
> *However, they also have disadvantages, such as potentially impacting adoption; this may happen if holding limits increase the risk of failed transactions occurring, or make CBDC transactions less convenient, especially if alternative forms of digital money (eg stablecoins) do not present similar limits."*

Translation: We can cap how much ~~money~~ SerfCoin *you're permitted to hold*, so we don't blow up the system with too much SerfCoin issuance, but if we do that, you may not want to hold SerfCoin, opting for stablecoins (and cryptos) instead – where no such limits would apply.

> *Implementing limits may also have knock-on effects on the potential functionality of CBDC.*
> *Technical solutions such as "waterfall" or "cascade" functionality, whereby CBDC holdings or payments that would breach a limit would automatically be transferred into other deposits, could be considered to ease the effects of being close to any holding limit/threshold.*

Translation: We can build in safety valves that would automatically move your money SerfCoin into other accounts, and even make such transfers *obligatory*. But that could get tricky, because that might technically be, well… theft.

When I read what comes next:

> *Price-based measures like fees and tiered remuneration have the advantage of being more flexible by allowing for any size of transaction or holdings, albeit at increasing costs.*
> *In principle, the decision about the amount of CBDC transferred or held above a certain level is influenced via incentives but still relies primarily on each user's preference. However, price-based measures may permit larger inflows into CBDC in stress situations compared with holding limits as the fee or scale of negative remuneration required to dissuade runs may be very large.*

Those are again quite benign-sounding terms, however if you look into it, it becomes apparent that terms like *"tiered remuneration"* have very specific meanings within the body of academic thought around CBDCs.

Tiered Remuneration: eliminating cash, privacy and the ability to save

The ECB's Ulrich Bindseil discusses this at length in a 2019 paper "Controlling CBDC through tiered remuneration" (in fact my money is on Bindseil being the main author of this BIS paper; only the central banks involved are cited on the cover page).

In his paper, the tools of "two-tier remuneration" are examined to mitigate *"risk of facilitating systemic runs on banks in crisis situations".*

The paper acknowledges the CBDC role in the elimination of cash (banknotes) and that they effectively end anonymity in transactions and prevent *both* "illicit transactions" and "store of value", because CBDCs – through tiered remuneration – *"Allows overcoming the ZLB as one may impose negative interest rates on CBDC".*

To wit,

> *if digital cash is used to completely replace physical cash, this could allow interest rates to be pushed below the zero-lower bound…By allowing overcoming the zero-lower bound ("ZLB") and therefore freeing negative interest rate policies ("NIRP") of its current constraints, a world with only digital central bank money would allow for – according to this view – strong monetary stimulus in a sharp recession and/or financial crisis. This could not only avoid recession, unemployment, and/or deflation but also the need to take recourse to nonstandard monetary policy measures which have more negative side effects than NIRP.*

However,

> *Opponents of NIRP will obviously dislike this argument in favor of CBDC, and will thus see CBDC potentially as an instrument to overcome previous limitations of "financial repression" and "expropriation" of the saver."*

Wow.

Later in the paper we get to what tiered remuneration means: the more SerfCoin you have, the lower your interest rate, *even going negative beyond a certain point*. It's like a built-in wealth cap and tax at the same time, where the only way to avoid it, presumably, would be to *spend* it – thus shoring up money velocity.

It overlooks the obvious: that those with any meaningful amount of wealth would have the incentive to avoid storing any of it in a CBDC at all.

The BIS paper dropped around the same time a copy of the EU's "Digital Euro Bill" was leaked and details published by Coindesk; notable in that is the provision that any digital Euro *must* function in an offline mode, protect privacy (i.e. be like cash) and *must not* be programmable.

It will be interesting to see which vision of CBDCs prevails (although the proponents of the BIS model could profess that tiered remuneration is more structural than programmable, but automatic and obligatory swaps of deposits to other accounts seems harder to rationalize)

That said, Christine Lagarde also clarified in April that "programability" will be done at the retail banking level:

> *"For us [central banks], the issuance of a digital currency that would be central bank money would not be programmable […] Those who can associate the use of digital currency with programmability would be the intermediaries — would be the commercial banks"*

…which gives us a hint at something else we've been pondering in our monthly coverage of CBDCs in The Bitcoin Capitalist ("Eye On EvilCoin" section): *how will the big banks avoid being disintermediated out of existence when central banks create CBDC accounts directly to the consumer?*

Maybe they'll be the ones enforcing the expiry dates, negative interest rates, social credit scores and personal carbon footprint quotas and that will become the raison d'être of the Too Big To Fail Banks.

Today's post is an excerpt from the my premium newsletter The Bitcoin Capitalist. Try it for a month here.

My next e-book The CBDC Survival Guide should be out this summer sign up for The Bombthrower list and get it free when it drops, and receive The Crypto Capitalist Manifesto in the meantime. You can also connect with me on Nostr or Twitter.

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GotCollateral
July 8, 2023 at 4:03 am

TBTF banks only transfer their risk onto a particular countries sovereign bond market. Th real threat to them is DeFI (which did an ath of 22% of all spot volume crypto volume in 2023 from 0% in 2018).

Will be even higher during the next bull once alot of the self custodial BTC protocols come on line which will make it easier to use BTC on EVM chains.

On chain derivatives has barely taken off yet, which will be come more popular as centralized counterparty clearinghouses build up massive amounts of sovereign toilet paper risk at the same time as increasing politcal/economic stress in global jurisdictions. << the real risk to TBTF banks

Reply

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