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# UK looks to the future in its case for a “digital pound”

The Bank of England and HM Treasury have launched a new consultation on the proposed introduction of a UK central bank digital currency – a “digital pound”. The consultation marks the next phase of work on a digital pound, which will involve assessing its feasibility and developing a detailed technical blueprint for implementation. A decision on whether to implement a digital pound will be made at the end of this 2-3 year phase of work. As it stands, the Bank and Treasury consider that a digital pound will “likely” be needed by the end of the decade. The consultation is open for feedback until 7 June 2023.

## A key milestone for the digital pound

The Bank of England and HM Treasury’s [consultation](#) on a UK central bank digital currency heralds the start of the “design” phase for a UK “digital pound” which will span the next 2-3 years.

A digital pound would be a new form of digital money, issued by the Bank of England, for use by households and businesses for everyday payments. Denominated in sterling, the digital pound would be the 21st century’s counterpart to physical banknotes – complementing, rather than replacing, these existing forms of money. Under current proposals, the digital pound would involve a public-private partnership that would see private sector firms making access available to the newly-minted money via their digital platforms.

A final decision will be made at the end of this phase of work, around 2025 / 2026. If the green light is given, the digital pound will launch in the second half of this decade. This would constitute a major financial infrastructure project for the UK, with profound implications for individuals, businesses and financial institutions alike.

## The case for a digital pound

Although no decision has yet been made, the case for a digital pound – at least in the eyes of the Bank and Treasury – appears compelling. The consultation deems that “a digital pound is likely to be needed in the UK” in the future, given current trends in the use of money and emerging payment technologies. Two key factors underpin this conclusion:

- Sustaining access to central bank money: UK central bank money anchors confidence and safety in the monetary system. At present, this is ensured by the use of banknotes and deposit bank accounts (which are interchangeable with banknotes without loss of value), as well as the Financial Services Compensation Scheme which provides insurance on deposits up to £85,000. However, the rapid decline in cash use, rise in electronic payments and potential for Big Tech players to issue their own private forms of digital money all pose a threat to this. A central bank-issued digital pound would ensure that a safe, trusted form of currency remains in circulation in the UK.
- Promoting innovation, choice and efficiency in domestic payments: Technology and increasing digitalisation continues to transform the UK’s various payments systems at speed. A digital pound could complement such innovation, acting as a “bridging asset” between digital platforms and payment systems. As a freely available public asset, a digital pound would be well-placed to promote interoperability, efficiency and competition across the payments space without jeopardising what the Bank describes as the safety and uniformity of money in the UK.

Alongside these dual considerations, the Bank and Treasury cite a number of additional potential benefits of a digital pound. This includes cheaper and more efficient cross-border payments, improved payment system resilience, and increased financial inclusion.

## Proposed model

The current model for a digital pound centres around a public-private partnership which is referred to as the “[platform model](#)”. The key features of this model include:

- Publicly issued digital money – the Bank itself would issue digital pounds and control the central infrastructure for issuance, namely the “core ledger”.
- Wallets offered by private sector – private sector firms, who could be banks or approved non-bank firms, would provide the interface between the Bank’s central infrastructure and users, by offering wallets and payment services to wallet-holders. The digital pound would be the settlement asset for such services.
- “Pass-through” basis – the wallets would operate on a “pass-through” basis, with all digital pounds held on the Bank’s core ledger. Wallets would act as the interface (e.g. via a smartphone or card), allowing users to see their balance and passing through instructions to the Bank for any transfers of digital pounds. Users would not have a claim on the wallet-holder (in the way they may have a claim on a bank for a deposit account), nor would this represent a custody arrangement.
- Privacy protections – all customer-related data would be held by the wallet-holder and not available to the Bank or Government. Holdings of digital pounds would be recorded anonymously on the Bank’s core ledger. Rigorous privacy and data protection standards would apply, at least equal to those applying to bank accounts.
- No interest – the digital pound would be used like a digital banknote, for everyday payments both online and in person. Like a banknote, a digital pound would be a direct claim on the Bank and no interest would be paid as it is not designed for savings. Exchanging between digital pounds, physical cash and bank deposits should be seamless. And although primarily designed for UK users, it would also be available to non-UK residents too.
- Initial holding limits – while neither the Government nor Bank would impose restrictions on how the digital pound could be spent, there may be limits on the size of digital pound holdings. An introductory limit of between £10,000 to £20,000 per individual holding is envisaged. Based on the Bank’s modelling, this would be sufficient to facilitate the majority

of payments in the UK (including salary payments) but would mitigate against financial stability risks e.g. rapid outflows from retail bank deposits and higher lending rates. The Bank previously modelled such potential impacts in a [2021 Discussion Paper](#).

Underpinning all of this, from a technological perspective, would be one key piece of infrastructure: the core ledger operated by the Bank. This would be a fast, secure, resilient platform through which the Bank anonymously records holdings and transfers of digital pounds, and which private sector firms access via an API layer in order to provide wallets to users. No decision has yet been made, however, as to whether the core ledger will operate as a traditional centralised database or using distributed ledger technology. [The Technology Working Paper](#), published alongside the consultation, explores these different potential technologies further.

## Interaction with digital payments landscape

Finally, the Bank and Treasury explore how a retail digital pound used for everyday transactions might sit alongside the evolving digital payments landscape. In particular:

- Cryptoassets – the consultation and [accompanying speech](#) by the Bank's Deputy Governor for Financial Stability stress that a digital pound would not be a cryptoasset. Unlike unbacked cryptoassets, which are described as high-risk, speculative assets, a digital pound would be a safe, stable and trusted store of value.
- Stablecoins – the development of a digital pound would complement the developing regulatory framework for private sector stablecoins, which is outlined in the Financial Services and Markets Bill 2023. The consultation floats the proposal, for instance, that privately-issued stablecoins be exchangeable on demand with the Bank's digital pounds, therefore ensuring interoperability and the uniformity of money in the UK.
- Wholesale CBDC – a digital pound would be used for retail rather than wholesale payments (i.e. high-value payments between financial firms). In the wholesale space, the consultation points to the ongoing renewal of the Real-Time Gross Settlement (RTGS) service, with a new engine due to launch in 2024. The Bank is separately working with HM

Treasury and FCA on a [sandbox](#) to explore digital settlement for wholesale financial market transactions.

## Next steps

A digital pound would clearly be a major piece of national infrastructure, requiring significant investment. The roadmap for launching a digital pound reflects this:

1. Phase 1: Research and Exploration – ended in 2022, following a series of initial discussion papers published by the Bank on [digital money](#) and a [UK retail CBDC](#).
2. Phase 2: Design – started in 2023 and will end in 2025 / 2026. This phase will involve intensive public and industry engagement, resulting in the development of a detailed technical, operational and legal blueprint for implementation. A decision on whether to proceed will be made at the end of this phase by the Bank and Government.
3. Phase 3: Build – starting in 2025 at the earliest, this will involve the development of prototypes and live pilot tests for a digital pound. If successful, a digital pound will launch by the end of the decade.

The consultation marks the end of Phase 1 and the start of Phase 2. It runs for four months, closing on 7 June 2023.