

DRAFT POLICY RECOMMENDATIONS OF THE 20th MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

There will be a moderation session during the Working Group Meeting under the title of *“Formulation of Policy Recommendations for the 39th COMCEC Ministerial Session on Improving Cooperation Among Central Banks in Terms of Digital Currencies: Challenges and Prospects for OIC Member Countries”* on October 10th, 2023. This document was prepared to enrich the discussions during the said session to come up with concrete policy recommendations for policy approximation among the Member Countries. It was drafted in accordance with the main findings of the research report conducted for this meeting.

POLICY ADVICE 1: Establishing a project management/steering committee and identifying the objectives and use cases for CBDCs in consultation with a wide range of relevant stakeholders (government bodies, financial institutions, universities, think tanks, civil society organizations etc.) to build a digital ecosystem that is interoperable with existing payment system(s), increase financial inclusion and improve monetary policy transmission

Rationale / Explanation:

It is crucial to have a robust Project Management/Steering Committee comprising of members with diverse expertise that will continuously provide executive support and to ensure the project meets its goals and objectives. The Committee will provide and develop Central Bank digital Currencies (CBDCs) with a clear vision and objectives adapted to meet the needs, which is what to be achieved with CBDC, e.g. improving financial inclusion or making it easier for businesses to pay. Clearly defining objectives and use cases (such as retail payments, wholesale settlements, cross-border transactions, or government disbursements) is critical because it lays the foundation for the entire CBDC projects. Without a clear understanding of what the CBDC aims to achieve and how it will be used, it is challenging to make informed decisions about its design, technical requirements, and supporting infrastructure. Additionally, having well-defined objectives helps communicate the benefits of CBDC adoption to the public and relevant stakeholders, fostering support and collaboration.

POLICY ADVICE 2: Developing legal framework and regulatory compliance/regulatory approval and oversight for ensuring legal clarity, risk management, consumer protection and Central Bank’s role

Rationale / Explanation:

It is crucial to develop a comprehensive and robust legal and regulatory framework that addresses legal, financial, and security aspects and the specific characteristics of CBDCs, ensuring compliance with existing laws and regulations. The legal framework and regulatory compliance steps are essential in terms of legal clarity, risk mitigation, consumer protection and Central Bank's role. Seeking regulatory approval within a well-defined framework ensures that the CBDC operates within the legal framework, preventing potential regulatory hurdles or legal challenges after launch. Regulatory compliance however is an ongoing responsibility. Financial and legal standards can change due to evolving technologies and emerging risks. Maintaining regulatory oversight ensures that the CBDC operates within the boundaries of the law and remains secure for users. Such a perspective should meet shari’ah compliance criteria and promote the role of Islamic finance hubs/centers among the OIC member states as well.

POLICY ADVICE 3: Setting-up a dedicated task force including Central Bank specialists to identify the right technology stack for the CBDCs (i.e. for providing security, efficiency, scalability, interoperability etc.)

Rationale / Explanation:

It is necessary to implement emerging technologies such as the AI, which ensure the integrity, confidentiality, interoperability, scalability and efficiency of CBDC transactions. The choice of the appropriate Technology stack for the CBDC, considering factors such as distributed ledger technology (DLT), distributed databases or centralized databases, is crucial as it affects the CBDC's technical capabilities, security, and efficiency. Whether to use block chain or another technology depends on factors like the desired level of decentralization or distributedness along with specific use cases of the CBDC. Therefore, it might be pertinent to establish a dedicated task force consisting of qualified experts to elaborate on the subject.

POLICY ADVICE 4: Designing and developing of CBDCs with extensive testing and pilot studies by Central Banks in consultation with technology experts and relevant stakeholders

Rationale / Explanation:

It is important to create CBDC systems that are adaptable to future technological developments and changing economic conditions. Collaboration with technology experts ensures that the CBDC infrastructure is robust, user-friendly, secure, and resilient. Furthermore, creating intuitive and friendly interfaces for CBDC wallets and applications will encourage adoption among a wide range of users. Rigorous testing is essential to identify and resolve any technical issues before the CBDC's launch. Comprehensive testing and pilot programs help identify and address any technical or operational issues early in the development process. This proactive approach improves the overall functionality and reliability of the CBDC system.

POLICY ADVICE 5: Developing policies/strategies/programs for ensuring security and privacy in order to protect user data and transactions, and to balance privacy and legal requirements

Rationale / Explanation:

It is crucial to implement strong security measures to protect user data and transactions, and to balance privacy and legal requirements. Security is paramount in the world of digital currencies. Robust security measures protect the CBDC system from threats such as cyber threats and hacking attempts, bolster user confidence, and prevent unauthorized access to funds. Compliance with data protection regulations is essential to respect user privacy.

POLICY ADVICE 6: Facilitating the access of the public to the CBDCs through user-friendly distribution channels in collaboration with financial institutions

Rationale / Explanation:

Establishing necessary distribution channels and user-friendly wallets ensures that CBDCs are accessible to the public. Collaboration with financial institutions where is needed and/or relevant, can extend the reach of CBDC services, making them widely available.

POLICY ADVICE 7: Enhancing monetary transmission mechanism, and improving monetary policy effectiveness and financial stability through the CBDCs

Rationale / Explanation:

Integrating CBDCs with monetary policy is fundamental for central banks. It allows them to achieve their economic objectives such as price stability while leveraging the benefits of digital currency. Certain governance rules are necessary to maintain trust and stability in the CBDCs as many of the ongoing projects consider the CBDCs as complementary to cash. Digitalization of goods and services and the related economic activity may enable monitoring prices instantly, thus lead to better assessment of the impacts of monetary policies.

POLICY ADVICE 8: Developing a comprehensive public relations and communication strategy (i.e. mobile applications) to enhance user capacities and raise awareness about CBDC usage, benefits, and security

Rationale / Explanation:

CBDCs are a new and unfamiliar technology for many people. It is important to communicate effectively with the public about CBDCs and how they will work. Increasing financial literacy on the CBDCs is therefore a must, given the potentially widespread usage such digital platforms and interfaces. Awareness campaigns and educational programs are vital to inform the public, businesses, universities and financial institutions etc. about the benefits of CBDCs, how to use them safely, best security practices and what precautions to take. These campaigns aim to raise awareness and build trust in the CBDC system, contributing to the successful adoption of CBDCs.

POLICY ADVICE 9: Developing/improving sound monitoring and maintenance mechanisms for gathering insights about the CBDC's performance

Rationale / Explanation:

The official launch of the CBDC marks a critical milestone, but it should be executed seamlessly to build trust among users and stakeholders. Ensuring that all necessary infrastructure and support systems are in place minimizes disruptions during the transition. On the other hand, continuous monitoring and regular maintenance are essential to uphold the CBDC's performance and security standards. In this context, gathering feedback and iteratively improving CBDC based on user experiences are crucial to its long-term success. By adapting to changing needs and addressing user concerns, in addition to increasing the adoption and utility of CBDC in the financial ecosystem, CBDC remains reliable and secure for users.

POLICY ADVICE 10: Promoting cross-border CBDC utilization by enhancing international cooperation between central banks and international organizations through standards and protocols

Rationale / Explanation:

Exploring cross-border opportunities and interoperability by entering into agreements with other countries to facilitate international use is crucial for enhancing the utility of CBDCs on a global scale. It facilitates international trade, remittances, and financial transactions, promoting economic cooperation between countries. International standards and protocols promote trust and interoperability, allowing CBDCs to function seamlessly across borders. Cross-border CBDC integration should also be weighed against the potential destabilizing effects of

increased volume of cross border capital flows as well as the potential for a CBDC of home country to displace another one if used extensively in a host country.

Collaboration with other central banks and international organizations is essential to create a standardized and interconnected ecosystem for CBDCs. The OIC-COMCEC Central Banks Forum provides a regular platform for the relevant authorities of the Member Countries. Therefore, this forum in cooperation with relevant OIC institutions such as SESRIC or SMIIC when needed, might be utilized for the realization of this recommendation. SESRIC's training programs on central banking to enhance capacity building in terms of human resources with respect to CBCDs should also be utilized effectively.

Instruments to Realize the Policy Advices:

COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

OIC-COMCEC Central Banks Forum: This special platform provides an interactive and open environment to discuss monetary, banking and financial issues, along with strengthening efforts aimed at deepening the cooperation and coordination by bringing Central Banks and Monetary Authorities of the OIC countries together.

COMCEC Project Funding: Under the COMCEC Project Support Programs, the COMCEC Coordination Office issues a call for project proposals each year. With the COMCEC Project Support Programs, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. To realize the above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Support Programs facility. These projects may include the organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies, needs assessments, and training materials/documents, etc.