

U.S. Central Bank Digital Currency: Policy Objectives & Technical Evaluations – The White House

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On September 16, 2022, the U.S. Department of the Treasury (Treasury), the Department of Justice (the DOJ), and other U.S. government agencies released eight highly anticipated reports¹ (the Reports) on different aspects of digital asset regulation, setting forth the agencies' respective legislative, regulatory, and policy recommendations and priorities. The Reports were issued in response to White House Executive Order 14067 on Ensuring Responsible Development of Digital Assets (the Executive Order), which calls for a whole-of-government alignment of the federal government's approach to digital assets.

The Reports confirm the Biden-Harris Administration's acknowledgement that digital assets have potential benefits and are likely to remain a component of the U.S. financial system, but that the proliferation of the asset class presents unique risks that should be addressed. While the Reports provide some insight into the Administration's thinking about digital assets and articulate some recommendations and "calls to action," many significant regulatory questions remain unaddressed.

This post summarizes the White House Report discussing the considerations of preparing for a U.S. CBDC system.

U.S. Central Bank Digital Currency: Policy Objectives & Technical Evaluations

In the Executive Order, the Biden-Harris Administration stresses the need for research and development concerning the potential design and deployment options of a U.S. CBDC. These Reports issued by the White House discuss the policy objectives outlined in the Executive Order and analyze technical design choices for a U.S. CBDC and how such choices would impact the policy objectives for a U.S. CBDC.

A CBDC is a digital form of a country's sovereign currency. The White House states that this novel type of central bank money may provide a range of benefits for American consumers, investors, and businesses. However, a U.S. CBDC also poses potential risks, ranging from the stability of the financial system to the protection of sensitive data.

Policy Objectives for a U.S. CBDC System

Building on the policy objectives described in the Executive Order, the White House asserts that a U.S. CBDC

should support the following objectives:

- Provide benefits and mitigate risks for consumers, investors, and businesses;
- Promote economic growth and financial stability and mitigate systemic risk;
- Improve payment systems;
- Ensure the global financial system has transparency, connectivity, and platform and architecture interoperability or transferability, as appropriate;
- Advance financial inclusion and equity;
- Protect national security;
- Provide ability to exercise human rights; and
- Align with democratic and environmental values, including privacy protections

Technical Design Choices for a U.S. CBDC System

In deciding whether a CBDC is in the best interest of the United States, policymakers are urged to carefully consider the design choices for the CBDC system under consideration. The White House focuses on 18 design choices, divided into six categories: participants, governance, security, transactions, data, and adjustment. In discussing the different design options, the White House assists policymakers in understanding the technical design choices and their associated tradeoffs, keeping the policy objectives top of mind. The White House clearly discloses that, through its discussion of design choices, it is not presupposing that a CBDC system would use any particular technology, and it does not take any position on whether establishing a CBDC system would be in the best interest of the United States.

Feasibility and Resources for a U.S. CBDC System Minimum Viable Product

In the event the United States decides that launching a CBDC system is in the best interest of the United States, the White House provides an outline for steps that could be taken to pursue the effort to deploy a CBDC minimum viable product (“CBDC MVP”). It is not likely that a presupposed design for a CBDC system can succeed without testing. The development of a CBDC MVP would aim to validate the assumptions, understandings, and implication of introducing this novel financial instrument and technological product into the market.

Many other jurisdictions are conducting research and development related to CBDC systems, such as establishing research or pilots, or even deploying early-state CBDCs. Approximately 90% of central banks are engaging in some work related to CBDCs and approximately 62% of central banks are conducting experiments or developing proofs-of-concept. Private-sector experimentation in the digital assets ecosystem has been much broader than experimentation related only to a CBDC system. Technological features that have been developed in the digital-asset ecosystem could be relevant to developing a U.S. CBDC system and should be examined for their ability to advance policy objectives for a U.S. CBDC system.

Impact of a U.S. CBDC System on Federal Processes

The White House discusses the U.S. government work and services that would be affected by the inclusion of a U.S. CBDC system. If the U.S. government adopts a CBDC system, it is probable that CBDC would also be incorporated as an additional method to make or receive payments in a variety of situations. For example, the IRS might offer CBDC as an option for individuals, businesses, and organizations to pay their taxes and receive refunds. The White House points out that, despite the fact that since 1999 most U.S. government payments may be made electronically, there may be some cases in which CBDC could provide a unique benefit—such as cases where a one-time benefits payment needs to be made quickly or where traditional banking infrastructure is unavailable.

The technical challenge of incorporating CBDC payments would depend, in part, on the design choices of the CBDC system, the technical infrastructure at agencies, and the availability of talent to incorporate the CBDC system into agencies’ infrastructure. Adoption of a U.S. CBDC system may introduce risks for U.S. government cybersecurity and privacy risks related to the collection, storage, and transmission of payment information associated with business-identifiable and personally identifiable information. The White House raises concern that attacks on the CBDC

system could be used to compromise various aspects of agencies' infrastructure. Similarly, attacks on agencies' infrastructure could also be used to compromise parts of the CBDC system.

The Federal government's adoption and use of a CBDC system poses benefits and risks to customer experience. The White House highlights that it is the policy of the United States to prioritize improvements to service delivery and customer experience by reducing administrative hurdles, enhancing transparency, creating greater efficiencies across the Federal government, and redesigning compliance-oriented processes to improve customer experience and more directly meet the needs of the people of the United States. The adoption and use of a CBDC system poses both benefits and risks to customer experience. While a CBDC may improve services such as prompt payment, and tracking and servicing of loans, it may also present obstacles for ideal customer experience or raise concerns about accessibility.

Whether the CBDC system fulfills the policy objective of equity and inclusion will depend on how it interacts with safety-net programs such as Medicare, Medicaid, Social Security, Supplemental Nutrition Assistance Program benefits, and unemployment insurance. The recipients of these programs are more likely to be lower-income, underbanked, and have limited access to fast broadband Internet.

Recommendations on Preparing for a U.S. CBDC System

Additionally, the White House sets forth the following recommendations on preparing for a U.S. CBDC system:

Advance Technical Work Related to Digital Assets: The White House recommends coordinating federal activities and research and development related to several technologies underpinning digital assets.

Continue Digital Assets Research and Experimentation Within the Federal Reserve: The Federal Reserve is already doing significant experimentation on CBDC systems. The White House calls for other departments and agencies to pursue their own experimentation to tackle discrete questions involving the potential application of CBDC systems in their areas of responsibility.

Establish a Research and Development Agenda: There are a significant number of open questions related to digital assets, including CBDC systems. This Report stresses the importance that the U.S. government highlight these open questions and direct resources and the research community towards solving them.

Scale-Up Tech Capacity Across the Federal Government: The Federal government should have the technological infrastructure capacity and expertise needed to harness benefits and mitigate risks from digital assets. Should a CBDC be deemed in the national interest and pursued, federal departments and agencies will also need to realign their processes and capabilities, including but not limited to, facilitating CBDC payments to and from the public sector. Additionally, departments and agencies should continue taking general steps towards improving their information technology systems so they are well-maintained if steps are required to be taken to incorporate a CBDC system.

For more insights on the Reports, read our full briefing: [The Future of Digital Assets Regulation in the United States](#).

Digital Assets & Blockchain Technology Group

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▮ The complete Reports mandated by President Biden's Executive Order and issued by Treasury, DOJ, and White House explored in this Winston Alert can be located at the following links:

- [Action Plan to Address Illicit Financial Risks of Digital Assets](#) issued by Treasury

- [Crypto-Assets: Implications for Consumers, Investors and Businesses](#) issued by Treasury
- [The Future of Money and Payments](#) issued by Treasury
- [Climate and Energy Implications of Crypto-Assets in the United States](#) issued by the White House
- [Policy Objectives for a U.S. Central Bank Digital Currency System issued by the White House](#)
- Technical Evaluation for a U.S. Central Bank Digital Currency System issued by the White House
- [The Role of Law Enforcement in Directing, Investigating, and Prosecuting Criminal Activity Related to Digital Assets](#) issued by the DOJ
- [Responsible Advancement of US Competitiveness in Digital Assets](#) issued by the U.S. Department of Commerce

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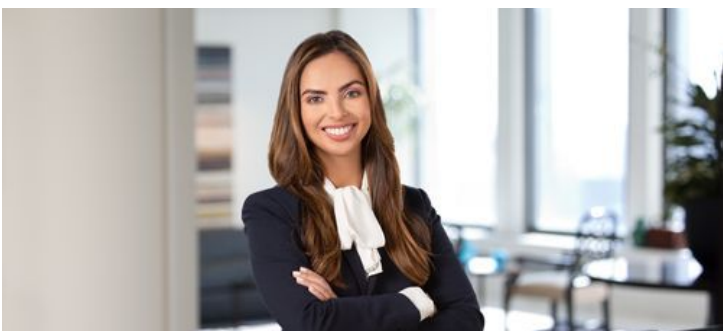
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