

## Article Information

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## RBA comments on central bank digital currencies in submissions to senate

**The RBA's submission to the Senate Select Committee on Fintech and Regtech reveals their topical commentary on a broad variety of topics. Partner, Michael Bacina, and lawyer, Tom Skevington summarises the RBA's commentary on cryptocurrencies, Libra and central bank digital currencies.**

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The Reserve Bank of Australia (RBA) has published its [submission](#) to the [Senate Select Committee on Fintech and Regtech](#). While the RBA's submission covers a broad range of topics, it includes comments on cryptocurrencies, Libra and central bank digital currencies.

### Cryptocurrencies

Broadly, the RBA's submission is consistent with its earlier publications and public comments on cryptocurrency, which is to say they are largely sceptical, but continuing to monitor developments in the market. In its comments on cryptocurrencies generally, the RBA submission provides that:

“The Bank's current assessment is that the cryptocurrencies seen to date do not provide the usual functions of money, which explains why they have not become widely used in Australia as a means of payment” ([Dark et al 2019](#)).

However, the RBA acknowledges that the market is continuing to develop and mature, commenting that:

“newer cryptocurrencies are emerging or have been proposed, which seek to address some of the shortcomings of earlier generations, and could become more widely used in the future.”

### Global stablecoins and Libra

On global stablecoins generally, and the Libra Association specifically, the RBA acknowledges that stablecoins have the potential to be more efficient and inclusive than existing payment methods, particularly for cross-border payments. On Libra, the RBA acknowledges the Libra has crystallised international regulatory attention on the potential risks and benefits of cryptocurrencies.

The RBA also refers to the G7's [report on global stablecoins](#) from October 2019, reaffirming the RBA's prior comments that private sector global stablecoin initiatives should not be permitted to launch until all risks and regulatory requirements have been addressed. To that end, the RBA confirms that it is “working closely with relevant agencies domestically and internationally” to understand various global stablecoin proposals (no doubt including Libra), and consider how to adequately regulate and supervise these projects.

In comments about Libra which have since been picked up by the [media](#), the RBA also comments that:

“In Australia, it is unclear that there will be strong demand for global stablecoins even if they do meet all regulatory requirements, particularly for domestic payments. Australia is already well served by a range of low-cost and efficient real-time payment methods, such as the NPP, that utilise funds held in accounts at prudentially supervised financial institutions.”

Of course, predictions about future demand for new technology have always been fraught with danger. In due course, these comments may well resemble the following:

1. *“The horse is here to stay but the automobile is only a novelty - a fad.”* — The president of the Michigan Savings Bank advising Henry Ford’s lawyer not to invest in the Ford Motor Company, 1903
2. *“There is no reason anyone would want a computer in their home.”* — Ken Olson, president, chairman and founder of Digital Equipment Corp. (DEC), 1977

Ironically, the RBA acknowledges that incumbent financial service providers may not have provided value for money in cross-border payment services, but says that this problem is being addressed as:

new non-bank digital players have entered the market in recent years offering significantly cheaper and faster money transfer services

### **Central Bank Digital Currencies**

Finally, on the idea of central banks issuing a blockchain-based central bank digital currency (CBDC), the RBA has re-affirmed its [prior position](#) that “The bank’s assessment — like those of most other central banks — is that the case for issuing a CBDC for use by households has not been established” and “The Bank is not currently considering a CBDC for retail use”.

Interestingly however, the RBA confirms that it is more interested in the potential of a CBDC which could be used by wholesale market participants in specialised payment and settlement systems. The RBA notes that its investigations in this area included:

“the development of a proof-of-concept of a wholesale settlement system running on a private, permissioned Ethereum network. The proof-of-concept simulated the issuance of central bank-backed tokens to commercial banks in exchange for exchange settlement account balances, the exchange of these tokens among the commercial banks, and their eventual redemption with the central bank.”

While these early investigations by the RBA are promising and should be commended, they are consistent with the Bank for International Settlements [findings in January 2019](#) that the vast majority of central banks are either conducting preliminary research into CBDC’s, or undertaking conceptual work into experimentation and proofs-of-concept.