FUTURE PAYMENTS FORUM

MEETING SYNOPSIS – 20TH MAY 2025

The Future Payments Forum met at the London offices of Squire Paton Boggs on 20 May to consider the potential of Central Bank Digital Currencies, and specifically of a Sterling denominated CBDC issued by the Bank of England. We were joined by four speakers: Jeremey Leake, Bank of England; Claire Conby, Digital Pound Foundation; Professor Brunello Rosa, Rosa & Roubini Associates and Charles Kerrigan of CMS, who collectively took us through the opportunities and challenges that the introduction of a Sterling CBDC offers.

Jeremy Leake provided a clear insight into the **Bank of England's** approach to the possibility of introducing CBDC for retail payments. He noted that there are separate considerations of a Sterling CBDC for use in wholesale monetary movements. The Bank is facilitating innovation in the UK market and offering a digital alternative to the cash it currently provides in physical form. This issue of state backed currency has been a long-standing responsibility of the Bank and it offers a key utility to those who rely on it for everyday transactions. It is clearly the case that, as society shifts towards the use of digital only channels for payments, those who currently rely on physical cash do need a digital alternative. Jeremy was keen to make the Forum aware that there is no intention to create a Sterling CBDC that forces the displacement of physical cash, and there was no intention to include any ability of the state to control expenditure by the private citizen. This ability, so-called programmable money, has been ruled out however there is an ability for the owner of the CBDC to programme a payment when a prior condition has been met.

The Bank's responsibility for our national currency extends into its responsibility for systemic risk within the banking sector. Avoiding a run on the retail banks is a critical concern and the inherent fluidity of a digital currency makes the potential for a run greater than physical cash. To address this risk the Bank's view is that there will be limits on what an individual can hold in CBDC. The use of limits was debated by the Forum, and it was recognised that it is a compromise that limits the usefulness of the CBDC. Jeremy noted that the limits for businesses will be higher and that there could be mechanisms to sweep CBDC into other sterling accounts such as a bank account. This approach will need careful consideration and for use cases such as house-conveyancing, the proposed individual limits of £10,000 to £20,000 will not work. It may be possible to allow certain payments to exceed limits, if there is automatic sweeping with a bank account to keep D£ balances under the holding limit, but such an approach will depend on the wallet-providers to effectively police this.

Claire Conby led the Forum in a discussion on the issues that must be considered as we move in the direction of CBDCs. **The Digital Pound Foundation** works to help businesses and society to address the potential of a Sterling CBDC. She noted the work carried out in conjunction with Manchester University to identify attractive use-cases (please note that the research undertaken by the University of Manchester was of a cohort of students, which does in part provide some context to payment incentives being a strong use case). So far, the strongest rationale is that potential users would be offered incentives to pay using the CBDC. There was debate about the impact of the Consumer Rights legislation that stops differential pricing on the basis of payment method and which may limit the ability of a price incentive to be offered. The Forum discussed the viability of offering other incentives and it was thought that this was a possible way forward. Of course, such incentives are not an inherent benefit of a CBDC and could be applied to any new payment method. If retailers are expected to fund these incentives it will undermine one of the potential benefits they expect from a CBDC; that it is cheaper than existing payment methods.

There are clearly use-cases that would benefit from the inherent nature of a CBDC, notably micropayments and programmable payment capabilities, if provided at a cost unmatchable by existing payment methods, however more work needs to be done to validate these cases. This work is part of the next two steps in the Bank of England's programme.

Professor Brunello Rosa, of Rosa & Roubini Associates, gave a fascinating update on the role that CBDCs and Stablecoins are playing in geopolitics. Brunello showed that, if nations that believe in freedom fail to create a valuable CBDC, we face a world where those issued by other actors could come to dominate global trade.

At present, the US dollar dominates world trade and dwarfs, for example, the Chinese fiat currency. However, in the countries of the Chinese Belt and Road Initiative, the Chinese CBDC, called e-CNY, is likely to be adopted for trading activities.

This is not an issue per se, but when the digital nature of CBDCs is considered in combination with the dominance of Chinese technology in telecommunications systems that many countries use, we should consider the risks of allowing any other country's CBDC to dominate world trade.

America has now moved firmly in the direction of a dollar denominated Stablecoin, having rescinded efforts to build a CBDC. Brunello showed how this creates a geopolitical battle between those countries that align with the BRICS nations and those that align with America. He pointed out that Europe's efforts are too slow to offer a meaningful alternative and that it may well be driven to adopt one of the global alternatives. He then reflected that the UK's efforts were subject to the same geopolitical pressures, but from the position of less market power than the European Union.

Finally, **Charles Kerrigan, CMS** gave the forum an insight to rapid pace of change within the financial sector as it embraces the potential of stablecoins and CBDC in the context of the power of AI and the internet to radically alter the nature of pace of payment transactions. The role of emerging players into this space and their growth towards potentially becoming banks is a key element of the way the market is developing, and it marks a pivotal moment in the adoption of stablecoins, CBDC and crypto assets. This rapid pace of change was contrasted with the challenges faced by jurisdictions as they try to frame the regulatory context for these activities. The Forum considered if the pace of change in the UK was too slow and if the promise to make the UK the safest place for crypto investments was counter to the development of the market. Striking the balance between protecting the consumer, preventing systemic banking risk and benefitting from the growth potential of this exciting sector is difficult, but being the safest place is unlikely to lead the UK to being the centre of such activities, to the detriment of the UK as a whole.