PRESS RELEASE

Embargoed until: 13:30, October 4, 2023

BOK, FSC, and FSS, in cooperation with the BIS, have launched a project to explore a future monetary system for Korea

Summary

☐ On Wednesday, Oct. 4, the Bank of Korea (BOK), the Financial Services Commission (FSC), and the Financial Supervisory Service (FSS) made a joint announcement unveiling the "CBDC pilot project" for the development of a future monetary system.

○ The Bank for International Settlements (BIS) provided technical advice during the project's preparation phase. The BOK and BIS released a report, introducing the BOK's project, its purposes, and the high-level features of its CBDC network design.

BANK OF KOREA Financial Services Commission FINANCIAL SUPERVISORY SERVICE

On Wednesday, Oct. 4, the Bank of Korea (BOK), the Financial Services Commission (FSC), and the Financial Supervisory Service (FSS) made a joint announcement unveiling the "CBDC pilot project," representing the initial step in the development of a future monetary system for Korea. This project is designed as a collaborative effort involving both the public and private sectors, with participation from the BOK, FSC, FSS, and commercial banks. Moreover, the Bank for International Settlements (BIS) provided technical advice on the project's preparation and planning.

The project will assess the feasibility of implementing a future monetary system based on 'wholesale CBDCs'.[1] Commercial banks will utilise a wholesale CBDC for interbank funds transfers and final settlements among financial institutions, similar to their current practice of utilising deposits (reserves) in their current accounts at the BOK to facilitate such transactions.

Commercial banks will issue payment instruments in the form of tokenised deposits - that will be accessible to the general public - within the "CBDC network" established by the BOK, using distributed ledger technology (DLT), and managed jointly by the BOK, FSC, and FSS.[2] These payment instruments will be circulated securely within the CBDC network.

By presenting a prototype model of the future monetary system that incorporates advanced information technology, this project is expected to lay the foundation for implementing various innovative payment and financial services that differentiate themselves from existing ones. Moreover, the project could contribute to the formulation of measures that ensure the efficient processing of transactions for emerging financial products, such as "token securities," through the secure payment instruments.

In addition to technical experiments in virtual environments, like Proof of Concept (PoC), real-world experiments will also be conducted, albeit on a limited scale. In certain use cases, the general public will have the opportunity to participate and experience the benefits of these new digital payment instruments in actual tests. This hands-on experience will significantly contribute to the research and development of the future monetary system.

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[1] A Central Bank Digital Currency (CBDC) is a new form of money issued digitally by a central bank. CBDCs come in two forms: retail/general-purpose CBDCs which are directly accessible to general economic entities, like households and businesses; and wholesale CBDCs exclusively available to financial institutions for purposes of interbank funds transfers and final settlement.

[2] The Federal Reserve Bank of New York and the Central Bank of Brazil have undertaken efforts to research and develop wholesale CBDC platforms that support the issuance and circulation of tokenised deposits.

During the project's preparation stages, the BOK, FSC, and FSS engaged in detailed discussions on institutional aspects. Initially, only commercial banks will be able to participate in the project, in consideration of compatibility with current laws. Following the project, any decision to expand the project's scope will be made after conducting a comprehensive review of relevant issues such as accessibility.[3] The BOK, FSC, and FSS will examine pertinent aspects to ensure that real-world tests involving the general public during the project are carried out with sufficient user protection measures in accordance with the existing legal framework.

Furthermore, the BIS has actively supported the project, by sharing its research and development experiences related to future monetary systems, such as CBDCs. In particular, experts from the BIS provided technical advice in the design and development of this CBDC network since the preparation stage. Additionally, the BOK and BIS have released a report introducing the BOK's project, its purposes, and providing high-level features of its CBDC network design.[4]

However, it is important to note that this project is part of the process of exploring an optimal CBDC design suitable for the Korean economic and financial situation. This project does not constitute any official introduction of a CBDC, and the design of the CBDC network established for this project does not imply any finalised design.

To ensure the project's smooth implementation, the BOK, FSC, and FSS will establish a collaborative working group with relevant authorities, such as the Ministry of Economy and Finance (MOEF), and related institutions. Furthermore, technical cooperation with the BIS will be continued.

The procedure for selecting an IT system integrator for system development begins today. For more information, please refer to the Korea On-line E-Procurement System (www.g2b.go.kr). Moreover, information sessions for IT system integrators and banks will be held throughout October, with more detailed information on the sessions to be provided later. The BOK, FSC, and FSS will disclose specific details, including the use cases to be explored and a list of participating banks, at the end of November. Furthermore, the testing stage involving the general public is expected to commence around the fourth quarter of next year, following necessary preparations, such as system establishment.

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[3] In order to accommodate expansion of the project's scope in the future, the CBDC network in this project is designed to allow these entities to issue digital payment instruments, with the issuing entity holding an equivalent amount of wholesale CBDCs.

[4] The report titled "A step toward new financial market infrastructure: Bank of Korea's initiative" can be found at the BIS and BOK websites.