CIRCLE

FACTSHEET

Central Bank Digital Currencies & Privately-Issued Stablecoins Can Coexist

CBDCs: The Risks Outweigh The Rewards

Central Bank Digital Currencies (CBDCs) are a digital form of a country's fiat currency issued by, liable to, and regulated by that nation's central bank or monetary authority.

Both CBDCs and fiat-backed stablecoins stablecoins) – like Circle's USD Coin (USDC) – can take advantage of financial technology innovations in a responsible and regulated manner. A CBDC, however, would challenge the fundamentals of a two-tiered banking system, among other risks, without delivering new benefits not already being solved by the private sector.

BENEFITS OF DIGITAL DOLLARS

- **Reinforce U.S. leadership in the global financial system:** For the U.S. dollar to remain the world's global reserve currency, it needs to be in a truly digital form to grow its presence in an increasingly digital world. While cash made up nearly 18% of retail transaction value worldwide in 2021, that number could decrease even more within the next few years due to the digitization of the global economy and the rise of digital/mobile wallets.

- **Access to fast, safe and affordable financial services:** Businesses and consumers demand a financial system that is always on, without delays, weekends, and bank holidays; USDC operates at the speed of the internet. Both CBDCs and stablecoins would make it possible to transfer value quickly and cost-effectively. Stablecoins like USDC are already starting to make this happen; Circle has partnered with Visa and Moneygram to facilitate stablecoin cross-border transactions.

- **Consumer protection:** Consumer protections can exist in both a government-issued currency and a privately-issued stablecoin, so long as clear government regulations are set and enforced.

- **Addressing national security:** While CBDCs could improve national security by providing a form of payment that can be traceable and trackable, stablecoins built on public blockchains are transparent by design. Depending on the design, CBDCs could transfer the burden of anti-money laundering (AML) compliance to the public sector, which could be limited in its capability or resources to do so. Circle is fully-regulated by the U.S. Treasury Department and various state money-transmission supervision licenses; we are also developing open source protocols (Verite) to reduce the anonymity of certain digital assets without minimizing a user's right to privacy.

- **Cross-border payments:** Stablecoins like USDC have proven themselves to be a reliable form of financial settlement by facilitating efficient payments across borders. As of July 1, 2022, over $141.6 billion of USDC[1] has been redeemed into U.S. dollars from open-source, public blockchains.

[1] Data snapshot as of July 1, 2022 at 11:50 a.m. ET. This figure was calculated by Circle Internet Financial, LLC and has not been verified by an independent third party auditor.

RISKS OF CBDCS

- **Technology Risks:** The development of a CBDC would force a government to choose a specific technology stack, ultimately hurting taxpayers who would either lose exposure to fast moving technologies or bear the cost of migrating to those newer innovations. Choosing a specific technology stack could also expose the central bank to security and supply chain risk that come with relying on third-party vendors.

- **Privacy and Consumer Protection:** A CBDC could encroach on consumer privacy and protections by giving an avenue for governments to weaponize CBDCs against certain groups or individuals.

- **Cyber Threats:** CBDCs may attract cybersecurity threats in a way that multiple, private stablecoin issuers would not due to a CBDC's centralized structure becoming a single point of failure and making central banks a large target for cyber crime.

- **Systemic Risk and Destabilization:** A retail or intermediated U.S. CBDC could disrupt the current two-tiered banking system – an arrangement that facilitates commercial banks to privately issue most of the money individuals use though bank deposits and loans, and allows the central bank to focus on cash issuance and settle payments between banks. This disturbance could reduce credit availability and/or raise credit costs for individuals, along with complicating the central bank's ability to conduct monetary policy.

- **Unclear Interoperability Standards:** Central banks worldwide have not determined how CBDCs will be interoperable across borders. It is also currently unclear how CBDCs will remedy jurisdictional concerns and other hurdles that exist within the siloed fiat currency system.

CBDCs and Stablecoins Can Coexist

In the words of Federal Reserve Chair Jerome Powell, nothing would preclude stablecoins from existing alongside a CBDC – in fact, the two co-existing could benefit the digital currency and assets by supporting those markets with safe, stable means of currency transfer.

However, dollar digital currencies like USDC are already live and can be subject to additional oversight. This could be a faster, more efficient alternative to creating a CBDC – which Treasury Secretary Janet Yellen noted would "require years of development."