

Article Information

Authors: Jordan Markezic, Michael Bacina

Service: Blockchain

Sector: Financial Services, FinTech, IT & Telecommunications

RBA CBDC pilot white paper

Michael Bacina and Jordan Markezic of the Piper Alderman Blockchain Group bring you the latest legal, regulatory and project updates in Blockchain and Digital Law.

RBA CBDC pilot white paper

The Reserve Bank of Australia (**RBA**), in conjunction with the Digital Finance Cooperative Research Centre (DFCRC) released its [white paper into the CBDC pilot project](#) this week. The project commenced in July 2022 and is at this stage expected to be completed around mid-2023.

Ellis Connolly, the Head of the RBA's Payments Policy Department, [said of the pilot program](#):

[the RBA] sees potential for well-designed, well-regulated stablecoins to make a contribution to providing better services for Australian households and businesses... [it's] really important that we get the regulation of this right.

The [initial research questions](#) that were put to the RBA and the DFCRC were as follows:

1. What, if any, are the emerging business models and use cases that a CBDC would support, that are not effectively supported by existing payments and settlement infrastructures in Australia?
2. What might be the potential economic benefits of issuing a CBDC in Australia?
3. What operational, technology, policy and regulatory issues might need to be addressed in the operation of a CBDC in Australia?

The project intends to test a general-purpose pilot CBDC issued as a liability of the RBA for real-world use. The RBA has provided the [following timeline](#) with respect to the pilot program:

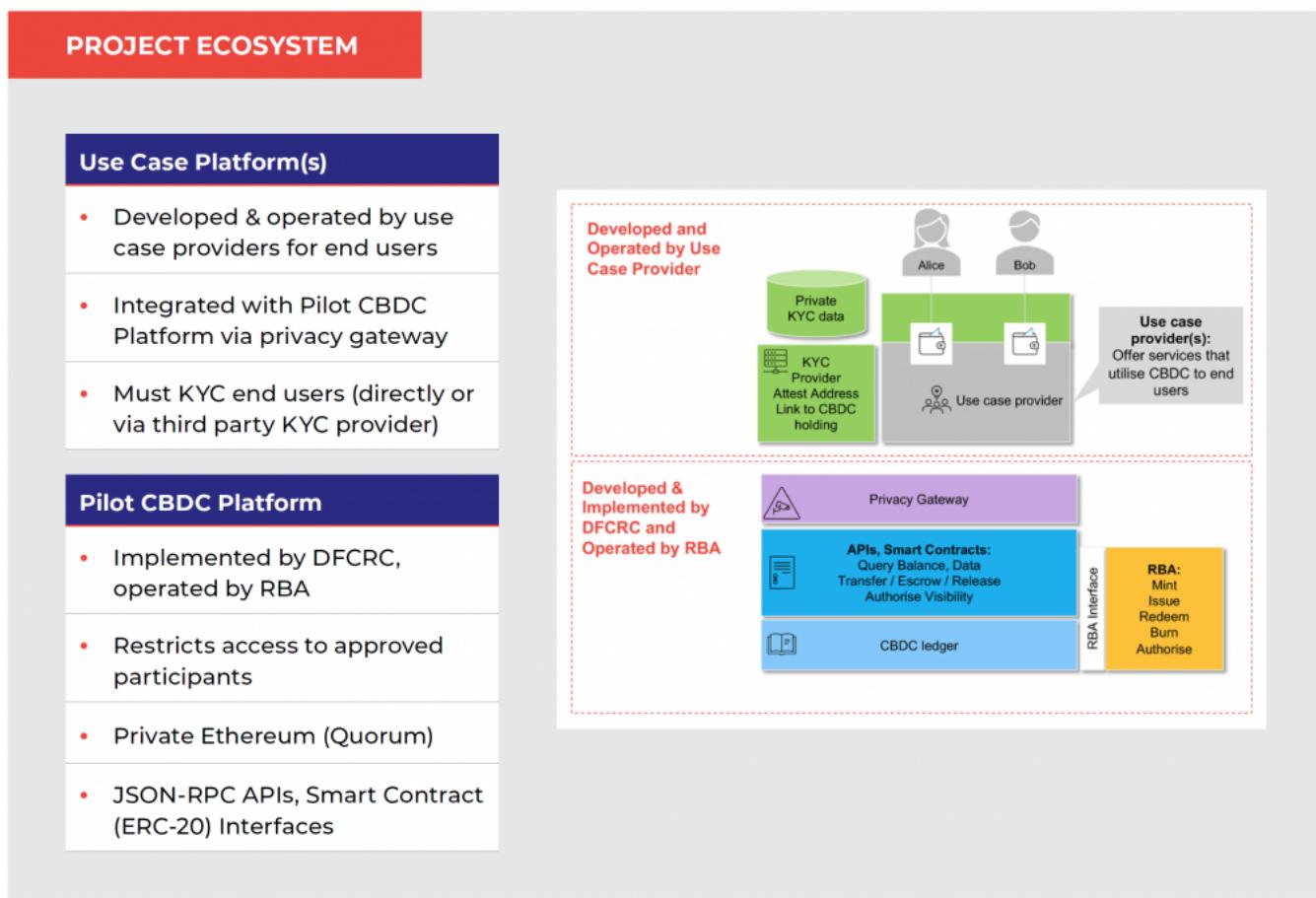
CBDC pilot project timeline

1.	Publish White Paper to describe project and invite submissions	Sep 2022
2.	Engage with industry participants on pilot CBDC design and usage	Sep – Oct 2022
3.	Deadline for receipt of expressions of interest	31 Oct 2022
4.	Enable selected participants to test use cases on the CBDC platform	Nov 2022
5.	Announce selected use cases for pilot CBDC	Dec 2022
6.	Conduct CBDC pilot and operate selected use cases	Jan – Apr 2023
7.	Shut down CBDC pilot platform	Apr 2023
8.	Publish report with findings	Around the middle of 2023

The report has indicated that the DFCRC will be responsible for the implementation of the pilot program, and the RBA will be responsible for the issuance and redemption of the pilot CBDC as well as other oversight and regulatory functions.

Use case providers will be industry participants responsible for the design and operation of their own technical platforms to implement their approved use case applications in the project.

The [below figure](#) outlines the interfaces for use case provider platforms to conduct approved functions.



The report makes clear that the CBDC will be called the eAUD and will be a liability of the RBA and denominated in Australian dollars. The [smallest denomination](#) will be one cent.

The amount of eAUD in circulation will be capped at an amount to be determined by the RBA considering the requirements of selected use case providers. Holders of eAUD will also not be paid interest by the RBA, and only Australian-registered entities or residents will be eligible to hold eAUD.

All end user holders of eAUD will be required to be invited for participation in the project by an approved case provider. All holders of eAUD will be required to be identified by their use case provider or an approved know-your-customer service provider. Importantly, holders of eAUD may hold the CBDC in a [custodial wallet](#) provided by a use case provider or a non-custodial wallet held directly by the end user.

The minimum functional capabilities of the eAUD platform and entities that perform the requisite functions are as [follows](#):

- the RBA - minting, issuing, redeeming and burning eAUD. The RBA will also be responsible for authorising roles in the ecosystem;
- the Use Case Provider - inquiring on eAUD balances and transactions, transferring eAUD, escrow or release the eAUD. The Use Case Provider will also conduct ERC-20 functions, and authorise visibility of use case end user holdings to pilot participants.
- the KYC Provider - attesting to the holding of an eAUD holder on a ledger after verifying the identity of the holder and have linked that identity verification to the holding address.

According to the [report](#), there are three different types of holding structures for holding eAUD, subject to use case requirements. The rationale behind the three different types of structures is to support the widest range of possible use cases and avoid constraining use ideas through design.

The first holding structure is a direct liability of the RBA to the eAUD end user, and is represented by an individual holding of eAUD on the CBDC ledger by an end user, where the end user also has control of the private key to access their holdings.

The second holding structure is another direct liability of the RBA to an end user, with individual holdings on the CBDC ledger by end users, controlled by a use case provider on behalf of the end users.

The third holding structure is another direct liability of the RBA to a use case provider, who holds a commingled pool of eAUD on behalf of end users. In this regard, end users will have an indirect claim on the eAUD.

The eAUD platform will be implemented on a [private, permissioned part of Ethereum](#). This part of Ethereum will not store end user KYC information, which will be managed by KYC service providers or use case providers on separate platforms. The eAUD platform will allow use case providers to offer end users a model of data privacy in which transactions and balances are not visible to other end users and use case providers.

In any event, the report clarifies that the RBA will have visibility over transaction values and account balances, though not the underlying identity of eAUD holders, which will be held by the use case provider and/or KYC provider.

By way of distribution, the RBA will mint and issue eAUD - against the payment of the equivalent of Australian dollars - to approved use case providers and appropriate eAUD distributor. This distributor is intended to be an entity approved by the RBA which will distribute eAUD to use case providers that are unable to receive eAUD directly from the RBA.

At the conclusion of the pilot, all end users will be [required to transfer their eAUD to their use case provider](#), who will subsequently reimburse the end user in the equivalent amount of Australian dollars. The RBA will destroy or burn all the eAUD that had previously been in circulation at the pilot's end.

The RBA and DFCRC have provided the following justification for why end users may seek to participate in the [pilot program](#):

The emergence of a tokenised economy and new forms of money offer the potential to deliver new economic and social value, thereby contributing to the welfare of the Australian people. The eAUD project offers an opportunity to experiment and test new business models for current and emerging markets, on a platform designed for innovation. The involvement of the RBA and key regulators offers additional support for such exploration.

The DFCRC has called for submissions from industry participants of either use cases that utilise CBDCs as well as expressions of interest to operate their use cases in the pilot.