



TERRANET

★ ★ ★ ★

CENTRAL BANK DIGITAL CURRENCIES ANALYSIS AND REVIEW

February 1, 2023

Monthly Analysis and Review of Central Bank Digital Currencies

★ ★ ★ ★

This product brings you relevant news and information from our sources, the business press, and leading strategy consultants. This month’s report contains the following topics:

- Licking its FTX Wounds, Bahamas Steps Up Push for Digital Fiat..... 2**
- Bank of America Says CBDCs Are the Future of Money and Payments..... 4**
- Stablecoins and CBDCs Might Play ‘Meaningful Role’ in Payments—Visa CEO..... 5**
- Davos-Launched Blockchain Project Aims to Be the ‘SWIFT’ of Stablecoins and CBDCs 6**
- China: Upgraded Digital Yuan Now with Smart Contract Function..... 7**
- China Digital Currency: e-CNY Included in Official Cash Figures for First Time 8**
- Why India’s Financial Sector Is Shrugging at the Digital Rupee So Far..... 9**
- Bank of International Settlements Plans Interoperable CBDC Tests ‘in Coming Weeks’ 11**
- Ripple Is Hosting a Panel on the Digital Pound, Here’s Why 12**
- Bill on Digital Ruble Submitted to Russian Parliament..... 14**
- Saudi Central Bank to Experiment with CBDC..... 15**
- Tanzania Takes Tentative Steps to CBDC Adoption..... 16**
- UK Bitcoin Community Reacts to Incoming CBDC and Digital Pound Rollout 17**
- Ukraine’s Tascombank Pilots Stellar-based E-hryvnia..... 19**
- Digital Dollar Project Warns on US Cautious Approach to CBDCs..... 20**

LICKING ITS FTX WOUNDS, BAHAMAS STEPS UP PUSH FOR DIGITAL FIAT

(Bloomberg, 1/14/23)

Before FTX Co-Founder Sam Bankman-Fried made the Bahamas synonymous with the crypto crash, the country was known as a pioneer of digital fiat.

In 2020, the island nation launched the world's first central bank digital currency, or CBDC, called the Sand Dollar.

But two years after the Sand Dollar's debut, adoption has been sluggish. And the FTX debacle isn't helping.

Kimwood Mott, the project manager for digital currency implementation at the Central Bank of the Bahamas, blames the slow start on the pandemic. Covid-19 shut down the country for months, limiting the government's ability to teach people what the Sand Dollar is, and isn't.

"I am always telling people that this is not a cryptocurrency," Mott said. "But if people don't know what a cryptocurrency or a CBDC is, then I'm just making a statement."

The Sand Dollar is a digital version of the Bahamian dollar—fully backed by the government and pegged to the US greenback—that can be sent and received over a mobile phone for free.

Boosters believe the Sand Dollar could solve an array of problems: pull the unbanked into the financial system, make rival digital payment platforms interoperable by giving them a common unit of exchange, and maybe even save lives—allowing the government to wire emergency funds to people isolated in the wake of a hurricane.

But people have to use it first.

Kendric Dames, a 44-year-old barber in Nassau, is a Sand Dollar evangelist. He likes it because, unlike credit card transactions, there are no fees, and the less physical cash he has on hand the safer he feels. But despite offering a crash course on e-money to

anyone who sits for a haircut or a shave, only about 1% of his clients are using the digital fiat.

"A lot of people still think it's a crypto and that's holding them back," he said. "Everyone who gets in this chair I try to educate them."

Central banks around the world have been exploring CBDCs as a way to speed up global transactions and thwart the rise of cryptocurrencies that have the potential to squeeze out fiat currencies. While more than 20 nations are now piloting their own digital fiat, according to the Atlantic Council, many more are on the sidelines—waiting to see if experiments like the Bahamas will succeed at all.

As a result, the Central Bank of the Bahamas is stepping up its education efforts. In October, it promoted a wine and food festival where the Sand Dollar was the only form of payment, producing a notable spike in national usage, Mott said. It's also working with private digital wallet providers to target niche populations.

Island Pay, for example, is rolling out a Sand Dollar digital wallet aimed at the 6 million tourists who visit the country every year, giving visitors the chance to hit the streets of Nassau with nothing more than their mobile phones. Island Pay CEO Richard Douglas says the company hopes to onboard 1,000 merchants and 100,000 tourists in 2023.

While those initiatives are working, there's no denying "the FTX effect," Mott said. While most Bahamians didn't have money in the exchange, which moved to the Bahamas in 2022 amid much fanfare, the negative publicity surrounding its demise has only fueled e-money skepticism.

The problem isn't unique to the Bahamas. The Eastern Caribbean Central Bank—which launched the world's first CBDC within a currency union just months after the Bahamas—and Nigeria, Africa's

largest economy, are also struggling to get people to use e-money.

On a recent weekday, Dames was showing a client at his barbershop how easy it is to transfer Sand Dollars from his phone to his bank account with just a few clicks.

The man in his chair, Nigel Hepburn, was unimpressed.

“I try to stay away from the phone, it kind of limits personal interaction,” Hepburn said. “Everything is a whole lot easier with cash.”

BANK OF AMERICA SAYS CBDCS ARE THE FUTURE OF MONEY AND PAYMENTS

(CoinDesk, 1/17/23)

Central bank digital currencies have the potential to revolutionize global financial systems, a report from the bank said.

Digital currencies, such as central bank digital currencies (CBDCs) and stablecoins, are the natural evolution of money and payments, Bank of America said in a research report on Tuesday.

“CBDCs do not change the definition of money, but will likely change how and when value is transferred over the next 15 years,” analysts led by Alkesh Shah wrote, adding that central bank digital currencies have “the potential to revolutionize global financial systems and may be the most significant technological advancement in the history of money.”

CBDCs typically use blockchain technology to increase efficiency and lower costs. A stablecoin is a type of cryptocurrency whose value is pegged to another asset, such as the U.S. dollar or gold.

The benefits and risks of CBDCs depend on their design and issuance, but Bank of America expects central banks in developed economies to focus on payments efficiency and those on developing countries to focus on financial inclusion.

Still, CBDCs aren't without their risks. They may drive competition with bank deposits, and could lead to a loss of monetary sovereignty and inequality among countries globally, the note said.

CBDC issuance may not happen for over a decade in some countries, but central banks are expected to “adopt technological advances or risk irrelevance over the longer term,” the note added.

Bank of America says it expects central banks and governments will drive digital-asset innovation with input from the private sector.

STABLECOINS AND CBDCS MIGHT PLAY ‘MEANINGFUL ROLE’ IN PAYMENTS— VISA CEO

(Coin Telegraph, 1/24/23)

Visa began working on a blockchain interoperability project in September 2021 to support CBDC and stablecoin adoption but few updates have been made since.

The chief executive of credit card giant Visa remains confident that blockchain-powered solutions can be integrated into its services and offerings to power the next generation of payments.

Speaking on a call at Visa’s annual stockholder meeting on Jan. 24, outgoing CEO Al Kelly—who will officially step down on Feb. 1—briefly shared the firm’s plans for central bank digital currencies (CBDCs) and private stablecoins.

According to a Jan. 24 report from San Francisco Business Times, Kelly said:

“It’s very early days, but we continue to believe that stablecoins and central bank digital currencies have the potential to play a meaningful role in the payments space, and we have a number of initiatives underway.”

“We’ve had an immaterial amount of investments in crypto funds and companies as we seek to invest in the payments ecosystem,” the outgoing CEO explained.

Kelly also confirmed that Visa’s balance sheet hasn’t been impacted by some of the “high-profile failures” that rocked the cryptocurrency space in 2022:

“We’ve had no credit losses related to these failures [...] In everything we do, please know that we’re extremely focused on maintaining the integrity of Visa’s payment system and the payment system in totality and of course, the reputation of our brand standing for trust.”

Over the years, Visa has worked on a number of crypto-related initiatives.

Its research team began working on a blockchain interoperability project in September 2021 named the Universal Payment Channel (UPC) initiative. The project was designed to establish a “network of networks” for CBDCs and private stablecoins to pass through various payment channels.

Visa hasn’t provided an update on the UPC in over 12 months, however.

More recently, the payment giant announced on Dec. 20 that it was chalking up a plan to allow automated bills to be paid out from a user’s Ethereum-powered wallet.

Visa has also rolled out several “zero fee” cryptocurrency debit cards of late including a now-terminated agreement with FTX and a partnership with Blockchain.com on Oct. 26, which is still in effect.

While Visa’s 2022 annual report only included data up until Sept. 30—about five weeks before FTX collapsed—more information may be revealed in Visa’s Q1 2023 earnings call on Jan. 26.

Visa President Ryan McInerney will officially replace Al Kelly as CEO on Feb. 1, while Kelly will remain on board as executive chairman.

McInerney appears to be equally, if not more bullish on blockchain-powered payment solutions too.

In an interview with Fortune in November, McInerney said Visa still has “\$14 trillion of cash out there being spent by consumers that can be digitized” and that they’re continuing to explore where crypto payments may be best leveraged.

DAVOS-LAUNCHED BLOCKCHAIN PROJECT AIMS TO BE THE ‘SWIFT’ OF STABLECOINS AND CBDCS

(Cointelegraph, 1/23/23)

A SWIFT-style system for bank-issued and regulated digital currencies was launched by a firm involved in building China’s national blockchain project.

A Hong Kong-based blockchain company has launched a digital payments system aimed at bridging the gap between stablecoins and central bank digital currencies (CBDCs).

Red Date Technology, the blockchain infrastructure firm that is also leading one of China’s blockchain efforts, launched the Universal Digital Payment Network (UDPN) on Jan. 19 during the World Economic Forum (WEF) 2023 meeting in Davos, Switzerland.

Tech engineering company GFT Technologies and the digital asset creation engine TOKO from law firm DLA Piper are also contributors to UDPN development.

According to its white paper, the UDPN is a distributed ledger technology (DLT) platform that would serve a similar purpose to what the SWIFT network does for banks, except for stablecoins and CBDCs.

“Just as the SWIFT network created the original common standard for messaging between financial institutions across different settlement systems, the UDPN will serve the same purpose for the emerging generation of CBDCs and stablecoins.”

According to a Jan. 19 press release, a “number of global tier 1 banks” are already involved in use case proof of concepts (POCs) to test the network in cross-border transfers and swaps.

The release didn’t disclose which banks were taking part in the POCs, but Deutsche Bank, HSBC, Standard Chartered, The Bank of East Asia and Akbank were represented on a panel at the UDPN launch in Davos.

The stablecoins to be used in the POC were also undisclosed. The network’s whitepaper does state, however, that it only supports “CBDCs and regulated fiat-backed stablecoin currency systems as payment methods,” adding, “No unregulated public-chain crypto-currencies, such as Bitcoin, will be accepted.”

Eight other proof-of-concept tests are scheduled for the network, including issuing and circulating a CBDC and bank-issued stablecoin and using UDPN as a payment gateway for e-commerce.

The UDPN has been in development by Red Date for nearly two years.

Before launching this digital payments system, the company was known for its work on Blockchain-based Service Network (BSN), China’s national blockchain project.

In a now-deleted roadmap posted on Jan. 15, 2021, the BSN said it planned to build a global CBDC system that “will completely change the current payment and circulation method, enabling a standardized digital currency transfer method and payment procedure for any information system.”

The latest white paper makes no mention of Red Date’s involvement in steering China’s blockchain project, nor of the country’s own CBDC efforts with its digital yuan.

A spokesperson for the project told Cointelegraph there is “no connection whatsoever between BSN and UDPN” as the latter is “managed and governed in a decentralized manner.”

In June, Red Date’s CEO, Yifan He, called cryptocurrencies the “biggest Ponzi scheme in human history.”

CHINA: UPGRADED DIGITAL YUAN NOW WITH SMART CONTRACT FUNCTION

(CoinGeek, 1/24/23)

China's digital yuan has seen an increase in the number of use cases over the last few weeks as the central bank races for a full-scale launch. The latest development is the deployment of smart contract functionality to the central bank digital currency (CBDC).

The smart contract functionality was integrated into the food delivery app Meituan, allowing users of the digital yuan to automatically compete in a raffle draw, 8BTC reported. The smart contract searches users' keywords and if a user's purchase is part of the keyword for the day, they are eligible to take part in the prize.

Selected users are allowed to jostle for a "red envelope" worth around \$1,300 or 8888 yuan as part of celebrations leading up to the Chinese New Year. The red envelopes, known traditionally as 'hongbao,' are used to send money to friends and family during the New Year celebrations.

Payment companies like Alipay and WeChat have leveraged the tradition to offer customers the option of sending digital red envelopes to their loved ones.

Looking to trigger increased usage, the People's Bank of China (PBoC) announced the addition of the feature on the digital yuan app, going as far as allowing users to customize messages. The PBoC's red envelope feature also comes with the option for users to set up a "lucky draw" for a selected group

of persons to share pooled funds in a random fashion.

The digital yuan notched a new use case after it was deployed in the purchase of securities for the first time by users of a local brokerage firm, Soochow Securities. According to the China Securities Journal, the feature had been in the works for a while and will trigger wider adoption for the CBDC.

The PBoC introduced contactless payments designed to allow users to use the digital yuan app without an internet supply or even power.

Scrambling to Trigger Widespread Adoption

There are concerns that the adoption pace of the digital yuan is waning amid a plethora of payment options in the country. Former PBoC researcher Xie Ping noted that the pilot's "results are not ideal" and that "usage has been low, highly inactive."

In a recent PBoC financial statement, the central bank noted that only \$2 billion worth of CBDC was in circulation and formed less than 0.1% of the entire fiscal year of 2022.

Keen on increasing user metrics, the Chinese banking regulator has announced the increase of the pilot to new cities while local regulators are exploring new options to incorporate the CBDC in utility payments.

CHINA DIGITAL CURRENCY: E-CNY INCLUDED IN OFFICIAL CASH FIGURES FOR FIRST TIME

(South China Morning Post, 1/11/23)

China's central bank has started to include the digital yuan into its calculations of the amount of cash circulating in the economy, marking a new era for its use in the world's second-largest economy.

The outstanding size of the Digital Currency Electronic Payment, also known as e-CNY, was 13.61 billion yuan (US\$2 billion) at the end of December, according to data released by the People's Bank of China (PBOC) on Tuesday.

The growth of M0, largely cash and bank reserves held by the central bank, accelerated to a 11-month high of 15.3 per cent last month, the central bank added.

The digital yuan represented 0.13 per cent of outstanding M0, or 0.005 per cent of M2, the widely-watched broad measure of money supply.

Since the e-CNY offers no interest payments, it has long been discussed how it will affect cash and current account deposits and monetary policy.

Concerns have also been raised over if it could reshape the online payment landscape, which is dominated by Alipay and WeChat Pay.

The PBOC said 1.39 trillion yuan (US\$205 billion) had been injected into the domestic market last year, with the addition of the e-CNY having no obvious impact.

The central bank has yet to confirm an official timetable for the official launch of the digital yuan, only confirming at its economic conference last month that "the pilot will be run steadily".

The ongoing pilot scheme has been expanded to 26 large cities and 5.6 million merchants, with an accumulated transaction value of 100 billion yuan (US\$12.2 billion) at the end of August from

consumer spending, bank lending and cross-border payments.

Local authorities have also continued to offer digital yuan vouchers, with the coastal city of Wenzhou in Zhejiang province set to offer 30 million yuan worth of consumer vouchers in the next month.

Regulators have emphasised that the digital yuan is primarily for domestic retail use, while its overseas applications – including the Bank for International Settlements' Project mBridge—are aimed at improving cross-border payment efficiency.

"It is an opportunity to extend the central bank digital currency. What a good chance."
—Yao Yang

On Tuesday, the central bank encouraged commercial banks to provide more credit for the real economy, after it extended a record-high of 21.3 trillion yuan of loans last year, amid moves to employ a more powerful and targeted monetary policy this year.

Consumption is regarded as being key to China's post-coronavirus recovery following the abrupt ending to its zero-Covid policy, with the dean of Peking University's National School of Development suggesting the digital yuan could be used to distribute money to virus-hit households.

"It is an opportunity to extend the central bank digital currency. What a good chance. I think it will be a remarkable tool that can kill several birds with one stone," Yao Yang told an economic conference at the end of December.

"If you want to receive the government's consumer subsidy, you need to download the digital yuan app."

WHY INDIA'S FINANCIAL SECTOR IS SHRUGGING AT THE DIGITAL RUPEE SO FAR

(Forbes, 1/24/23)

India launched its long-awaited CBDC pilot in early November—wholesale—and early December—retail—with much fanfare. Nine banks are participating in the wholesale pilot and four in the retail pilot, which is focusing on the cities of Mumbai, New Delhi, Bengaluru and Bhubaneswar.

Banks are distributing the digital rupee through digital wallets on mobile phones. Both person-to-person transactions and consumer to merchant payments are possible, the latter requiring the scanning of a QR code.

Despite the high hopes of the Reserve Bank of India (RBI) for the digital rupee, the reaction from the subcontinent's financial industry thus far has been muted. While this may surprise regulators, who seem to see a CBDC as a silver bullet that can do everything from discourage use of crypto for payments to boost financial inclusion to reduce the cost of transactions, it is not surprising to anyone aware of the limitations of the digital rupee in its nascent incarnation—and the strengths of India's existing digital financial ecosystem.

A Solution in Search of a Problem

The RBI reckons the digital rupee can be a viable alternative to cash, boasting distributed ledger technology: fast, efficient, offering some anonymity, and of course, state-of-the-art. It sounds nice in theory, but thus far—as is often the case with blockchain—the e-rupee looks like a solution in search of a problem.

India has already made significant progress reducing cash use with digitization of its existing fiat currency. In fact, India made 48.6 billion real-time B2B payments in 2021, the most in the world and 40% of the global total, research by ACI Worldwide, GlobalData, and the UK's Centre for Economics and Business Research (CEBR) shows.

Bankers participating in the wholesale e-rupee pilot interviewed by Reuters said that they have not seen any benefits from use of the CBDC. They emphasized that using it as similar to India's existing internet-based banking with which users are already satisfied.

As it turns out, thus far the digital rupee has a few drawbacks compared to fiat currency. On the one hand, each trade using it has to be settled individually. In contrast, trades in the traditional inter-bank payment system are first netted off and then settled in bulk with the clearing corporation. Further, since digital rupee transactions do not wholly replace those using established procedures, they create more accounting work for banks.

As for the retail pilot, we wonder how the digital rupee will compete viably with India's dominant consumer real-time payments system United Payments Interface (UPI). UPI is fast, convenient and offers some anonymity as it lets users transfer money between banks without disclosing account details. It also links up with the most popular e-wallets in India: Google Pay, PhonePe and Paytm.

UPI processed a record 7.82 billion transactions in December, amounting to Rs 12.82 trillion, also a record high. On an annual basis in December, transaction volume rose 71% while value increased 55%.

Crypto Vanquisher

The RBI undoubtedly knows that the digital rupee faces certain obstacles. Yet the regulator will almost certainly push on with a digital fiat currency not only for its modest efficiency and financial inclusion benefits at some point in the future, but also to re-enforce the sovereignty of the central bank over monetary policy.

The RBI made explicit in its October concept note about the e-rupee that it sees cryptocurrency as a

serious threat to the integrity and stability of India's financial system because it operates in a murky, decentralized space. In the RBI's view, this foments money laundering and other financial crime risks, while threatening the central bank's exclusive right to issue currency. With that in mind, "it is the responsibility of central bank to provide its citizens with a risk-free central bank digital money which will provide the users the same experience of dealing in currency in digital form, without any risks associated with private cryptocurrencies," the concept note says.

It is possible to argue that the RBI's fears are misplaced, given that most Indians want to use crypto for investment purposes—they see it as an asset class—rather than for payments. Nevertheless, the Indian central bank may want to roll out the digital rupee to preempt the use of any type of decentralized digital currency for payments in India's financial system—including stablecoins, which are now being touted by crypto evangelists as the responsible and foolproof crypto payment method.

RBI deputy governor T Rabi Sankar expressed skepticism about stablecoins last June at International Monetary Fund event, adding that he thought CBDCs could "kill whatever little case that could be made for private cryptocurrencies."

Learning from the e-CNY

Looking ahead, the RBI may want to observe the development of China's digital renminbi and assess whether there are any important takeaways applicable to the digital rupee. After all, China's digital currency is the most advanced of any country globally.

To be sure, given the differences between the two countries' political systems and economies, the RBI has less ability to mandate financial institutions and

individuals use its CBDC than China does. If the RBI wants to see widespread e-rupee adoption, it probably will have to coax and cajole banks.

"I don't think once the pilot is concluded, without any RBI pressure, banks will want to use it," one banker told Reuters.

Still, perhaps the RBI can consider the importance of the digital rupee's interoperability for retail payments. If the Indian CBDC is siloed in its own ecosystem, it will be less attractive than if it is interoperable with the dominant existing digital rails like UPI.

In this endeavor, China's experience could be instructive. The dominance of both Alipay and WeChat Pay in digital payments is such that the e-CNY can only reach a certain level of user penetration without seamless interoperability with them. There were reportedly 261 million users of the e-CNY in January 2022—the last time the Chinese government did a tally. Meanwhile, Alipay has about 1.3 billion users, while WeChat Pay has 900 million monthly active users.

And when it comes to innovation, the e-CNY is far behind the digital payment incumbents. Case in point: Ahead of the Lunar New Year, the dedicated wallet for the e-CNY has introduced a feature to send an electronic red envelope (red envelopes stuffed with cash are traditional gifts during the holiday). Alipay pioneered this concept more than a decade ago, while in 2014, WeChat Pay teamed up with the Spring Festival Gala to launch the WeChat red envelope shake.

We expect that the digital rupee could be even more of a laggard than the e-CNY without attractive incentives from the Indian government for both retail and wholesale users.

BANK OF INTERNATIONAL SETTLEMENTS PLANS INTEROPERABLE CBDC TESTS 'IN COMING WEEKS'

(BeInCrypto, 1/24/23)

A spokesperson for the Bank of Israel has told BeInCrypto that technical work on 'Project Icebreaker' will begin in 'the coming weeks.'

Project Icebreaker is a collaborative effort between the Bank of International Settlements (BIS) Innovation Hub and the central banks of Israel, Norway, and Sweden to test the feasibility of interlinking separate Central Bank Digital Currencies (CBDC).

The Bank of Israel has designed a 'hub' to facilitate communication and data exchange among the national CBDC systems. According to the Governor of the Bank of Israel, Amir Yaron, the concept requires only minimal adjustments to the national CBDC systems in "order to achieve the desired interoperability."

If all goes to plan, this would make international payments instantaneous and remove counterparty risk in global banking systems.

Project Icebreaker Aims to Streamline International Payments via CBDCs

Over one hundred countries are researching CBDCs, although the technology is still in its infancy. Currently, there has been limited work on how

different CBDCs will work with each other to allow for immediate cross-border payments and remittances.

Yaron believes that their system is agile and capable enough to allow different CBDCs to effectively and seamlessly talk to each other.

BIS Innovation Hub, BIS-housed Committee on Payments and Market Infrastructures (CPMI), International Monetary Fund (IMF), and World Bank jointly published a report titled 'Options for access to and interoperability of CBDCs for cross-border payments' in July last year. Project Icebreaker aims to take that work a step further.

The Bank of Israel's Governor, Amir Yaron, spoke about the project at the World Economic Forum last week. "We are in the midst of a technological revolution in the payment system... I believe it is the first CBDC retail experiment that takes a retail payment from a household or a merchant in Israel, paying in Shekels, and transferring it back to somebody in Sweden or Norway."

Yaron also said that, eventually, CBDCs could remove the need for stablecoins altogether.

RIPPLE IS HOSTING A PANEL ON THE DIGITAL POUND, HERE'S WHY

(Bitcoinist.com, 1/24/23)

In its predictions for 2023, the Ripple leadership team highlighted Central Bank Digital Currencies (CBDCs) as one of the biggest trends, as Bitcoinist reported. To drive this agenda, Ripple continues to actively work with the private and public sectors.

One country where Ripple is very active is the United Kingdom. On Thursday, January 26, James Wallis, Vice President of Central Bank Engagements and CBDCs at Ripple will deliver the keynote at a webinar addressing the potential use cases and benefits of a digital pound.

Participating in the discussion will be William Lorenz (co-leader of the Digital Pound Foundation's use case working group), Chris Ostrowski (CEO and co-founder, SODA), Jakub Zmuda (strategy officer, Modulr), Andrew Dare (CTO banking and financial markets director advisory expert, CGI), Claire Conby (managing director at Billon), and David Karney (head of digital assets, Worldline).

The panel is hosted by the Digital Pound Foundation, which Ripple joined in October 2021. The foundation is focused on the development and launch of a digital pound in the United Kingdom.

The announcement at the time stated that Susan Friedman, Head of Policy, would represent the foundation as a board member to strengthen Ripple's initiative to participate in "ongoing work to engage with central banks worldwide on technical and policy issues related to central bank digital currencies (CBDCs)."

The panel will focus on what benefits CBDCs offer. To this end, during the webinar, "a number of practitioners" who are testing or implementing real-world use cases for a digital pound will speak and discuss with a panel of experts where CBDCs and privately issued stablecoins can really achieve these goals.

The Role of Ripple and XRP Ledger in CBDCs

The extent to which the XRP ledger or even the XRP token will play a role in a potential digital pound is as yet unknown. However, Wallis revealed in a recent interview with Tony Edward of the 'Thinking Crypto' podcast that collaboration with a variety of players is required to achieve a CBDC.

For this, there is the Digital Pound Foundation in the UK, as well as the Digital Euro Association in Europe, and the Digital Dollar Association in the U.S.

Wallis stated:

"Other major markets are doing similar things. So in Europe, there's a Digital Euro Association which we are also a member of and working with, and also Digital Pound Foundation in the UK. [...] It's really the private sector trying to encourage the public sector to move a bit more quickly."

Brooks Entwistle, SVP and MD at Ripple, revealed in another recent interview that the company does not intend to implement a solution for every central bank in the world, but is taking a targeted approach.

"We've realized that we're not going to solve that problem for every single central bank around the world—we are very targeted."

"We found great interest in some of the smaller central banks around the world that are looking for a strategy or a partner, looking for a technology, a side blockchain, some ideas how to go about this."

When asked if central banks are interested in the RippleNet or the XRP Ledger, Entwistle disclosed that "[t]hey want to use technologies that will help them and their own citizens. We don't believe there is one solution for all these central banks," he said.

Entwistle further explained:

“There are places where we can play, maybe with a sidechain to the XRP ledger. We may help with the interoperability across this, but it’s going to be different for every single central bank.”

At press time, the XRP price was at \$0.4219, seeing a retest of \$0.42 which has turned to support for cryptocurrency.

BILL ON DIGITAL RUBLE SUBMITTED TO RUSSIAN PARLIAMENT

(Bitcoin.com, 1/1/23)

A draft law devoted to the digital ruble has been filed with the State Duma, the lower house of Russian parliament. The legislation introduces rules determining how the new form of national fiat will be issued and amends a series of legal acts to facilitate its implementation.

Bank of Russia to Be the Sole Operator of the Digital Ruble Platform

A group of Russian lawmakers, led by the Chairman of the Financial Market Committee Anatoly Aksakov, have submitted draft legislation on the digital ruble, the central bank digital currency (CBDC) minted by Russia's monetary authority. The document suggests legislative changes meant to create the conditions for its introduction.

According to the explanatory notes to the bill, quoted by the crypto page of the Russian business news portal RBC, its main purpose is to develop the necessary payment infrastructure for the digital ruble. This, the sponsors believe, would provide Russian citizens, businesses, and the state with access to fast, convenient, and low-cost money transfers.

The proposal aims to amend several existing laws such as the law on "On the National Payment System" to which the members of Duma want to add definitions pertaining to the CBDC. The new provisions assign to the Bank of Russia the role of

sole operator of the CBDC platform. They also establish the procedures for opening wallets for the digital ruble and accessing its platform.

An amendment to the law "On Currency Regulation and Currency Control" secures the status of the digital ruble as a currency of the Russian Federation and defines CBDCs issued by the central banks of other nations as foreign currencies.

Changes to the Federal Law "On Personal Data" allow Russia's central bank to process personal information without obtaining consent and without the need to notify in advance the Russian authority responsible for protecting the rights of subjects of personal data.

The Central Bank of Russia presented the concept for its digital currency in October 2020 and finalized its prototype platform in December 2021. The pilot phase was initiated in January of this year. In May, the monetary authority said it plans to start tests with real transactions and customers in April 2023.

In June, amid mounting Western sanctions imposed over Moscow's military invasion of Ukraine, the regulator said it's accelerating the schedule for the project, aiming for full launch in 2024. Over a dozen Russian banks and other financial institutions are currently participating in the trials.

SAUDI CENTRAL BANK TO EXPERIMENT WITH CBDC

(Bitcoinist.com, 1/25/23)

As the adoption of digital assets continues to grow widely, entities are following suit while aiming to use digital assets in their own way. In today's news, the Saudi Central Bank (SAMA) unveiled its plan to experiment with central bank digital currency (CBDC) alongside local banks and fintech firms in a phase-by-phase project.

According to the agency, its current phase is where it centers on leveraging CBDC as a useful tool for a type of domestic wholesale financial instrument in collaboration with other financial institutions.

Saudi Central Bank Pushes Forward with CBDC

At the current stage, the central bank is exploring several sectors including the economic impact, market viability, and potential application of CBDC-based payment solutions. Therefore, the plan to launch the centrally-backed currency may be delayed as the decision is still pending.

Saudi-based news outlet Saudi Gazette noted in a report published on January 23 that "The Saudi Central Bank (SAMA) stressed that no decision has been made regarding the introduction of the Central Bank Digital Currency (CBDC) in the Kingdom. It continues to focus on exploring the benefits and potential risks of implementing CBDC."

Furthermore, according to the news outlet, the SAMA focus will devote "informed decision-making" within the central bank and to CBDC research within the central banking ecosystem.

Following its devotion to moving forward, SAMA searches for proper assessment of policy, and legal and regulatory considerations before proceeding to the next phases of the CBDC experiment plan to be a part of the Saudi Vision 2030 goals.

The region's Vision 2030 goal is a future embedded with advanced technologies. The SAMA Governor Fahad Almubarak said local banks and payment companies are the cornerstones of the project and its implementation.

Relative international bodies, local government entities, and the public are part of the institutions the SAMA will be consulting while researching CBDC.

At the end of the note, the report mentioned that SAMA will only continue to experiment with the CBDC solution as an infrastructure enabler of innovation in financial services that can be a part of an ecosystem with more resilient payment methods and an advanced digital transformation in the local financial sector.

Saudi Interest in the Crypto Sector

Prior to getting this far with its CBDC project, Saudi Arabia already demonstrated interest in the crypto community. A week ago, the region hit back at the U.S. dollar (USD) supremacy for the benefit of giving other currencies such as Bitcoin and other global currencies a chance.

During the World Economic Forum (WEF) in Davos, the country's minister of finance, Mohammed Al-Jadaan, hinted at the possibility of accepting non-dollar currencies to trade oil.

While notable bodies are beginning to recognize and pick an interest in cryptocurrencies as a legal means of payment method, the cryptocurrency market has seen positive movements.

In the last 7 days, the global cryptocurrency market capitalization has been hovering above \$1 trillion as digital assets underneath continue to rally.

TANZANIA TAKES TENTATIVE STEPS TO CBDC ADOPTION

(PYMNTS.com, 1/1/5/23)

Tanzania, CBDC, central bank digital currency, The Bank of Tanzania

The Bank of Tanzania is cautiously readying a central bank digital currency (CBDC).

The country's central bank said it will "continue to monitor, research and collaborate with stakeholders, including other central banks, in the efforts to arrive at a suitable and appropriate use and technology for issuance of Tanzanian shillings in digital form," according to a Saturday (Jan. 14) news release.

However, the bank, which first announced its digital currency project in May of last year, said it was taking a "phased, cautious and risk-based approach" to introducing a CBDC as it studies the challenges associated with adoption.

Among those challenges are inefficient payment systems, high implementation costs, the risk of disrupting the country's financial system, and the popularity of cash transactions.

The bank said its research into other country's CBDC adoption shows that a "majority of central bankers across the world have taken a cautionary approach in the CBDC implementation roadmap, in order to avoid any potential risks that can disrupt financial stability of their economies."

Even with this slower approach to rolling out CBDCs, digital currencies haven't always drawn enthusiasm from consumers.

For example, last month PYMNTS noted comments from a former official at the People's Bank of China, Xie Ping, who said he was disappointed with the results of that country's test of its digital yuan.

"The cumulative circulation of the digital yuan in the two years of the trial has been only 100 billion yuan (\$14 billion)," Xie told a conference at Tsinghua University. The number suggests that "usage has been low, highly inactive."

"The results are not ideal," Xie, a former director-general of research for the bank, said. "What needs to change is the digital yuan acting only as a substitute for cash and only for consumption."

Across the pond, the Bank of England's digital pound project hasn't gotten much support from the U.K. parliament. The cross-party Lords Economic Affairs Committee has referred to CBDCs in a recent report as "a solution in search of a problem."

Nigeria's central bank has had a CBDC since 2021 but was moved to chastise the country's banks last year for their "apathy" in promoting the coin to the nation's 200 million citizens.

By October of last year, 1 million people had downloaded the digital wallet associated with the CBDC, with users making about 700,000 transactions worth \$18.3 million.

PYMNTS noted the discrepancy at the time: 300,000 more wallets had been downloaded than had actually been used.

UK BITCOIN COMMUNITY REACTS TO INCOMING CBDC AND DIGITAL POUND ROLLOUT

(Cointelegraph, 1/25/23)

A new role, “head of CBDC,” will help the United Kingdom to “explore the case for a digital pound,” although U.K. Bitcoiners would argue that might not be necessary.

The U.K. government’s economic and finance ministry, His Majesty’s Treasury, is recruiting for a head of central bank digital currency (CBDC) to lead the development of a digital pound. The work is described as “important, complex, and cross-cutting” and will “require extensive engagement across and beyond the HM Treasury.”

According to the LinkedIn post, the Treasury and the Bank of England are working together through the CBDC Taskforce to explore the case for a digital pound. The role of the head of CBDC may bring the United Kingdom’s government closer to its aim of rolling out a CBDC.

Danny Scott, CEO of U.K.-based Bitcoin company CoinCorner, told Cointelegraph that a CBDC could be missing the “actual real-world use and purpose, which is what we often see.”

“For those that have been in the industry for a cycle or two, we’ve seen the hypes come and go—altcoins, blockchain, distributed ledger, ICOs, DeFi, NFTs. You see large companies come along and jump on the latest hype to avoid looking like they’re falling behind. It falls under R&D and exploratory for most, which is perfectly understandable.”

Scott, who has been working and building in the Bitcoin space for over a decade, explained that sometimes, the public could misinterpret the research and development projects in the crypto space and perhaps confuse them with useful real-world solutions.

“A CBDC [digital pound] doesn’t fall far from this. Many countries around the world are exploring this

and trying to understand the benefits of this over the current system—fair enough, this will happen.”

Indeed, the move toward a digital pound matches the trend among central banks worldwide to explore the potential of CBDCs. In Europe, the European Central Bank (ECB) has been actively studying the future of a digital euro, and several countries, including Sweden and Denmark, are also exploring their own digital currencies.

CBDCs claim to offer a number of benefits, including improved financial inclusion, reduced costs for businesses and consumers, and increased security and efficiency in the payment system.

However, El Salvador banked as much as 70% of its unbanked population with the introduction of Bitcoin as legal tender, while countries such as Nigeria, Ghana and Kenya can now receive money from around the world to a mobile phone or Bitcoin exchange account.

Moreover, there are potential risks to introducing a new digital currency. James Dewar, partner at U.K. Bitcoin merchant solution Bridge2Bitcoin and a director at Laser Eyes Cards, told Cointelegraph that the “introduction of a CBDC would itself present different challenges and risks than Bitcoin,” as the CBDC requires “trust in third parties, central banks and governments, to not abuse the supply of the currency.”

“This risk applies at the macro level as it does today, but more worryingly with a CBDC on the ability for a government or its agencies to monitor and censor individual spending. This is a huge risk for the rights of freedom and property ownership within our societies.”

He raises the question, “Whilst we may trust one government or another, do we as citizens trust all future governments, of whatever color, with this

power?” Tony Yates, a former senior adviser to the Bank of England, has spoken out against CBDCs. Resonating Dewar’s thoughts, he questioned the motivations behind the global rollouts of CBDCs, calling them “suspect.”

Dewar continued, “It is reasonable that government explore the idea properly. Overall, we worry that there may be political pressure brought to the process that ignores or significantly downplays the risks to society of a CBDC.”

The “digital” aspect of money is also brought into question. The U.K. is increasingly a digital cash-based society: Less than 15% of payments are made with physical cash according to the Bank of England, and as many as 23 million people—about one-third of the U.K. population—did not use cash at all in 2021.

Scott asks of the treasury, “Don’t we already have a digital pound?”

“From an end-consumer perspective, the pound is mostly digital these days regardless of the mechanism used. So, once they have finished their exploratory stages, I would love to see a list of the benefits and new features a CBDC will bring to the public.”

In the meantime, Scott will “continue to focus on Bitcoin and making a global, interoperable system everyone can participate in.”

Dewar shared that there could be hope for Bitcoin and the U.K. government: “The role description notes that the emergence of private sector money—such as Bitcoin—offers exciting opportunities for U.K. businesses and consumers, and we would very much agree with that at Bridge2Bitcoin.” The Bank of England CBDC, by design, will be available to Brits, although no official timeline is set.

UKRAINE'S TASCOMBANK PILOTS STELLAR-BASED E-HRYVNIA

(Bitcoin.com, 1/15/23)

Tascombank, one of the oldest banking institutions in Ukraine, has completed the pilot testing of a digital currency based on the Stellar network. The bank believes that its electronic money platform represents an economically viable implementation of blockchain technology.

Tascombank Conducts Tests with New Ukrainian Digital Currency

An “electronic hryvnia” has been tested by Ukraine’s Tascombank during the pilot phase of a project to create a currency with the Stellar network. During the trials, the coin was used in settlements between buyers and sellers, the financial institution announced in a report.

Operations with the new digital asset were carried out in accordance with the current know-your-customer and anti-money laundering procedures, the bank pointed out in the document, quoted by the crypto news outlet Forklog.

Tascombank also emphasized its research demonstrated a number of advantages of employing blockchain, including transparency at all stages of circulation and between all participants in the transactions, increased security and confidentiality for user data, low costs, and high capacity.

The electronic money circulation scheme studied during the pilot is an economically viable business model for using blockchain technology, the authors of the report elaborated, stating that they “consider the pilot project successful and promising in terms of further product development and implementation.”

The bank added that it plans to continue its studies on the issuance and circulation of blockchain-based electronic money. One of the areas its future research is going to cover will be the possible use of such currency in retail non-cash payments.

Tascombank also revealed that the National Bank of Ukraine (NBU) believes the results of its pilot, which was launched at the end of 2021, can be used by experts at commercial and central banks to conduct further analysis.

In January of 2021, the Ministry of Digital Transformation in Kyiv chose the Stellar Development Foundation as a partner in the development of the country’s virtual assets ecosystem, including infrastructure for NBU’s central bank digital currency (CBDC). In November, last year, the NBU presented a “draft e-hryvnia concept” to members of the crypto industry, banks, and other financial institutions.

DIGITAL DOLLAR PROJECT WARNS ON US CAUTIOUS APPROACH TO CBDCS

(CoinDesk, 1/18/23)

The DDP's white paper called the U.S. approach to CBDCs an "unsustainable position."

The United States may have conceded a head start to other nations in "setting global standards for the future of money" regarding central bank digital currencies (CBDC), but in the future the country "should lead the development of an international regulatory framework around digital currencies," the Digital Dollar Project (DDP) said on Wednesday.

In its updated white paper, the DDP, a nonprofit organization advocating for a U.S. CBDC, said the U.S. should set that regulatory framework "independent of a decision to deploy a U.S. CBDC."

More than 100 jurisdictions around the world are researching or developing a CBDC but the U.S. remains cautious on the merits of a CBDC.

"In the coming CBDC future, the U.S. should actively lead global discussions on governance, interoperability, security, privacy and scalability standards rather than reacting to foreign CBDC decisions," the DDP wrote.

The DDP laid out a series of warnings about the United States' cautious approach, calling it "a conspicuous absence" and an "unsustainable position."

Such a "defensive posture" by the U.S. threatens to impact its domestic economy if foreign nations issue their own CBDCs that become widely adopted as the de facto standards for international wholesale and retail payments, the paper warned.

The Atlantic Council previously issued a similar warning.

Additionally, the CBDCs of other nations could be used to avoid financial sanctions making it imperative that the U.S. find ways to maintain the dominant use of the dollar in the digital global payment systems.

If the United States-led global financial infrastructure is perceived as "too slow and expensive in comparison to foreign alternatives," a potential threat as other countries rapidly explore their version of central bank digital currencies, it's possible other nations will begin or continue the process of "de-dollarization," the DDP argued.

The Atlantic Council previously issued a similar warning.

The DDP's white paper referred to a 2022 study by the Hoover Institution that looked at global implications of China's CBDC, the e-CNY, including how China has established a first-mover advantage in not only the deployment but also the technical underpinnings of CBDCs.

China's CBDC enhances its ability to cement its international leadership in the space, the white paper noted. The e-CNY helps China's ability in setting "economic norms and technical standards that align with its authoritarian governance system, and increase its ability to undercut the traditional dominance of the U.S. dollar as a source of geo-economic and strategic influence."

CBDC expert and the CEO and co-founder of Fluent Finance, Bradley Allgood, said the U.S. has been setting leadership standards, referring to the Federal Reserve Bank of New York and its testing of the use of digital tokens representing digital dollars for wholesale transactions along with big banks.

"When you look at the Fed of New York and what they have been doing in their innovation offices, this has been setting the standard, with all of it leaning towards wholesale, tokenized deposits or tokenized liability network settlement between bank to bank," Allgood told CoinDesk.



2929 Arch Street | Philadelphia, PA 19104

Terranet provides cybersecurity, financial, and digital currency research services to enable a better understanding of future risk and opportunity for our clients.

Learn more about how we can serve your organization by contacting us at info@terrannetventures.com.

No Distribution; No Offer or Solicitation. This material may not, without Terranet's prior written consent, be (i) copied, photocopied or duplicated in any form, by any means, or (ii) distributed to any person that is not an employee, officer, director, or authorized agent of the recipient.