22 June 2023

Digital Pound Consultation
CBDC Unit
Bank of England
Threadneedle Street
London
EC2R 8AH

SENT VIA EMAIL TO: Digitalpoundconsultation2023@bankofengland.co.uk

To whom it may concern,

Re: Bank of England's Consultation Paper The digital pound: A new form of money for households and businesses?

About GDF

GDF is a not-for-profit industry body that promotes the adoption of best practices for crypto and digital assets, and digital finance technologies through the development of conduct standards, in a shared engagement forum with market participants, policymakers and regulators.

Established in 2018, GDF has convened a broad range of industry participants, with 300+ global community members - including some of the most influential digital asset and blockchain companies, financial institutions, and professional services firms supporting the industry.

The GDF Code of Conduct (the 'Code') is an industry-led initiative driving the creation of global best practices and sound governance policies. GDF is informed by close conversations with regulators and developed through open, inclusive working groups of industry participants, legal, regulatory and compliance experts, financial services incumbents and academia. The principles set out in the Code undergo multiple stages of community peer review and open public consultation prior to ratification.

The input to this response has been curated through a series of discussion and roundtables and GDF is grateful for all of its members who have taken part.

As always, GDF remains at your disposal for any further questions or clarifications you may have and we would welcome a meeting with you to discuss these matters in more detail with our members.

Yours faithfully,

Lavan Thasarathakumar
Director of Government and Regulatory Affairs, Global Digital Finance

Response to the Bank of England's Consultation Paper The digital pound: A new form of money for households and businesses?

Question 1: *Do you have comments on how trends in payments may evolve and the opportunities and risks that they may entail?*

The main actors involved in the evolving payments scene are:

- **Central Banks** – determining the technical specifications, policy framework and regulatory aspects of the CBDC
- **Government agencies and regulatory bodies** – ensuring alignment of the CBDC with existing financial systems, as well as ensure monitor potential risks, safeguard financial stability, protection consumers and install regulatory frameworks for the functioning of the CBDCs and service on it as e.g. anti-money laundering measures.
- **Financial Institutions** – like commercial banks or payment service providers
- **Technological companies or FinTechs** – those providing technical solutions in building the underlying infrastructure for the CBDC, like wallet providers, or in general different VASPs.

Various payment systems increasingly serve as alternatives to cash or traditional digital transfers. The prevalent trends include:

1) Open Banking and Open Finance

- Open Baking and Open Finance allow consumers to access and share their banking data security with authorised third-party providers, enabling personalised financial products and services, an improved customer experience, greater collaboration and innovation across the financial sector, as well as higher efficiency through integration of interconnected ecosystems. Such initiatives promote competition, coherency and integration of the market.
- The risks and challenges connected involve performance issues and synchronised standards, data privacy and security concerns, consent of data subjects, ensuring equal access across the market, fair competition, as well as establishing responsibility systems - deciding who is to be accountable when many actors are involved in the open banking environment. The objective of the digital pound should be to create an infrastructure that allows for future developments which might be unknown for us at the moment. Moreover, it is crucial to facilitate the newly developing payment systems now – this will allow for further growth and development of the market – fueling innovation. As part of this, the digital pound should be able integrate and bring together existing innovations.

2) Development of the privately issued stablecoins

- The financial sector has witnessed a fast development of stabelcoins. Stablecoins harnesses the advantages of digital asset infrastructure - efficient and instantaneous transactions, accessible and transparent technology - while tackling the volatility and insecurity of other crypto currencies.

- The Bank of England and the HM Treasury should ensure that developing a digital pound should not exclude the further development of privately issued stablecoins. A regulatory framework that facilitates the safe use of stablecoins alongside the digital pound and promotes financial interoperability between the systems is crucial for developing the innovative and diversified financial services sector.

3) Development of Decentralised Finance (DeFi)

- DeFi is a quickly developing sector with promises of financial inclusion, transparency and audibility, and increased efficiency thanks to smart contracts, innovation and higher interoperability between various services. Due to a lack of a regulatory consensus and a technology-tailored regulatory approach, DeFi faces risks connected to cybersecurity threats, illicit financial flows or fraud.
- Nonetheless, with the development of regulatory standards, DeFi could benefit from integration with the digital pound. The centrally backed digital coin could give DeFi platforms an alternative to more volatile private crypto currencies - the digital pound could serve as collateral, medium of exchange or a settlement asset - boosting liquidity, security and trust in DeFi protocols.

4) Embedded Finance (BaaS)

- More companies across sectors such as e-commerce, retail, social media and software are integrating financial services into their offerings to enhance customer experience and to provide a broader range of services. Embedded finance fosters innovation and collaboration between traditional financial institutions, fintechs and non-financial companies – leveraging their mutual expertise and driving technological advancements. Due to its accessibility and payment alternatives to traditional finance, it often features varied crypto currencies, stablecoins or DeFi.
- Creating a digital pound will create significant competition for those services and technologies. The CBDC infrastructure should create an inclusive infrastructure that only allows such developments.

5) Programmable money

- Varied forms of digital currency allow for the execution of predefined, automated actions through a computer code (smart contracts) thanks to their design created on a digital ledger (DLT). Programmable money allows for building complex financial instruments, such as derivatives, options, or futures, by embedding the necessary logic directly into the currency itself. It combines the characteristics of traditional money with the efficiency, reliability and flexibility of a computer code.
- Similarly to the previously mentioned developments, the digital pound should ensure sufficient headroom for those technologies to develop alongside the CBDC ecosystem and be interoperable.

6) Digital literacy and financial literacy

- CBDCs could have a negative impact on digital and financial inclusion due to lower levels of digital and financial literacy among some age groups, income groups or minority groups. Transforming the financial system to operate in a digital sphere will pose a challenge for those who are less versed in the use of technology.
- The impact of the CBDCs on the more vulnerable groups can be mitigated by the governments and central banks by *inter alia* introduction of educational programs or campaigns raising awareness about the use of CBDCs and related services. The government can also introduce policies that economically support the ones who cannot afford the necessary technological tools to participate in the digital financial system.

Many newly developing payment systems provide fresh opportunities, and a friendlier user experience, driving innovation and boosting sales. Nevertheless, a prevalent risk arising from their fast development is a potential need for interoperability and synchronisation across different payment ecosystems. If uncoordinated, the innovation offered by private system providers can lead to market fragmentation or skewed market access, which in turn could cause monopolies of dominant and closed private payment ecosystems – reducing competition, development and innovation on the market and causing inconveniences for consumers.

CBDCs will surely attract a lot of attention from users as they provide a reliable financial payment system which harnesses the benefits of the reliability and trust of a centrally backed currency – avoiding high volatility, scams and cybercrime, – together with the efficiency of a digital currency created on the blockchain – fast, safe and without the additional fees of commercial banks or other intermediaries. Nevertheless, it is imperative to make sure that the digital pound does not fully dominate the financial payments market and to allow different technologies to further innovate and develop.

The Bank of England and the HM Treasury play a crucial role in coordinating the fair development of the new payment systems and ensuring their interoperability. A digital pound could be one of the potential solutions to ensure that a mutual platform is created on which new payment systems can develop in a harmonised manner. It could act as a bridge that connects different applications, financial institutions, fintechs and other businesses or services involved in the vast payment systems network. Furthermore, the Bank and the Treasury should focus on ensuring that international technological and regulatory standards are interoperable – allowing the CBDCs networks to work across borders.

It is imperative to ensure that an architecture of the digital pound is built to support the many varied and quickly developing services in the financial payments sector. To facilitate this, GDF would like to stress the importance of coordination between different regulatory institutions and a shared vision that aims to develop safety, efficiency, and innovation through fair competition in the market. Introducing consultations and progressing regulations of new forms of digital payments (such as stablecoins) should be conducted alongside the introduction of the digital pound - allowing service providers and users not to be limited to solely existing commercial banks and other Financial Institutions.

Moreover, to promote innovation, the Bank and the HM Treasury should engage in a dialogue with the industry - both FinTechs and financial institutions to ensure that introducing a digital pound is interoperable with their services, facilitates varied needs and is accessible. Public engagement on the topic will ensure that the CBDC receives trust and confidence-boosting its use and the growth of services built on top of it.

GDF members are supportive of the Bank of England taking the first steps to become a first mover or a global early adopted of the CBDC. There is an advantage in being the first one to implement a digital currency as it allows to control the developing network, attract international attention, raise demand of the currency and ensure continued competitiveness of the Pound on the global stage. It places the United Kingdom as the leader in innovation and supports its pioneering position among other jurisdictions. Nevertheless, it is imperative to diligently consider how the infrastructure of a Digital Pound will accommodate and help grow new innovations that are in its initial stage of development or those technological solutions which we are unable to predict yet.

Question 2: *Do you have comments on our proposition for the roles and responsibilities of private sector digital wallets as set out in the platform model? Do you agree that private-sector digital wallet providers should not hold end users' funds directly on their balance sheets?*

GDF supports the 'platform model' organisation of responsibilities of private sector digital wallets. The model in which the digital wallet providers act as intermediaries between end users and the Bank ensures greater security, transparency and crucially takes pressure off of the Bank. The Bank would fully back the user's money in a CBDC account, ensuring it would be entirely risk-free. The intermediary model is an ideal marriage between the reliability, trust and advanced safety measures of the established financial institution as well as the innovative and customised additional services built on top of it.

Under the 'platform model', the Bank will develop and maintain a centralised core ledger where individuals will have direct claims on their digital pounds. Users will utilise regulated intermediaries to communicate with the ledger to access their accounts. These intermediaries will ensure a smooth link between the ledger and end users, offering additional value-added services through their digital wallet interfaces.

Requiring private sector digital wallet providers to hold end users' funds directly would require these providers to adhere to demanding banking regulations, including liquidity management, deposit insurance and a robust safeguarding of user' funds – rules which could overburden newly developed or developing firms. The proposed model reduces the entry barrier for wallet providers by removing the need for intermediaries to hold settlement assets and develop transfer mechanisms. The platform model paves the way for new innovators to operate in the payments space with reduced regulatory and compliance burdens compared to banks and Electronic Money Institutions (EMIs).

To reiterate, the proposal is promoting development by ensuring that new services have a lower barrier entry, face a more negligible risk connected to failure - as users' deposits are held directly by the Bank -, are less burdened with regulatory responsibility as they are not responsible for a balance sheet, and finally, they can rely on the Bank to build the transfer mechanism ('the switch') - increasing the resilience and trust of the digital pound. All these factors will lead to an increased activity of new services built on top of the digital pound infrastructure.

Nevertheless, the GDF members would like the Bank to further consider the incentives given to the private sector to step in to provide services on top of the CBDCs. Are there enough possibilities for the service providers to benefit from participating in the network? How do these benefits look like? Are they a sensible balance between the costs that the private sector will need to incur to oblige with the AML / KYC regulations and the income they will receive from providing services in the CBDC network?

Furthermore, GDF would like to highlight a concern that has not been considered in the consultation regarding adopting regulatory capital and regulatory accounting treatment. Accounting rule-makers may start off by clarifying that the private-sector digital wallet providers should not hold end-user’s funds directly on their balance sheets but as financial reporting rules evolve, the rules could be reconsidered. This is relevant for example in tax impacts: would spending the digital pound end up being considerable as tax reportable events (even if it does not end up generating taxes owed)? If e.g. accidentally, it does not meet a definition of a currency for tax purposes at the time of the roll-out, this might very negative affect retails users.

Question 3: *Do you agree that the Bank should not have access to users' personal data but instead see anonymised transaction data and aggregated system-wide data for the running of the core ledger? What views do you have on a privacy-enhancing digital pound?*

GDF endorses the notion that the Bank should prioritise privacy and refrain from accessing users' personal data, as well as ensure stringent cybersecurity measures to protect the reliability of a centrally backed digital pound. The trust in the institution of the Bank, promoted by privacy-enhancing measures and the connected safety of individuals' funds and data, will be imperative to the success of a CBDC.

GDF recognises that the government will need to collect data for the purpose of preventing financial crime (like fraud, ransomware, etc.), nevertheless, the authorities will need to be transparent about the level of insight that they will gain into the CBDC transactions. A proportional threshold should be implemented on the extent which government authorities can gather information, together with a due process that will allow them to fairly access such information – including any third parties involvement or the insight to the data of judicial entities.

An approach that is transparent and involves a fair due process informing parties on the data accessed by the government authorities could serve as a mechanism for rebuilding trust of the public to the government in the way the use data, which has decayed over the past decades. However, this must be done consciously, as at the moment, the narrative seems to be shifting in the opposite direction – in which little agency is provided to individuals concerning their personal information and how it’s used by the authorities. A sensible privacy policy could be used by the Bank as a sales pitch to the public encouraging the adoption of a digital pound. Yet, to achieve that, more information and clarity must be provided to the public on what banks and governments can currently see in user’s transactions and how they use this data. The framework should, therefore, include a general provision on what is the technical capacity for visibility of user’s transactions and then assess (through a dialogue with the community) what the threshold for that visibility actually should be.

In considering the threshold of privacy and use of personal data, the government should evaluate how personal data of user's is used by the BigTech – based on customers' 'willingness' or 'consent' to share that information. The government can differentiate itself from the Big Tech by focusing on highlighting the objectives for obtaining data – as security, protection and filtering for illicit financial flows. Nevertheless, in order to ensure trust from the public, it must adhere to clear and transparent boundaries of viewing that data for legitimate purposes and ensuring users are aware of it. This is necessary to make sure that the public is not invigilated and manipulated – as exposed in the Cambridge Analytica scandal.

Government as a whole comes in as several different vested interests that are not all aligned → complexity of argument

Moreover, in order to meet these objectives, the Bank must ensure that users' data is met with appropriate safeguarding measures and suitable standards across different wallets and services. The regulation needs to provide clarity on which actors (VASPs, banks, the government/the Bank, counterparties) has access to the transactions and PII information, under what circumstances and where this information resides (what is embedded in the transactions / blockchain, etc.). This is crucial for the purpose of transparency and data accountability.

Additionally, for the full functionality of the CBDC, the Bank should facilitate a safe data transfer system that allows individuals to smoothly switch between wallet providers together with their transaction history. This transition between service providers should be conducted by simultaneously guarding the anonymisation of data and the minimisation principle – the user's private information should be stored only and as long as strictly necessary.

The Bank should not create a centralised data collection system – raising concerns about proportionality and legitimacy. In designing the network's data policy, the Bank should maintain complete transparency in how data is processed, managed and stored in order to ensure the trust and reliability of the digital pound.

Moreover, the ensured interoperability of the CBDC with privately owned stablecoins will help to tackle privacy concerns connected to the digital pound. For these reasons, the interoperability with the stablecoins and other payment systems would ensure greater anonymisation and privacy - further promoting the use and trust of the users towards the payment method.

Finally, the privacy-enhancing structure of a digital pound would be more representative of cash payments.

In conclusion, as argued above, the Bank and the government have a number of complex objectives in ensuring a privacy-enhancing digital pound. A careful balance must be reached between protecting security, and financial stability, as well as gaining trust towards the CBDC and promoting its use among users and services.

Question 4: *What are your views on the provision and utility of tiered access to the digital pound that is linked to user identity information?*

GDF supports the proposition of implementing tiered access – distinguishing between the verification process standards and security checks according to the value of transactions.

Enabling tiered access based on the strength of identity verification supports both innovation and financial inclusion. By implementing tiered access that allows simpler user verification for lower-value transactions, it becomes feasible for cost-effective, innovative services and providers to enter the market and cater to specific market segments, as well as allow for more affordable and accessible services for users.

Placing too high KYC / AML requirements on service providers without significant remuneration (as in higher-value transactions) would have considerable consequences for the service providers. They would struggle to meet the costs of necessary checks and verifications, disincentivising their market participation and growth of new firms. The introduction of the CBDC should ensure to replicate the utility of existing payment systems and services.

We would also advocate for smooth and user-friendly verification processes across the entire network that are harmonised and interoperable. CBDC could employ a standardised digital ID for individuals that could be used in the whole framework – ensuring increased ecosystem efficiency, protection of sensitive data and financial inclusivity.

Furthermore, the tiered access model is in line with the KYC / AML regulations, which stress the principle of proportionality in their application.

Lastly, the tiered access to the digital pound would better reflect the traditional currency system where varying levels of consumer due diligence are required depending on the value of the transaction. A similar approach should be adopted in the digital pound. GDF members would like to argue for ensuring that in order to align the CBDC network with the model of the traditional monetary system (cash) and with financial inclusivity – there must be an amount that individuals can transact with the digital pound without any identity checks but in complete anonymity.

Question 5: *What views do you have on the embedding of privacy-enhancing techniques to give users more control of the level of privacy that they can ascribe to their personal transactions data?*

GDF endorses the proposal to incorporate privacy-enhancing techniques that empower users to control the level of privacy associated with their personal transaction data. Allowing users to determine the desired privacy level for provided services is crucial to granting individuals control over their data, increasing trust in the digital pound.

Data portability and data permission systems are necessary components of it. As described before, the Bank should introduce a framework where individuals can safely and smoothly switch between wallets or service providers. This would be beneficial not only for users but also for service providers - as described before, data portability and interoperability of the varied systems is a crucial component for adopting a digital pound.

Data subjects should be able to decide how their data is shared and accessed by third parties in the process. Other than anonymisation techniques to safeguard the privacy of its users, the Bank should consider how the processing of personal data should be legitimised across the network - whether on consent and/or contractual necessity. Here parallels, interactions and applicability of the GDPR and different data usage processes should be considered in regard to the CBDC.

Here the argument of thresholds dependent on the value-amount of transaction is also relevant. The data visible to the Bank or VASPs should correspond to the amount in question being transacted by the individual. This could be further supported and elaborated on by the use of a digital identity – promoting anonymity across the network, and the concept of digital provenance – providing truthfulness and trustworthiness in digital products.

Finally, throughout the entire ecosystem, the Bank should create data disclosure requirements that allow users to understand how their data and what data is available to the involved parties while ensuring that the conditions are comprehensible and feasible for the industry to meet.

Question 6*: Do you have comments on our proposal that in-store, online and person-to-person payments should be highest priority payments in scope? Are any other payments in scope which need further work?*

In terms of online payments, a digital pound might be particularly useful in online micropayments and the Internet of Things. It could facilitate quick, secure and seamless transactions for digital content and small purchases in the digital economy. Due to its transparency and security, it would also provide an additional safety layer against scams and fraud.

Other online transactions worth focusing on are government payments and benefits that could be issued through a CBDC. Distributing social welfare programs, pensions, and tax refunds through the digital pound would ensure efficient, quick and transparent fund distribution.

Moreover, due to the instantaneous nature of the technology, the CBDC might be utilised by individuals issuing remittances across borders. Other than technical development, facilitating remittances through the digital pound would require appropriate international cooperation and infrastructure to welcome such payments.

Programmable money is another area that would benefit from cooperation with a CBDC. Adapting programmable money infrastructure within the digital pound would allow for features like automating compliance and reporting, coding monetary policy, and targeted economic stimulus.

Finally, business-to-business payments are another area worth focusing on. A CBDC would enable faster settlement times, reduce transaction costs and enhance supply chain management for companies.

Question 7: *What do you consider to be the appropriate level of limits on individual's holdings in transition? Do you agree with our proposed limits within the £10,000–£20,000 range? Do you have views on the benefits and risks of a lower limit, such as £5,000?*

GDF recognises the objectives behind imposing an upper limit on individual's holding - to control for the development and impact of the digital pound at its first stages of introduction.

In considering the upper and lower limit of individual's holdings in transition, GDF would recommend taking into account the below factors:

- Innovation and growth: the limit should not be too low to allow for enough financial flows to cultivate innovation in the payments sector.
- Mitigating market monopolisation - the upper limit should ensure that not all transactions within a particular sector are absorbed and accumulated within the digital pound system. This could have unintended consequences. The Bank has to develop sensible monitoring tools that would allow to measure and control the monopolization of a market in CBDCs.
- International and cross-institutional compatibility: limits should be harmonised and communicated across borders to facilitate cross-border transactions as well as ensure the competitiveness of the digital pound.
- Financial inclusion: introducing a lower limit would potentially exclude certain segments of the population from participating in the digital economy – reducing the accessibility benefit of a CBDC. At the same time, a sensible balance must be achieved between maintaining appropriate safety requirements, levels of privacy, a technologically reliable, effective and safeguarded network – as well as its affordability and inclusiveness.

Having considered the above factors, GDF would like to propose a principles-based approach rather than a fixed figure. As mitigating market monopolization is difficult to assess and measure in terms of value limits – it should be done on a case to case scenario once the digital pound framework is introduced as it is tricky to predict beforehand for majority of markets. Setting a fixed threshold before the ground rules of a CBDC are set is problematic because we lack the necessary information behind it to back-up the number.

Question 8: *Considering our proposal for limits on individual holdings, what views do you have on how corporates' use of digital pounds should be managed in transition? Should all corporates be able to hold digital pounds, or should some corporates be restricted?*
GDF would caution against setting restrictions on corporates being able to hold the digital pound or holding it within a specified limit.

To ensure the widespread support and adoption of a CBDC, the corporate sector should be incorporated within the digital pound ecosystem, as it is a crucial sector for the digital pound adoption strategy. Corporates could use the digital currency to pay salaries, dividends, payroll or allow individuals to pay for their goods and services. Excluding corporates from holding the digital pound or by placing restrictions could lead to a lack of interoperability of the network and as a result fracturing or exclusion of different payment systems.

Question 9: *Do you have comments on our proposal that non-UK residents should have access to the digital pound, on the same basis as UK residents?*

GDF supports this proposition. It will ensure the competitiveness of the digital pound in the international space and the services operating on it - fostering innovation and growth. Moreover, it will ensure that the benefits of fast and instantaneous transactions can be utilised across the market – not excluding a significant portion of it (like non-UK residents). Additionally, it will also contribute to financial inclusivity of the digital pound.

Question 10: *Given our primary motivations, does our proposed design for the digital pound meet its objectives?*

The main concern that GDF would like to highlight here are:

i) The consequence of the proposal is that wallet providers will have a limited revenue which will in turn impact their ability to meet the considerable AML and KYC obligations. The intermediary (platform) model would limit the ability of service providers to have financial profits – due to tight margins created by the Bank and the lack of renumeration of the digital pound.

ii) Moreover, high liability costs for not fulfilling the AML and KYC obligations, together with limited profitability for service providers, could limit the development and innovation of the industry connected to the Digital pound – due to imbalance between the cost and benefits balance for new firms. GDF would urge the Bank to provide more clarity as to what AML and KYC obligations would be placed on service providers and to conduct a cost-benefit analysis for the commercial operability of potential wallet providers.

iii) Finally, it is unclear from the proposal how the Electronic Money Institutions (EMIs) license / regulatory framework will correspond to the Digital pound – whether EMIs can be authorised to operate as service providers within the network or will have to seek additional registration.

Question 11: *Which design choices should we consider in order to support financial inclusion?*

To foster financial inclusivity of the Digital pound, the following design choices should be considered:

- An effective and proportionate verification system must be ensured - both a tiered verification system that balances the complexity of the safety checks with the amount-value of the transactions as well as the incorporation of a digital ID integrated across the network would increase accessibility and inclusion of the digital pound. It would ensure that individuals and service providers would not have to abide by overburdensome regulations in the registration of users.
- Partnerships and collaboration with traditional financial institutions and credit unions are crucial to ensure that sufficient links and bridges are created between the payment system to promote

inclusivity and avoid the industry's fragmentation. Different convergence systems that link the networks should be adopted.

- Offline functionality is an important design that would increase the digital pound adoption. Some users may not have a stable and fast internet connection at all times, therefore, a potential adoption of peer-to-peer transactions offline should be considered to improve financial inclusion. It would also increase the usability and resilience of the CBDC.
- Privacy and security measures must be addressed in the design structures to ensure that the digital pound receives legitimacy and trust from its users and service providers.
- On top of that, GDF would promote financial education and public-private engagement regarding the digital pound. For the success of the CBDC it is important to allow the industry and its users to understand the functioning of the network, connected regulations and rights - with the goal of creating trust towards the payment system and ensuring its wide usability.

Question 12: *The Bank and HM Treasury will have due regard to the public sector equality duty, including considering the impact of proposals for the design of the digital pound on those who share protected characteristics, as provided by the Equality Act 2010. Please indicate if you believe any of the proposals in this Consultation Paper are likely to impact persons who share such protected characteristics and, if so, please explain which groups of persons, what the impact on such groups might be and if you have any views on how impact could be mitigated.*

A potential impact on the people who share protected characteristics could be:

- Not sufficient protection of data privacy or data breaches could lead to compromise individuals' privacy rights and potentially lead to discriminatory practices – such as excluding individuals from the granting of credit based on racial or social data obtained from the Digital pound network. Ensuring appropriate safeguards - such as data anonymisation - are imperative to protect individuals from potential discriminatory practices.
- Limited access to smartphones or other technological devices among vulnerable groups means that the introduction of a Digital coin could further the technological exclusion and marginalise people without such access. The groups most likely to suffer from this divide are the ones who face compounded discrimination - on an economic, social, racial and/or sexual basis - as protected in the Equality Act 2010.
- Often, the development of algorithms trained on existing data, if not corrected and monitored, can lead to discriminatory results – algorithms can perpetuate existing biases and inequalities. This can be mitigated through regular audits checking for fairness and equity of adopted automated solutions.
- Finally, an overly high lower limit imposed for the transacting in the digital pound or too high KYC / AML obligations will exclude those who are insufficient liquidity to participate or lack necessary documentation to enter the CBDC ecosystem.

Additional considerations

GDF members have pointed out that there is a lack of clarity as to the legal characteristics surrounding the CDBC implementation. The consultation has not considered whether the CBDC design should be tokenbased or account-based. The former would mirror the functioning of a fiat currency and the latter as a settlement mechanism. Both designs have different policy considerations that would follow if either model would be chosen.

Our members further raised concerns around programmability. It is unclear from the consultation whether programmability is expected to be a feature offered within the currency as an API, or alternatively, if PIPs could offer services that include programmable payments within the CBDC network. Here additonal consideration and clarity is asked – of how a programmable currency should be issued and controlled by the Bank of England and how PIP could deliver that programmability.

Overall, GDF would like to argue for a principles-based and a “same risk, same regulatory outcome” approach which will help the Bank of England develop strategies of implementing the CBDC that aim to see the bigger picture of how the CBDC network and infrastructure can impact the future developments and transformations of innovative payment systems and change towards a digital economy.