The Bank of Canada’s Blockchain Experiment

The views expressed in this presentation are my own and not necessarily those of the Bank of Canada.

Scott Hendry
Bank of Canada
Bank of Canada’s Fintech Agenda

- Began in 2013 as a study of electronic money and payments and their potential effects on central bank policies of currency issuance, financial stability, and monetary policy
- Now expanded to cover all fintech innovations and how they could change banks and the financial sector in ways that have macro implications that could be of concern to a central bank
- Comprises monitoring to keep up to date with the changes and research to understand their implications
- Also working closely with international partners to share information and coordinate responses as required
What is Project Jasper?

- An ongoing collaboration initiated by Payments Canada and the Bank of Canada to explore the possibility of issuing, transferring and settling central bank-issued assets on a distributed ledger network.
Motivation for Project Jasper

Why DLT?
- Comprehensive shared data source:
  - Reduce effort/cost of reconciliation
  - Regulatory & Compliance
  - Future Overlay Services
- No single point of failure
- Interoperability – Base Layer for future Securities Settlement Systems

Key Questions?
- Satisfies relevant PFMI$s$?
- Reduces costs?
- Lower barriers to direct participation?
- Improves security and resiliency?
- Increases transparency and access?
- Better collateral management?
The Jasper Distributed Ledger Settlement Platform

1. Participants **pledge** T1 cash collateral into a special pooled account held by Central Bank
2. Central Bank converts cash collateral to **generate** COIN
3. Central Bank transfers COIN to **fund** participants’ accounts
4. Identifiable, trusted counterparties **exchange** assets on the COIN platform
5. Participants **redeem** COIN for T1 cash collateral
6. Central Bank **destroys** redeemed COIN

**Design Assumptions**
- Network participants (FIs) each set up a digital currency account as part of a COIN asset registry
- The COIN asset registry is owned by the Central Bank; the digital funds belong to the FI
- The Central Bank issues depository receipts, not tokens
- The COIN shared ledger reflects real-time accurate account balances for each digital currency account
- All network participants are trusted and authorized to perform transactions
Lessons Learned

- A substantial amount of centralization was still required (e.g. key and node management)
- Proof of Work Ethereum system unlikely to be more cost effective than current system
- Most cost savings unlikely to be in core system itself; most savings likely to come from bank reconciliation efforts no longer required
- Even more savings could come from what could be built on top of a core cash payment distributed ledger system
Lessons Learned

- Current version of the system has too much information sharing compared to what would be desired in a production system.
- PFMIs concerning collateral, credit risk, money settlement, and liquidity risk met by Jasper DLT.
- Concerns exist with respect to PFMIs for settlement finality, operational risk, as well as access and participation requirements.
- 11 other PFMIs deemed out of scope because they relate primarily to governance and legal aspects of the system.