

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, Title 32, Subtitle IV, Chapter 51, Subchapter I Section § 5103, **Legal Tender** 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; the wording he suggests is provided as a comment below this todo so you don't have to hunt for it in your emails.

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