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Bank of Japan

Stepping into the Future: Shaping the Evolution of Japan's Payment and Settlement Systems

Opening Remarks at the 11th Meeting of the Liaison and Coordination Committee on Central Bank Digital Currency

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(English translation based on the Japanese original)

Thank you very much for joining us today at the Liaison and Coordination Committee on Central Bank Digital Currency (CBDC). I find it extremely meaningful to be able to exchange views directly with all of you, who are active at the forefront of the industry, and to discuss future directions together in this committee. I would like to express my gratitude once again for taking the time to gather here today.

I would like to begin by discussing developments since our last meeting this February. I will highlight key developments in March at the Bank of Japan, the Japanese Banks' Payment Clearing Network (Zengin-Net), and central banks abroad, and consider their implications and future prospects.

In March of this year, the Bank announced its plan to explore the possibilities of tokenized current account deposits at the Bank -- so-called wholesale CBDC -- as "central bank money." Wholesale CBDC is a digital currency primarily intended for large-value settlements between financial institutions. This arrangement is based on distributed ledger technology (DLT) and aims to enable not only interbank settlements but also safe and efficient simultaneous settlements, i.e., Delivery versus Payment (DvP), of different digital assets.

Going forward, to specifically examine the practicality and technical challenges of wholesale CBDC, we also intend to advance discussions on the "DLT Sandbox Project" within the CBDC Forum. Based on the insights gained, we aim to further enhance the capabilities of the Bank of Japan Financial Network System (BOJ-NET) and make Japan's domestic funds settlement system even more robust.

Of course, any consideration of CBDC in Japan must be premised on coordination with the entire payment infrastructure. From this perspective, the report titled "Study Group on the Future Vision of the Payment System (Summary of Findings)" published by the Zengin-Net this March is worthy of attention. This report proposes building a new real-time payment system separate from the existing Zengin Data Telecommunication System (Zengin System), while also flexibly accommodating new technologies such as tokenized deposits, and envisions integration with tokenized current account deposits at the Bank. Through these initiatives, Japan's domestic funds settlement infrastructure is expected to evolve further toward meeting the payment needs of the next generation.

Furthermore, the Bank continues to conduct studies not only regarding wholesale CBDC but also retail CBDC, based on insights gained from its pilot experiments, in order to ensure it can respond swiftly to societal demands. This fiscal year, as we proceed with pilot experiments designed to simulate the initial stages of real-world implementation, we will identify challenges related to the stable operation of ledger technology and seek solutions to ensure smooth transaction processing and minimize security risks. We intend to prepare for future societal implementation while further deepening our collaboration with relevant organizations.

Turning to trends overseas, initiatives surrounding CBDCs vary by country and region. For example, in the United States, while maintaining a cautious stance toward CBDC adoption, the financial system is evolving with a focus on the utilization of stablecoins. Tokenization is being promoted not only for funds but also for stocks, bonds, and even alternative assets, and the expansion of tokenization is accelerating.

Meanwhile, in Europe, the potential of CBDCs is being explored from both retail and wholesale perspectives. In March, the European Central Bank (ECB) published "The Eurosystem's comprehensive payments strategy." This document outlines a comprehensive settlement strategy across wholesale payments, business-to-business payments, and cross-border payments as well as retail payments including the digital euro. In this context, the ECB is advancing the development of central bank money for DLT-based settlement through projects such as "Pontes" and "Appia." These initiatives, having the same approach as the Bank of Japan's exploration of wholesale CBDC, aim to build efficient and stable settlement systems, including DvP settlement of digital assets using central bank money.

Turning to cross-border payments, which remain a global challenge, "Project Agorá," in which the Bank of Japan is also participating, is making progress. In this project, seven central banks and over 40 private financial institutions are collaborating to explore the potential for new interbank settlement systems utilizing tokenized bank deposits and central bank money. Following the completion of prototype development and initial testing, a report compiling the findings to date was released just this week. Going forward, we plan to conduct real-value testing using the prototype and deepen discussions on the key issues, such as governance and operational resilience, which warrant further consideration with a view to future implementation and functional improvements.

As such, in just over three months, we have seen numerous concrete developments both domestically and internationally. While there are currently differences in the approaches taken by each initiative, it is clear that "programmability" is one of the major themes underpinning these future-oriented efforts. "Programmability" -- which refers to the automation of the circulation and management of funds and securities through computer programs -- is finally becoming a reality with the emergence of AI agents, and Japan must actively address this change.

To support these efforts, the Financial Services Agency has launched the "Payment Innovation Project (PIP)" to accelerate support for the development of related technologies. The Bank also intends to utilize frameworks such as the "DLT Sandbox Project" to engage all stakeholders in discussions and refinements during the pilot phase, to seamlessly integrate new payment technologies into actual operational environments while minimizing operational challenges and risks as much as possible.

If I may add one more point regarding a common understanding both domestically and internationally, it is important to advance improvements to existing infrastructure and build new infrastructure at the same time. While new payment technologies hold the potential not only to enhance convenience but also to serve as a driving force for next-generation economic growth, it is not appropriate for developed countries, which already possess well-established payment infrastructure, to consciously pursue a leapfrog approach as seen in emerging economies. It is important to adopt a stance of continuing to improve existing infrastructure as an extension of the past, while looking ahead to the future and the direction of economic and technological evolution to rebuild a safe and efficient payment system through the construction of new infrastructure. Furthermore, to advance these efforts under such a framework, it is essential for stakeholders to share a common vision for the future. In this regard, I am sure you all feel that, given the rapid progress made recently both in Japan and abroad, the time has finally come to move beyond the plateau and start climbing the stairs.

In closing, I would like to ask for your continued cooperation once again as we work together to overcome this wave of rapid change, build the payment infrastructure of the future, and contribute to the development of Japan's economy and the improvement of social convenience. I look forward to fruitful discussions today.

Thank you for your attention.