Question: 14. Should a CBDC be legal tender?

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Question

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Should a CBDC be legal tender?

Answer

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According to the U.S. Code, Title32, Subtitle IV, Chapter 51, Subchapter I Section § 5103, **Legal Tend** in the U.S. is:

> *United States coins and currency (including Federal Reserve Notes and circulating notes of Federal Reserve Banks and national banks) are legal tenders for all debts, public charges, taxes, and dues. Foreign gold or silver coins are not legal tender for debts.*https://www.law.cornell.edu/uscode/text/31/5103

According to the Statutes, yes if the U.S. CBDC is considered a form of the Federal Reserve Note.

The U.S. CBDC could offer another mechanism to the existing non-cash mechanisms such as debit cards, credit cards, electronic transfers, and checks. However, in order to offer real-time settlements, it may need to use a different mechanism than the existing Automated Clearing House (ACH) Network currently in use to electronically move money between banks accounts across the U.S. The current ACH network is run by an organization called Nacha, formerly the National Automated Clearing House Association (NACHA).

Provide a bridge between legacy and new payment services There definitely would need to be a bridge between the existing ACH-NACHA payment network and a U.S. CBDC, its associated Consensus Algorithms, and the network of nodes. However, in addition to the bridge between the two, there probably needs to exist a new consolidated frontend (Application Programming Interface (API)?) that abstracts the type of payment from the participants in the transactions. In other words, the transaction should be agnostic to the non-cash mechanisms such as debit cards, credit cards, electronic transfers, checks, and CBDC.

The U.S. CBDC needs to support basic purchases of:

1. goods

2. services
3. pay bills
4. pay taxes

U.S. CBDC should be treated like any other payment form, even though under the hood, it might use a different payment network than the National Automated Clearing House Association (NACHA) network.

Examples

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The following “desirements” are from the White Paper as identified by the Object Management Group's report called White Paper Analysis:

Table 1: Example of mapping a subset of requirements identified during the White Paper Analysis conducted by the OMG

Benefits	B0025, B0026, B0029, B0034, B0038, B0040, B0044, B0045, B0046, B0047, B0049
Policies	P0003, P0018, P0019, P0020, P0021
Risks	
Design	D0004

Example Discussion

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Table 2: “Desirements” identified in the **White Paper** that have potential monetary policy impacts.

Statement No.	Statement	Comment
B0025	**Serve as a new foundation for the payment system**	The CBDC could offer another mechanism to the existing non-cash mechanisms such as debit cards, credit cards, electronic transfers, and checks. However, in order to offer real-time settlements, it may need to use a different mechanism than the existing Automated Clearing House Network (ACH) network currently to electronically move money between banks accounts across the U.S. The current ACH network is run by an organization called Nacha, formerly the National Automated Clearing House Association (NACHA).

Statement No.	Statement	Comment
B0026	**Provide a bridge between legacy and new payment services**	There definitely would need to be a bridge between the existing ACH-NACHA payment network and a U.S. CBDC, its associated Consensus Algorithms, and the network of nodes. However, in addition to the bridge between the two, there probably needs to exist a new consolidated frontend (Application Programming Interface (API)?) that abstracts the type of payment from the participants in the transactions. In other words, the transaction should be agnostic to the non-cash mechanisms such as debit cards, credit cards, electronic transfers, checks, and CBDC.
B0029	**Support basic purchases of: 1. goods 2. services 3. pay bills 4. pay taxes**	See the answer to **B0026** above. CBDC should be treated like any other payment form, even though under the hood, it might use a different payment network than the National Automated Clearing House Association (NACHA) network.
B0038	**Allow private-sector innovators to focus on: 1. new access services 2. distribution methods 3. related service offerings**	By defining a new standardized Application Programming Interface (API) as in **B0026** above, a marketplace of products can be developed by the private sector to help innovate the current payment ecosystem.
B0044	**Facilitate access to digital payments**	See answers to **B0011**, **B0018**, **B0020**, **B0024**, **B0025**, **B0026** above.
B0046	**Enable rapid and cost-effective delivery of: 1. wages, 2. tax refunds 3. other federal payments**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.
B0047	**Lower transaction costs**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.
B0049	**Promote access to credit**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.
P0003	**Complement current forms of money and methods for providing financial services**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.

Statement No.	Statement	Comment
P0018	**The Federal Reserve Act does not authorize direct Federal Reserve accounts for individuals**	The easiest solution is to allow current intermediaries to process CBDC transactions using an upgraded payment system. See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.
P0020	**The private sector would offer accounts or digital wallets to facilitate the management of CBDC holdings and payments**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.
P0021	**The intermediaries would operate in an open market for CBDC services**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.
D0004	**Design should influence how the Federal Reserve might affect monetary policy**	See answer **B0025**, **B0026**, **B0029**, **B0038**, **B0040** above.

☐ [nick]Incorporate suggested answer from Lars into this section … have included the wording he suggests in the enabled discussion section