

A UK Central Bank Digital Currency (CBDC): a fresh new *BOECoin*, a digital version of Sterling, or something else entirely? Governor Carney may be open to the role a Digital currency may fulfil. By Dr Stephen Castell*

Mark Carney, Governor of the Bank of England, recently said: “*We recognise that there are real issues in both domestic and cross border payments. I believe these payments should be instantaneous - like exchanging a banknote online. We are looking closely at these issues with payments, and exploring a range of ways to address them, including the potential for CBDC*”.

These thoughts came in a recent letter to me in response to my submissions to HM Government of a new *BOECoin* UK digital currency, initiated in my email of 30 October 2017 to my MP, Rt Hon Priti Patel MP (now Home Secretary):

“Please ask the following at a forthcoming PMQs: Will the PM seize the international economic high ground in regard to the field of cryptocurrence, and announce that (1) Britain will issue the first ever state-backed Sovereign State Initial Coin Offering (SSICO), with a new token, the ‘QE2-Coin’, to be used specifically to fix the UK housing shortage...; and (2) putting billions of QE2-Coins into circulation towards increasing the stock of affordable modern homes for the UK will be non-inflationary, and not at all affect the PSBR”.

Ms Patel’s Office replied to me by email of 15 February 2018: “Ms Patel has raised your concerns directly with the Chancellor of the Exchequer”. I put more flesh on my evolving idea in a February 2018 letter to the *Financial Times*:

“The BoE Governor signals an acceleration in future raising of interest rates because he ‘wants to get inflation in line with targets’. The inflation that is now emerging is the *Hidflation* that has been caused by the BoE’s own years of Quantitative Easing. A more adventurous option would be for the BoE to issue a new *BOECoin*: (i) *BOECoin* will be redeemable for real GBP coins and notes; and (ii) HMRC will accept payment of certain taxes in *BOECoin*. Non-inflationary, and a direct way of reducing the Money Supply, whilst at the same time signalling the UK’s commitment to a future blockchain-based cryptoeconomy”.

I was eventually provided by HM Treasury with contact details and was able to email the *Digital Currencies Team*, Bank of England, on 21 August 2019:

“I have put forward my idea of the *BOECoin* and further suggest that the Chancellor of the Exchequer urgently constitutes a *BOECoin* Task Force, which I would be happy to Lead, in order to progress my proposal. The Economic Secretary to the Treasury, John Glen MP, says in his attached letter to the Home Secretary of 12 August 2019:

The Bank of England have looked at creating a central bank-issued digital currency, but have no plans to issue one at present. However, they are continuing to undertake research into the idea. Further information can be found at www.bankofengland.co.uk/research/digital-currencies, or you may wish to email digitalcurrenciesteam@bankofengland.co.uk.

I should be grateful for a meeting with your team to discuss the background and considerations involved in your thus far arriving at the Bank of England’s conclusion, and to understand the scope, terms of reference and objective of the research that you are ‘continuing to undertake into the idea”.

I received an email reply from the Manager of the Digital Currencies Team, Bank of England, on 30 September 2019: “We are still undertaking research on CBDC, but have no plans to issue one in the near future...”, to which I immediately replied:

“I would like to discuss with you ... my *BOECoin*. Also, I see that you manage the Bank’s involvement in the ‘Cryptoasset Taskforce’. Are you the person with whom I should be in contact about that also, please? I would see discussion covering important issues and ideas that I have identified:

- Developing the appropriate economic model for digital assets, and associated investment regulation, money transmission and payment systems; and the correct forensically-oriented protocols and standards regarding the applicable regulation, investigation, governance, management and technical systems.
- Development of innovative routes and levers available to the Bank beyond only being able to control Money Supply and/or Inflation by the single mechanism of adjusting Bank Base Interest Rates. As I pointed out in letters published in the *Financial Times* concerning investment, capital financing and economic modelling issues in particular, the HM Treasury Economic Computer Model wrongly treated such interest rates as exogenous variables, so that it was not surprising that its prediction of the PSBR was likely to be unreliable.

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- Establishing a higher level of trust, safety, security and reliability of crypto assets, currencies and blockchain-based instruments, systems, products, services and companies, through rigorous ICT professional QA. New companies are now beginning to offer potentially serious high-grade, industrial-strength due diligence and forensic investigation automated tools and services.”

I then received the following letter from the PA to Governor Mark Carney, Bank of England, by attachment to an email of 28 October 2019 (*Reproduced in full by permission of Governor Carney*):

**BANK OF ENGLAND****Mark Carney**
Governor

Dr Stephen Castell

Email: stephen@castellconsulting.com

25 October 2019

Dear Dr Castell

I am writing in response to your correspondence over the Summer. Your emails came at a timely moment, given the renewed interest in the potential of a Central Bank Digital Currency to improve payments.

We recognise that there are real issues in both domestic and cross border payments. In the UK we have a payment system that, whilst convenient for consumers, is expensive and slow compared to the best on offer in other countries. Cross-border payments are even more expensive and slow. This can undercut the competitiveness in particular of smaller business. I believe these payments should be instantaneous – like exchanging a banknote online. We are looking closely at these issues with payments, and exploring a range of ways to address them, including the potential for CBDC. Some of the possibilities may include tools I have spoken about, such as a domestic CBDC, internationally-linked CBDCs, or possibly a synthetic hegemonous currency (SHC).

Each of these developments could have wide ranging implications, especially with regards to monetary policy and financial stability. Before making any decisions on proceeding with CBDC we need to carefully research these implications to ensure that the benefits outweigh the risks.

At the same time, we are focussed on making further improvements to existing payment systems and supporting further innovation in existing payment systems, in particular through the rebuild of our Real Time Gross Settlement payment system that serves as the backbone of UK payments.

This is a fascinating area and I thank you for your interest in it.

A handwritten signature in black ink, appearing to be 'M. Carney', written over a horizontal line.

I replied to Governor Mark Carney by email of 29 October 2019:

“I am not clear if the Bank’s primary interest in a CBDC is solely to ‘improve payments’, making exchanges thereof ‘instantaneous’. I put forward the *Electronic Cash Unit* in *Computing* magazine, 20 July 1995, a principal property of which is that it is *disintermediated*. I would be pleased to discuss further with Governor Carney. This BTW would *not* mean that it was without a Trusted Third Party standing behind it, nor need it be a ‘cryptocurrency’; and it could be both a ‘CBDC’ and a ‘SHC’. Possibly FaceBook’s *Libra* will be close to an implementation of my 1995 ECU concept. I would be pleased to be involved in carefully researching and active development of and contribution to these important matters. The one point missed is my particular digital *BOECoin* issue proposal to H M Treasury, and I should very much like to know what is the status of consideration of that proposal, and of course how I may naturally be involved with its development and progress”.



* Dr Stephen ('Crypto Dragon') Castell is an award-winning ICT systems and software professional, international expert witness and FinTech visionary. He has for many years acted internationally as an expert witness in major complex computer software and systems disputes and litigation, including the largest and longest such actions to have reached the English High Court. In the early 1980s he was a high-profile pioneer of the Over The Counter Market in the UK, raising risk capital for new technology-based companies, responsible for assessing several hundred such companies, in preparing their flotation prospectuses, and serving as Non-Executive Director. He is a Panellist on CBTV ('CryptoBlockTV'): <https://vimeo.com/user36208838/review/257927211/7ff86eed15>

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Digital fraud is never very far away from digital innovation. Dr Stephen Castell**

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Other Recent Publications of Dr Stephen Castell:

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First published in *Solicitors Journal*, October 2019.

<https://www.arachnys.com/2019/10/22/addressing-the-aml-risks-of-cryptocurrencies/>

"Addressing the AML risks of cryptocurrencies OCTOBER 22, 2019 *BLOG*

<https://doi.org/10.1016/j.clsr.2018.05.011>

This much-cited article, *'The future decisions of RoboJudge HHJ Arthur Ian Blockchain: Dread, delight or derision?'*, Castell, S. (2018), *Computer Law & Security Review*, Volume 34, Issue 4, August 2018, Pages 739-753, the Landmark 200th issue of *CLSR* under the Editorship of Emeritus Professor Steve Saxby, noted that, while many are concerned about defining and developing AI 'Machine Ethics', *Castell's Second Dictum*: "You cannot construct an algorithm that will reliably decide whether or not any algorithm is ethical" (2017) reveals that this is a futile exercise. "Talking about the ethics of machines might be like speaking of the happiness of water" (page 743).