

New GFMA Paper by BCG and Clifford Chance Outlines Benefits and Challenges of Wholesale Central Bank Digital Currencies

Paper Encourages Collaboration between Public and Private Institutions and Outlines Opportunities, Challenges, and Questions Concerning the Design, Issuance, Legal Status, and Use Cases of wCBDCs

BOSTON, February 22, 2022— Over 70% of central banks have begun exploring the possibility of introducing central bank digital currencies (CBDCs). A new paper, commissioned by the Global Financial Markets Association (GFMA) from Boston Consulting Group (BCG) and Clifford Chance LLP, identifies the GFMA's critical considerations for the success of potential CBDCs in wholesale markets (wCBDCs).

Entitled *Central Bank Digital Currencies: A Global Capital Markets Perspective*, the paper is based on research, as well as extensive interviews conducted with contributing member firms and market participants with particular expertise relevant to CBDCs, during the fourth quarter of 2021.

The authors' recommendations stress that:

- Central banks in collaboration with the private sector should continue to explore the role that wCBDCs can play in driving innovation and efficiencies in wholesale markets.
- Central banks should take a measured approach in the introduction of wCBDCs and the timeline should be cautious to mitigate any potential transition risk impacting safety and soundness, and financial stability.
- wCBDCs are expected to operate alongside legacy instruments and systems, and not to replace them. It is therefore important for wCBDCs to be interoperable with the broader financial market ecosystem.
- The use of sandboxes, proof of concept, dialogue with market participants, and pilot programs based on specific use cases will test the application of wCBDCs and help identify the impact on capital markets.
- After sufficient analysis of lessons learned, financial institutions and regulators should define a transition period that is reflective of the risks and opportunities, and an effective implementation.

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The paper outlines the opportunities, challenges, and questions concerning the design, issuance, and legal status of wCBDCs, while introducing use cases to provide a framework for continuing a constructive conversation.

GFMA, which represents the leading global financial and capital market participants, takes particular interest in this topic as its members will play a critical role in the potential distribution and intermediation of CBDCs. Allison Parent, executive director, GFMA, said, "Banks are recognizing that the adoption of wCBDCs could enhance the efficiency, resilience, and effectiveness of money flows and capital markets, but for a wCBDC to be a valuable instrument, it must be part of a collaborative partnership between public and private sectors. In this paper, we outline a series of critical design and legal factors that must be taken into account."

"wCBDCs are designed to facilitate wholesale market transactions, with direct access to the wCBDCs limited to regulated financial institutions and PSPs. We and our partners recommend following the current two-tier structure which places central banks at the foundation of the payment system, while assigning end-user-facing activities to financial institutions and other PSPs," said Roy Choudhury, managing director & partner, BCG.

Simon Gleeson, partner, Clifford Chance, said, "The first rule of medicine is 'do no harm', and we must follow that principle as we work to transplant wCBDCs into the real world economy. Failure to get the legal status of wCBDCs right could pose a threat to the safety and integrity of markets and to privacy rights. The legal status of wCBDCs would have to be firmly established, guaranteeing wCBDCs as fungible to fiat currencies, before they became widely used."

A copy of the report can be downloaded [here](#).

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Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the

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About GFMA

GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA.

About Clifford Chance LLP

Clifford Chance is one of the world's pre-eminent law firms with significant depth and range of resources across five continents. As a single, fully integrated, global partnership, we pride ourselves on our approachable, collegiate and team based way of working. We always strive to exceed the expectations of our clients, which include corporates from all the commercial and industrial sectors, governments, regulators, trade bodies and not for profit organisations. We provide them with the highest quality advice and legal insight, which combines the firm's global standards with in-depth local expertise.

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