

Discussion Paper : Bank of England’s Approach to Innovation in Money and Payments (July 2024)

Digital Pound Foundation response – 31st October 2024

1. INTRODUCTION

- 1.1 The Digital Pound Foundation (**DPF**) is an independent, not-for-profit organisation working with a variety of stakeholders and participants towards the implementation of a well-designed digital pound, and an effective and diverse ecosystem for new forms of digital money.
- 1.2 The DPF welcomes the opportunity to engage with the Bank of England (the **Bank**) on its discussion paper "The Bank of England's approach to innovation in money and payments" of 30 July 2024 (the **Discussion Paper**).
- 1.3 In this response, the DPF (through its Policy, Legal and Regulatory Working Group) has set out a number of key comments and observations on the Discussion Paper. The DPF would like to acknowledge the level and quality of work that has clearly informed the Discussion Paper. The Discussion Paper has become a key focus for the digital money and assets industry, and that is a testament to the work that the Bank has invested in it.
- 1.4 The DPF believes that a digital Pound – in either or both a public and/or private form – will form an integral and important part of the future UK payments landscape, and a critical determining factor in the UK’s continued leadership in financial services and fintech at a global level.
- 1.5 The DPF’s members are uniquely qualified and positioned to contribute to the discussion around these topics, given their active involvement and engagement in the development of new forms of digital money – whether as professional services or technology providers for central bank digital currency (**CBDC**) projects, private issuers of digital money, or firms whose business models depend on the existence of new forms of digital money. Our response is therefore informed by a collection of forward-looking viewpoints.
- 1.6 The DPF’s Foundation and Associate members include [Accenture](#), [Avalanche](#), [Clearbank](#), [CMS](#), [Electroneum](#), [Fireblocks](#), [Quant](#), [Ripple](#) and [Travers Smith](#). Partners include [Herbert](#)

Smith Freehills, Hyperledger Foundation, [Positive Money](#), CryptoUK and the Digital Euro Association. Originating Members of the DPF include: [Jeremy Wilson](#), [Jannah Patchay](#), [Lee Schneider](#), [Victoria Thompson](#), [Phil Kenworthy](#) and [Melanie Budden](#).

2. OVERARCHING COMMENTS

Volume of projects and pilots

- 2.1** First, there are a significant volume of ongoing private and public projects and pilots concerning digital money. Examples include Project Agorá, Project Meridian, Project mBridge and the Regulated Liability Network (**RLN**).
- 2.2** These projects have the potential to unlock aspects of the sector where the industry is over-reliant on legacy technology. For example, the use of distributed ledger technologies (**DLT**) could transform cross-border payments and the movement of money globally.
- 2.3** However, the volume of projects and pilots also introduces potential challenges, especially in terms of overlap and duplication. Will the different solutions envisaged by these projects and pilots overlap? If so, how does the industry achieve the necessary economies of scale and network effects required for these solutions to be adopted widely by the financial markets? If not, and if they address different areas of the market, are they interoperable? The DPF recognises that many of these projects and pilots are in "discovery" and "experimentation" phases, where there will necessarily be overlap and duplication, but – in the medium and long-term – policymakers may need to take decisions on how these solutions fit together, with a "vision" (supported by clear timelines, accountability, and actions) to support the implementation of a coherent infrastructure to support innovations in digital money. The industry has already seen similar challenges in the retail payments sector – which, in turn, informed the need for the National Payments Vision.

The cross-border dimension

- 2.4** Secondly, it is important, at least longer term, that the mainstream solutions adopted at scale are also appropriate for, and interoperable with, cross-border solutions.

Technological neutrality

- 2.5** Thirdly, the DPF believes that any regulation put in place must be technology-neutral.

Various of the Discussion Paper's questions refer to DLT, but certain of the outcomes and functionalities sought might be achievable without the use of DLT. The DPF therefore believes that it is important to retain a contextual, technology-neutral lens when considering the issues raised in the Discussion Paper.

3. RESPONSES TO DISCUSSION PAPER QUESTIONS

Question 1: Are there areas in which programmable platforms, including those enabled by DLT might bring significant benefits and risks in payments and settlement?

3.1 The DPF believes that there are clear use cases where programmable platforms could bring significant benefits (and accompanying risks, that would need to be managed) to the sector.

Core distinctions

3.2 There are several important distinctions that should be drawn, between:

3.2.1 programmable money versus programmable payments; and

3.2.2 programmable ledgers versus programmable platforms (whether used for settlement or not).

3.3 **Programmable money** relates to digital money that has built-in rules or conditions into its code and can therefore determine how funds are spent. **Programmable payments** enable conditions to be attached to payment instructions (for example, that a payment be made upon completion of a particular task or fulfilment of certain pre-specified criteria).

3.4 A **programmable platform** is a system that has a series of codes or rules embedded in its design, in order to achieve a particular outcome. A **programmable ledger** is a shared ledger that records transactions without the need for a centralised system to maintain the ledger (often based on DLT).

3.5 One or more of these may be present in any particular solution, but the DPF believes it is important to distinguish between the specific functionality (or functionalities) in question – particularly when considering how best to unlock opportunities and mitigate risks.

3.6 In principle, it might be possible to have a programmable platform *that is not itself a payment/settlement system*, but which orchestrates the submission of instructions into existing payment/settlement systems at an appropriate point in time. This type of construct could be used to orchestrate two different legs of a transaction without requiring any

change to the fundamental settlement architecture, other than ensuring interoperability with new technologies (e.g. similar to the intention of overlay services for the retail payment systems).

- 3.7** The subsequent sections address the opportunities and risks associated with programmable platforms used *in connection with* payments and settlement, but where the platform is *not itself* the payment or settlement system. Some of the opportunities and risks may be equally applicable to new payment or settlement systems.

Opportunities

- 3.8** At the very least, the DPF sees clear opportunities for programmable platforms and new technologies to automate processes in a variety of scenarios. Two such examples would be: (1) the ability for open-ended funds to calculate the sale and execution of units immediately, rather than on a T+3 basis; and (2) in the context of real estate transactions, the automatic transmission of pre-positioned funds following the execution of a contract.

Risks

- 3.9** The DPF also sees relevant risks associated with programmable platforms and new technologies. There are several important questions and points that the Bank should be considering, including:

3.9.1 While there may be an effort to coordinate the moment of final settlement of a transfer of an asset on one ledger, with the final settlement of a transfer across another linked ledger, there is likely in practice to be some time delay (even if only minimal) between the moments at which each ledger is updated. This raises questions as to whether such models can deliver “true” delivery versus payment, or payment versus payment, settlement (and, if not, how the associated risks are to be managed), and the complexity involved in launching such a platform.

3.9.2 From a supervisory and regulatory perspective, is there a central operator of the programmable platform with legal and regulatory responsibility for its operation? If the platform connects into existing infrastructure (adopting a model similar to that outlined in paragraphs 3.6), how is it supervised and regulated (i.e. in the same way as existing financial markets infrastructures, or

in some new, different way)?

- 3.9.3 Who is liable, and in what circumstances, where the programming incorrectly operates?
- 3.9.4 Are there resilience concerns that stem from over-reliance and concentration risk on particular platforms? For example, concentration risk if the financial markets become reliant on particular systems, especially if those same systems are used for multiple markets. This could be an issue with the RLN, for example, if the RLN develops as an orchestration and message coordination layer that sits on top of the existing financial market infrastructure in the UK. Concentration risk is not new: many payment service operators across the globe utilise the same technology providers, such as TCS and Vocalink. However, the technology in question here is new and yet to be deployed at scale.
- 3.9.5 The specific risks associated with a programmable platform will also depend on the nature of the payment instruments that can be supported by those platforms. Different instruments (e.g. stablecoins with high quality liquid asset (**HQLA**) backing, without HQLA backing, and deposits) pose different risks that must be managed in different ways.

Question 2: How likely are programmable platforms, including those enabled by DLT, to be taken up at scale by wholesale financial markets?

- 3.10** In the longer term, the DPF considers this to be likely.
- 3.11** There are already examples of programmable platforms being adopted or explored by wholesale financial market participants (some of which integrate payment/settlement systems), such as the Finality UK payment system and (with UK Finance) the RLN: both of these indicate that there is at least a nascent appetite for programmable platforms.
- 3.12** There are clear, potential benefits to programmable platforms, but adoption at scale is likely to be dependent on ensuring safety and adequate controls (including in relation to settlement) are in place and completion of the technical build required by firms and institutions to connect to those systems.
- 3.13** Certain members pointed out that the most promising innovations are those that remove

the need for background settlement entirely, but that there is a risk that changes to the regulatory landscape and other policy decisions might limit the advantages, and in turn limit up-take, of those innovations – see paragraph 3.23.2.

Challenges to the adoption of ledger and payment/settlement programmable platforms

3.14 More specifically, the DPF can see particular challenges to the adoption of programmable platforms that integrate ledger and payment/settlement system functionality for wholesale settlement purposes, in particular those using wholesale CBDC (**wCBDC**), which the Bank will need to consider. These challenges include:

3.14.1 **Access for non-bank PSPs:** Some other central banks are still reluctant to offer settlement accounts to non-bank PSPs. If this policy position is carried over to wCBDCs, it could restrict their utility in delivering settlement of domestic and cross-border payments.

3.14.2 **Access for overseas institutions:** Where programmable platforms seek to deliver FX settlement using wCBDCs, it will be important for those wCBDCs to be available to overseas institutions participating in the system/platform. If those wCBDCs cannot be held by overseas institutions, the viability of such platforms to deliver safe and efficient cross-border settlement will be limited.

3.14.3 **Outsourcing central bank ledgers:** Will central banks be comfortable with “outsourcing” the ledger recording their liabilities to a separate platform operated by another entity? What governance and risk mitigation arrangements might central banks expect to have in place?

3.14.4 **Interoperability:** Are different platforms interoperable (for example, will they share message formats and specifications)? Does the industry need some level of coordination on requirements for technical architecture to ensure interoperability? Assuming the UK does not embrace the notion of a single, “golden” ledger (and, in the DPF’s view, resilience, competition and innovation concerns make this unlikely) and, therefore, there are always multiple ledgers, interoperability of those ledgers (and related systems) will become crucial.

3.15 We set out risks associated with programmable platforms and new technologies generally in paragraph 3.9. Some of those may also be relevant here, depending on the particular

platform and functionality in mind.

Question 3: What are respondents' views on the pace of innovation in private money – in particular, commercial bank money – used in retail payments?

3.16 Members agree that the pace of change is rapid but helpful (including from a competition perspective). However, members raised concerns as to the ability of regulation to keep pace (at the right time), and the ability of regulators to move quickly enough to monitor new business models, and any risks arising out of those models.

Regulatory uncertainty

3.17 Some examples raised by members include the rules on stablecoins and the regulatory position on tokenised deposits:

3.17.1 The industry has been waiting for the rules on stablecoins for a long time now, and lack of regulatory certainty is a challenge to their launch and the level of investment that the sector receives. Proper (and proportionate) regulatory oversight is necessary to unlock the potential of the industry and to give consumers confidence.

3.17.2 The pace of change in tokenised deposits is also limited by regulatory uncertainty. Uncertainty exists in at least two levels: (1) uncertainty as to any new regime that might apply to tokenised deposits; and (2) concerns about the scope to which the existing banking regime applicable to deposits would also apply to "tokenised deposits". On the second point, for example, the Discussion Paper states that "[w]here tokenisation does not change the underlying economics and fundamental nature of a depositor's claim, the PRA's prudential regulatory framework will treat a 'tokenised' deposit similarly to a 'traditional' deposit." However, the Discussion Paper does not provide any guidance on whether (and in what circumstances) the fact of tokenising a deposit could, in itself, have an impact on the underlying economics or nature of the claim. This is an area where further research or consultation by the Bank and/or PRA would be useful.

Timing of regulatory certainty

3.18 In addition to regulatory certainty, it is also important that the industry has regulation at

the correct stage of development of the underlying technologies. Pace of innovation is needed when digital companies are experimenting, or in the early stages of live development. With respect to tokenised commercial bank money products, the key challenge is developing regulation at the correct time to support the safe and effective scaling of those products and solutions; if this takes place at the wrong time, regulation could inhibit the pace of developments and slow down the ability to test new products.

Question 4: What are respondents' views on the wholesale infrastructure that might support retail payments innovations, including to ensure that singleness of money can be maintained across stablecoins and tokenised deposits?

- 3.19** We have appended our response to the Bank's discussion paper "Regulatory regime for systemic payment systems using stablecoins and related service providers" (the ***DPF Systemic Stablecoins Response***). Many of the comments we made in that paper are applicable here.

Dependencies on the nature of the retail payments innovations

- 3.20** The answer to this question may depend on whether an entity other than the issuing entity of a tokenised deposit or stablecoin assumes an obligation to a holder of the deposit or coin (e.g. if a customer of the issuing bank is able to transfer the claim to another bank – as in the Discussion Paper's Box G example), in which case you need a mechanism for inter-bank settlement for redemption (if not, there would be no need for inter-bank settlement):

- 3.20.1** ***If the existing wholesale payments infrastructure is used:*** assuming there is a time gap between (i) the point at which the redeeming bank becomes liable to its customer to redeem a tokenised deposit or stablecoin and (ii) the point at which the inter-bank obligation owed by the issuing bank to the redeeming bank is settled, how is the redeeming bank protected against the insolvency of the issuing bank prior to wholesale settlement? This could be mitigated if the existing wholesale infrastructure was interoperable with new solutions, and those new solutions could generate wholesale payment instructions (with appropriate protections) at the same time the stablecoin or tokenised deposit is transferred – please see paragraph 3.6.

3.20.2 *If the existing wholesale payments infrastructure is not appropriate:* the industry would need appropriate new wholesale infrastructure. On this point, exploring both the synchronisation and wCBDC approaches make sense. Which approach is necessary or appropriate longer-term will (in part) be driven by the retail use cases that the wholesale infrastructure and central bank money needs to support. Please see our response to question 6 (paragraphs 3.30 to 3.33).

3.21 Some of these considerations reinforce the need for a clear vision about how the digital payments ecosystem – at both retail and wholesale level – fit together.

The Bank should be prepared for retail payments innovation to be made on blockchain networks

3.22 Some members consider that innovation will see both retail and wholesale payments made via domestic and international decentralised blockchain networks in the future. In the medium to long-term, this shift will likely occur regardless of the Bank's efforts to update existing payment infrastructure or any efforts to prevent people from using decentralised blockchain networks. As a result, we would recommend that the Bank consider preparing a regulatory regime that works with blockchain networks. For example, we would recommend focusing on designing a regime that proportionately regulates service providers who offer services on blockchain networks, rather than (through regulation or policy decisions) attempts to ensure the involvement of existing payment systems (that may become outdated).

Comments on the "singleness of money"

3.23 The DPF understands and agrees with the central role that "singleness" plays in the Bank's thinking. However, the "singleness" of money is a complex concept in practical application, and members raised various points on which it would be helpful to have further information:

3.23.1 In what circumstances would the Bank become comfortable with wholesale settlement infrastructure for payments that is provided other than through a central bank system – e.g. in the case of transfers on DLT networks without any involvement of central bank systems? What would the regulatory and

supervisory regime need to look like in order for the Bank to be comfortable with wholesale infrastructure and settlement structured in this way? If the Bank intends to prevent payments other than those that are (ultimately) settled through existing payment systems in central bank money, it would be helpful if the Bank could be explicit about its intention – together with clarity on those payments that would be prevented (due to policy reasons or by regulatory intervention) from being made on blockchain networks, the reasons for any such action, and an opportunity for the industry to respond to the Bank's proposed approach.

3.23.2 In connection with paragraph 3.23.1, some (but not all) members were of the view that the most promising innovations are those that remove the need for background settlement entirely. For example, stablecoin transfers where there is no separate settlement (in other words, where transfer and settlement are the same thing). This is already the case for tokens like USDT and USDC, where there is no settlement in central bank money. In these cases, some members have expressed concerns that proposed regulatory regimes relating to backing assets and policy decisions relating to central bank involvement in wholesale settlement might have the effect of reintroducing the distinction between transfer and settlement (e.g. by requiring backing by central bank money, which in turn might necessitate a further settlement stage).¹ In turn, this could be damaging from an innovation and uptake perspective. It would be useful to have further information on the Bank's position here, including its views on balancing innovation and singleness.

3.23.3 The Bank highlights two reasons underpinning the importance of "singleness" at paragraph 1.1 of the Discussion Paper: so that "*money in the economy has the same value at all times*" and so that "*there is an unambiguous unit of account that underpins all economic transactions in society*". This is a challenge even today: cash, for example, is unusable in many stores and for larger transactions. The DPF recognises that there is a level of nuance to the point the Discussion Paper is making and that, although cash might not be accepted,

¹ On backing assets, please also see the response to question 11 in the DPF Systemic Stablecoins Response.

it is still underpinned by the same unit of account (i.e. a claim on a central bank). However, it would nonetheless be helpful to understand the scope of "singleness" in this context, not least to support those innovating in private money in understanding the limitations applicable to them. In particular:

- (a) Does "singleness" extend to all forms of payments being accepted in all places and, if so, what does this mean in practice? For example, does the Bank expect stablecoins and other new forms of digital money to achieve objectives that are a challenge today even for cash (and, if so, how)?²
- (b) Does "exchangeability" mean that it should be possible, for example, to redeem a stablecoin against an issuer for cash or other forms of money?
- (c) Does exchangeability "at par" mean that issuers cannot charge fees for redemption?

These types of expectations, if applied to stablecoins and other innovations in private money, could hamper innovation.

3.23.4 In the Bank's discussion paper on the "Regulatory regime for systemic payment systems using stablecoins and related service providers" of 6 November 2023, it indicates that price deviations on the secondary market³ would not be compatible with "singleness" (but the Bank did not propose to restrict the secondary market). It would be useful to understand whether the Bank regards *any* price fluctuation as tolerable for "singleness" and, if *some* fluctuation is tolerable, how much.

3.23.5 In addition, although the Bank's discussion paper on the "Regulatory regime for systemic payment systems using stablecoins and related service providers" is focussed on *systemic* stablecoins, is the singleness issue discussed in 3.23.4 a concern for *all* stablecoins (and other innovations in digital money) or is it limited to certain stablecoins and other innovations that exceed certain thresholds (e.g. size or value).

² The DPF made the essence of this point in response to question 9 in the DPF Systemic Stablecoins Response.

³ On secondary market trading of stablecoins, please also see the response to question 2 in the DPF Systemic Stablecoins Response.

- 3.24** As a final point in relation to this question, the DPF would like to reiterate its response to question 2 (paragraphs 3.10 to 3.15) – interoperability is a key part of ensuring "singleness of money". This is true within wholesale payments, but even more so in terms of ensuring that the infrastructure for wholesale payments can support retail payments.

Question 5: What are the risks and benefits from the use of: a) tokenised deposits; and b) stablecoins for wholesale transactions?

- 3.25** We have appended the DPF Systemic Stablecoins Response. Many of the comments we made in that paper are applicable here.

Introductory distinctions

- 3.26** The DPF consider that there are (at least) two distinct levels of issue here:
- 3.26.1 the risks and benefits arising from tokenised central bank money and stablecoins which are used in wholesale transactions or to support the wholesale markets; and
 - 3.26.2 the risks and benefits for the wholesale markets which are posed by the use of tokenised deposits and stablecoins in the retail space.
- 3.27** Our observations on the impact of tokenised deposits and stablecoins in the retail space on the wholesale markets are set out in our response to question 4 (paragraphs 3.19 to 3.24).

Risks and benefits arising from tokenised central bank money and stablecoins in the wholesale markets

- 3.28** The Discussion Paper (at paragraph 4.1.4) demonstrates the Bank's fears about the use of stablecoins in wholesale transactions and the impact that it could have on financial stability in the UK. Although the DPF understands and acknowledges these risks that the Bank has identified, the DPF considers that such risks might not be as prevalent as suggested in the Discussion Paper, and that holding limits might not be the appropriate solution. It would be helpful if the Bank could provide more information about its concerns here. Certain comments raised by members are set out below as context for this request:
- 3.28.1 ***Deposit run risk exists today:*** the deposit run risks highlighted in the Discussion Paper exist today. In addition, although the Discussion Paper refers to the risk of disintermediation in times of financial stress, it also seems

possible that once GBP stablecoins are available there could be a gradual shift ahead of any major run on deposits, which would soften the effect. In addition, wholesale stablecoin payments may use stablecoins that are backed with commercial bank deposits, as per the FCA's proposed stablecoin regulatory model, in which case use of the stablecoin does not entail flight from deposits. It would be helpful to have explanation (or modelling) as to how stablecoins used in the wholesale context raise the financial stability risks described by the Bank.

3.28.2 **Stablecoins not used as "deposits":** our understanding from members in the industry is that stablecoins are likely to be mostly used for payments rather than as a store of value (in other words, balances held as stablecoins will generally be far lower in value than balances held as deposits). In addition, there are other options that may be "safer" than stablecoins today and which institutions could turn to in the event of financial stress. Many of these other products (like money market funds) are more likely to offer returns to investors, and therefore it is less likely that investors will invest in assets (like stablecoins) that do not provide such guaranteed returns.

3.28.3 **Risks of hampering innovation:** There is currently a large volume of innovative projects being developed in the UK in relation to stablecoins. Providing holding limits to reduce the wholesale use of stablecoins at a systemic level is more likely to impact innovative firms that are at the forefront of adopting the new technology. Given the desire for the UK to be innovative and forward-thinking in this space, our members feel that it is counter-intuitive to restrict innovative technology firms to protect against risks in the banking sector.

3.29 For these reasons, and the reasons set out in response to questions 24 and 25 in the DPF Systemic Stablecoins Response,⁴ the DPF is not generally in favour of holding limits. Rather,

⁴ As set out in our previous response, in connection with systemic stablecoins: "...we appreciate that adoption of one or more stablecoins at the systemic level could, if not managed, lead to outflows from commercial bank deposits into stablecoin holdings, resulting in lower deposit balances being held with commercial banks and hence posing challenges to the ability of commercial banks to maintain their lending abilities and role in credit creation, all other things being equal. Restricting the ability to remunerate to banks only provides banks with a competitive basis on which to attract deposits and long term savings. However, when taken into consideration alongside the proposed introduction of holding limits, this has the potential to create an unfair competitive disadvantage for non-banks in the longer term.

We are not, however, in favour of the prolonged long-term use of limits as a means of managing this risk. In our view, continued use

our members would prefer that a regulatory framework providing banking-sector financial stability is the solution.

Question 6: Are there innovations that could support central bank money being equipped with the requisite functionality to ensure safe settlement in light of technological advances in financial markets?

- 3.30** Exploring both the synchronisation and wCBDC approaches as solutions to the demands on the wholesale payments infrastructure makes sense. Which approach is necessary or appropriate longer-term will (in part) be driven by the retail use cases that the wholesale infrastructure and central bank money needs to support.
- 3.31** If the synchronisation operator concept (similar to Box D in the Discussion Paper or the idea outlined at paragraph 3.6) is adopted, HM Treasury and the Bank will need to consider how those operators ought to be supervised and regulated, and whether those operators can operate in a safe and secure way for the markets.
- 3.32** More generally, if additional operators (e.g. synchronisation operators) are involved in providing the UK's financial market infrastructures, will it become harder for the Bank to effectively supervise financial market infrastructures? This might be the case if inter-dependencies between different systems and functionality mean that it is harder to identify the operator responsible for managing certain risks.
- 3.33** The Bank could use a range of factors to help it assess and evaluate the different approaches to delivering central bank money, including (but not limited to) the following:
- 3.33.1** **Technology:** ensuring the relevant approach captures the full benefits of DLT in terms of security, speed and resilience.
 - 3.33.2** **Platform neutrality:** there should be no preference towards one platform or technology, or type of platform or technology, over others.
 - 3.33.3** **Interoperability:** the interoperability of platforms and technologies is vital to ensure that central bank money is widely available.
 - 3.33.4** **Access and tiering:** a wider availability of CBDCs would allow for a broader

of limits to disincentivise consumers from large-scale holdings of stablecoins will, in our view, only serve to disincentivise banks from offering genuinely competitive account rates and services, thus ultimately distorting the market and delivering sub-optimal consumer outcomes."

range of participants to participate in CBDC-based payment systems as direct participants, thereby avoiding tiering risks. A similar concern was identified by the Bank in its discussion paper "Reviewing access to RTGS accounts for settlement" of 8 February 2024, which recognised that the highly-tiered structure of CHAPS was not beneficial for a stable and liquid financial environment.

3.33.5 *Industry involvement:* ensuring industry buy-in, from a broad range of firms across different sectors, which does not favour one sector over others, is likely to be more beneficial.

Question 7: What are respondents' views on potential functionalities of a wCBDC and how might these inform wCBDC design?

3.34 Please see our responses to questions 4 (paragraphs 3.19 to 3.24) and 6 (paragraphs 3.30 to 3.33).

Question 8: Will the proposed programme of experiments help to assess these potential functionalities for central bank money?

3.35 As outlined at paragraph 2.1, there is a significant volume of ongoing projects and pilots relevant to innovations in digital money. Overall, the Bank's proposed programme of experiments are logical, and the DPF agrees with the various references in the Discussion Paper to leveraging the work already done by international projects and pilots (like Project Meridian). If the Bank does not leverage these projects and pilots, it is not clear to us what the experiments would add. Leveraging existing work will also help ensure that the Bank's work is interoperable with other projects and mitigate against some of the concerns highlighted by the wide arrange of ongoing work in this space, some of which may be duplicative and could lead to challenges longer-term (see paragraphs 2.1 to 2.3).

Question 9: What are respondents' views on the outcomes that the Bank seeks in retail payments and how can they be reflected in practical questions currently facing policymakers and industry

3.36 The DPF generally agrees that the Bank's stated outcomes for retail payments are sensible.

3.37 In terms of practical implementation, there are a number of important ongoing projects that have not yet been delivered but which are vital to support the success of the retail

payments sector. This includes successful delivery of the New Payments Architecture (*NPA*) (in some form) which, in turn, is dependent on the National Payments Vision, ongoing issues relating to commercial models for variable recurring payments, and Open Finance. Successful delivery of these projects is critical to the UK's long-term viability. The DPF is of the view that successful delivery of some of these projects is likely to require intervention from an organisation like the Bank, including with a view to answering some of the fundamental questions around funding those projects.

- 3.38** In order for successful delivery of these projects, it is also important that the Bank sets clear expectations of affected organisations. Taking the NPA as an example: the Bank (along with the Payment Systems Regulator) has a role to play in making clear its expectations of Pay.UK (and the industry) in terms of the design and implementation of the NPA, funding and those powers (e.g. rule-making) that it expects Pay.UK to reserve.

Digital Pound Foundation

31 October 2024



APPENDIX

Digital Pound Foundation response to the BoE Discussion Paper on a Regulatory Regime for Systemic Payment Systems using Stablecoins and Related Service Providers:

<https://digitalpoundfoundation.com/dpf-response-to-bank-of-england-discussion-paper-regulatory-regime-for-systemic-payment-systems-using-stablecoins-and-related-service-providers/>