

Discussion:

# Digital Payments and CBDC: Lessons from Economic Theory and Actual Markets

by Harry Leinonen



## Main points of Robert Townsend:

- CBDC could facilitate trading
- Liquidity and market coordination problems will prevail
- Broker-dealers and intermediary agents needed

***Mostly based on current market structures***

# What is CBDC?

= **RTGS** for retail users

- Different technologies and models can be used and these can vary over time
- Retail users can select among several payment products
- CBDC will require easy-to-use user interface for paying at merchants, in e-commerce, person-to-person etc.

*Which will be the effects of  
real real-time payments  
among consumers and companies?*



## Amara's law:

“We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run.”

***How large will the long-term effects of real-time CBDC become?***



## Real retail/wholesale RTGS payments will imply

- Immediate payment, provision, delivery and reception of money
- Settlement will become immediate at transaction level in DVP/PVP/DVD-mode
- FX, money market and securities trading will be settled immediately

***Simply: Sellers will get their money and buyers will get their assets immediately!***

*(Compare with crypto currency exchanges.)*

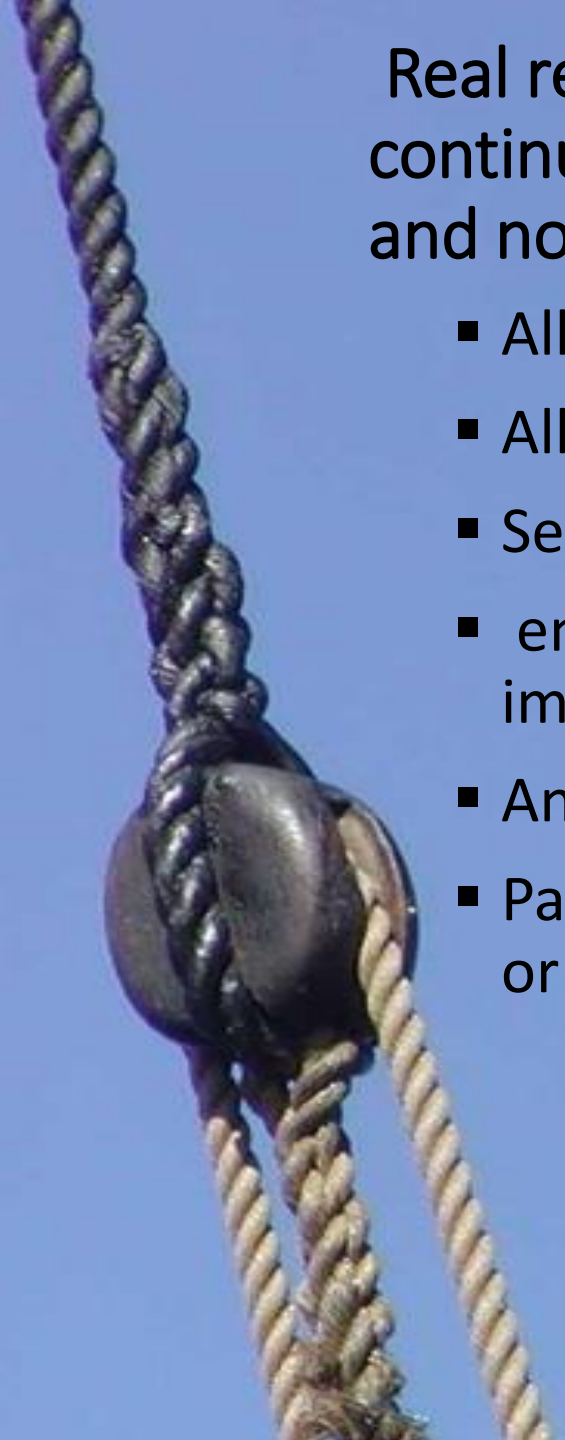




## Real retail/wholesale RTGS payment corollary 1, no long or short positions

- Everybody, both wholesale and retail level, will operate out of real-time portfolios
- Participants can buy using their real money balances
- Participants can sell using their real asset balances
- DVD-deals will probably increase in volume
- Every successful trade is immediately updating the real-time balances and portfolios of the end-investors
- Received real-time assets can be traded during the next split second

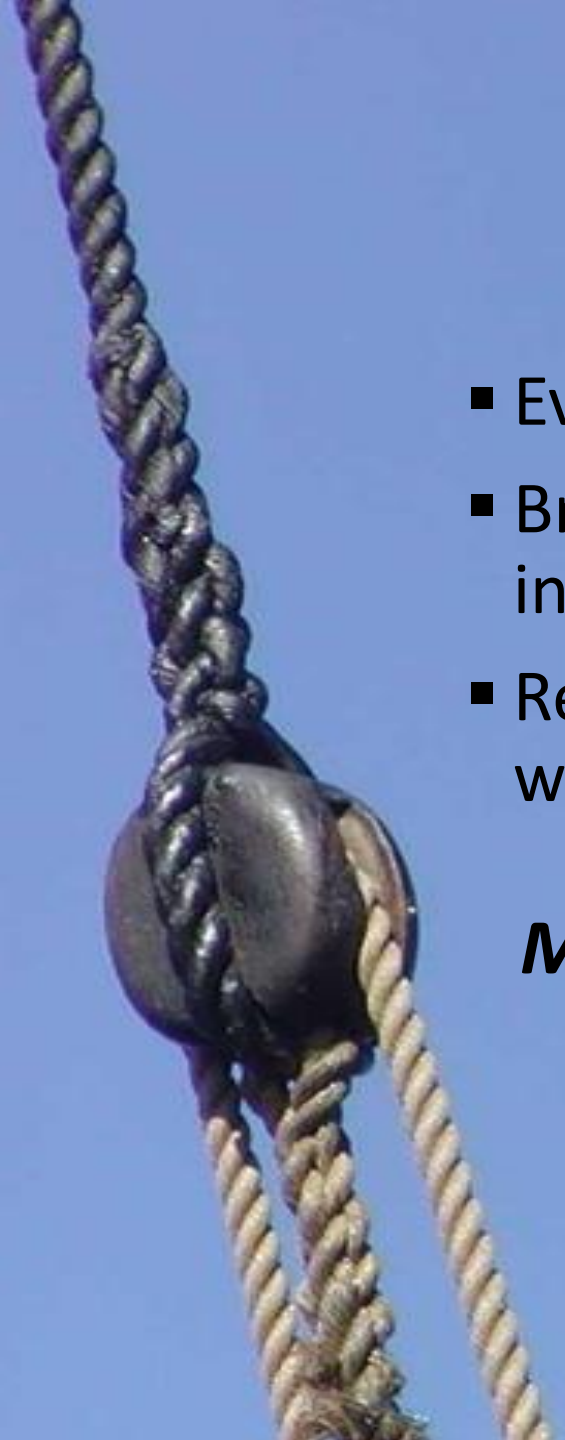
***In a real real-time environment  
nobody can be long or short  
just exactly accurate all the time.***



Real retail RTGS payment corollary 2,  
continuously sufficient liquidity by all parties  
and no coordination problems

- All buyers will present their necessary RTGS funds
- All sellers will present their necessary custody assets
- Settlement agents can always settle agreed trades as
- end-investors present their funds and assets as part of immediate trading+settlement
- Any borrowing by end-investors before dealing
- Participants have no positions to close towards the system or towards each other

***Everyone has to secure their liquidity  
before any immediately settled trading engagements  
as all trades will be settled immediately t+0 now  
( t+1, t+3 and later will become parts of future markets)***



## Real retail RTGS payment corollary 3, market setup will become flat

- Everybody can trade directly using e-trading platforms
- Broker-dealers, market makers and other kinds of intermediary agents will mostly become unnecessary
- Retail RTGS liquidity and immediate trading+settlement will solve liquidity and coordination problems

***Markets will become immediate and end-to-end  
among end-investors and  
(almost) without middlemen  
(this is a general trend in e-markets).***





# Short- and long-term effects?

We will experience both short- and long-term effects.

*It is difficult to predict the exact time for  
the long-term effects but  
retail real real-time RTGS/CBDC will revolutionize  
financial markets sometimes in future.*

*=markets will become simpler, more straightforward  
and more stable!*



Thank you!

E-mail: first name.last name@gmail.com