

Polar Collective

<u>Team Member Name</u>	<u>Year</u>	<u>Major</u>
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Assad Baker	2022	MBA
Anna Gilfillan	2023	MBA
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Topic: Digital Currencies: The Future or a Fad?

Audience: The Bank of Canada

Sustainable Development Goal

SDG #8: Decent Work and Economic Growth. Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all.

Executive Summary

The rapid growth of private digital currencies, such as cryptocurrency and stablecoins, coupled with decreasing rates of cash acceptance are posing a threat to central banks around the world and their ability to manage monetary policy. 86% of central banks are considering implementing a Central Bank Digital Currency (CBDC) to mitigate this risk. Given the global trends, and the Bank of Canada's active research, the eventual implementation of a CBDC seems highly likely. However, when designing a CBDC, each decision has implications for the financial industry, economic growth and innovation, as well as for privacy, data security, and government control.

If designed effectively, a central bank digital currency (CBDC) would not only provide the Bank of Canada with a tool to manage monetary policy but could improve banking accessibility to the 15% of Canadians currently considered "underbanked." However, the design would also need to address ethical concerns surrounding privacy, security, and government overreach. Appropriate regulatory oversight would be required, and existing legislation must be updated to achieve the full benefits of a CBDC. Through a financial lens, a CBDC risks disintermediating existing financial institutions but could revolutionize payment efficiencies for both enterprises and consumers alike. Lastly, the system must be designed in such a way that enables participation for all Canadians.

Our recommendation is that the Bank of Canada pursue a private/public partnership to build a retail and wholesale CBDC with a tiered account model and hybrid distribution, and that this be supported through changes in governance, infrastructure development, and education. A well-designed CBDC would allow the Bank of Canada to address economic concerns and would further provide a real-time economic snapshot and increase financial accessibility for all.