

Submission by



to the

**Reserve Bank of New Zealand**

on the

**Future of Money - Private Innovation  
Issues Paper**

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## **BlockchainNZ Submission: The Future of Money - Private Innovation Issues Paper**

### **SUMMARY:**

1. [BlockchainNZ](#) thanks the Reserve Bank of New Zealand (RBNZ) for the opportunity to submit on the Future of Money - Private Innovation Issues Paper. This submission is in response to the opportunities and risks posed by private innovation in money; how these innovations might impact the Reserve Bank's objectives as the steward of money; and what regulatory responses could be required to help deliver those objectives in the context of private innovation in money.
2. In response to the Future of Money issues paper, BlockchainNZ are pleased that the Reserve Bank of New Zealand are considering and exploring new forms of money, the opportunities and risks, as well as regulatory responses required with private innovation with money.
3. BlockchainNZ is happy to engage further with the Reserve Bank of New Zealand to discuss our submission in detail and provide further assistance as part of the consultation process of the issues paper.

### **BACKGROUND:**

4. BlockchainNZ is an association of organisations and individuals that represent the rapidly emerging business sectors built using blockchain technology. These business sectors encompass IT, trade and supply chains, virtual asset service providers, financial services, and the public sector, to name a few. BlockchainNZ has taken a leading role in growing our country's ability to maximise opportunities enabled by blockchain technology and address key challenges.
5. BlockchainNZ is a member of the [New Zealand Tech Alliance](#). The NZTech Alliance is a group of independent technology associations from across New Zealand that work together with a common purpose to connect, promote, and advance technology ecosystems in New Zealand to create a prosperous digital nation.

## COMMENT:

### Section Two: Stewardship of money

#### Do you agree with the core drivers, assumptions and high-level approaches that we have described in relation to our work on private innovation in money?

6. BlockchainNZ agrees with the core drivers leading towards private innovation, including the growing concerns about existing inefficiencies in private money; the growing digitalised economy with the emergence of Web3 and metaverses; the increase in cryptoassets being viewed as money; the declining use of cash; as well as the market growth and need for central bank money to act as an anchor, as well as regulatory safeguards.
7. BlockchainNZ also agrees on the high-level approach the RBNZ have proposed, including; the proposed establishment of a Central Bank Digital Currency (CBDC) to become a privately provided counterpart to private money, with its intent to incentivise competition and innovation, as well as to lessen the need for stringent market regulation.
8. However, BlockchainNZ disagrees in part with the proposed assumptions presented within the issues paper:
  - a. The assumption of competition: BlockchainNZ believes that competition is not a precondition for trust. Trust is a social contract and develops through external factors, such as time and personal experiences.
  - b. The assumption of choice: BlockchainNZ believes that choice can be provided by a competitive market. However, restricting choice to suit a definition of ‘market discipline’ is counterproductive.
  - c. The assumption of trust: BlockchainNZ believe that trust in money is important, however it is also a social contract and thus capricious. For example, many do not currently have a high level of trust in money as a store of value due to inflation.
  - d. The assumption of same risk, same regulation: BlockchainNZ believe that a level playing field is necessary. However, calibrating regulation to new innovation is difficult as regulation is based on a historical precedent and often trails innovation. Rather, in the context of private money, we can observe similar defining characteristics, and ultimate risk profile for end users, across different market participants. BlockchainNZ believes that regulating fast and efficiently in a known way is sensible, however we suggest that regulation remains flexible to adapt to the natural evolution of the financial industry. The absence of regulation and clear guidance will ultimately slow innovation, as users are uncertain on how they can participate in the market as good actors. This is currently a common occurrence, which has left many businesses moving offshore where regulatory frameworks are transparent and enable innovation.

#### Is there anything else we should consider?

9. BlockchainNZ suggests that the RBNZ factor concentration risks and technical risks with their investigation into private innovation of new money forms. New Zealand has five banks and two major card schemes, which currently creates concentration risks, further most of those parties are international entities.

Another risk that should be considered is that New Zealand also appears to route a lot of our transactions offshore which also introduces further risk.

10. BlockchainNZ believe that it is unlikely that the social acceptance of any additional forms of private money would not also include second order innovations around that issuance, for example, decentralised finance (DeFi) products and services atop of a privately issued stablecoin. The Reserve Bank should consider these second order implications, particularly where the technology is already evidenced (as with DeFi).

### **Section Three: What is captured by our stewardship interests**

#### **What do you see as the biggest issues with private innovation in money?**

11. BlockchainNZ believe that there are three core issues with private money:
  - a. Maintaining the status quo can lead to falling behind other countries, marketplaces and companies.
  - b. The global nature of distributed systems means that innovation in this field occurs everywhere all at once, and will occur with or without local regulation and guidance.
  - c. There are currently issues around debanking within the businesses that provide private innovation of money. As noted in page 18, “these [cryptoasset] providers struggle to access basic banking services.” Providing clear pathways for this access is relatively easy and should be a high priority in order for adoption to take place as well as good actors in the market to continue contributing to the New Zealand economy.
  - d. As current regulatory frameworks are unclear and can act as barriers to business and innovation, there is a risk and current issue of businesses and customers moving to other markets as the suitability isn't here. This has long-term impacts to not only our economy, but also impacts on trust within our own financial market, as it reduces the choice citizens have in how they interact with and manage their money.

#### **Do you agree with how we frame the focus on stablecoins? Are there other forms of innovation we should be looking at?**

12. BlockchainNZ agrees to the focus on stablecoins, however, we believe that there needs to be further investigation and enrichment to the conversation. We believe that supporting regulatory frameworks should be considered, as well as thoughtful determining around the stability of different stablecoin offerings.
13. For example, algorithmic stablecoins, to date, have largely failed to maintain price stability, and in some cases, leading to total collapse. In the absence of design improvements, and improvements in industry standards, that result in more closely meeting the thresholds of money (unit of account, medium of exchange, useful store of value) it is hard to see a place for this specific subset of a stablecoin.
14. In response to section 3.3, page 13, the issues paper states that the uptake of cryptoassets is low and may increase overtime. BlockchainNZ believes that the uptake is increasing, as is the rate of increase. We would

note the rate of cryptoasset uptake that is occurring within New Zealand is also through the use and means of crypto prepaid debit cards and crypto stored value cards. We believe that this uptake is underestimated within the issues paper, and that this also points to an issue that in order to innovate at speed, you often have to copy existing transaction rails, rather than use new technology.

15. BlockchainNZ also suggest the investigation into other forms of private innovation including Layer 2's, which appears absent from the issues paper. There is the potential for a large volume of low-value transactions, for both retail and personal use, to shift from current payment networks on blockchain layer 2s, as the fees are lower and speed of settlement is higher.
16. Another form of innovation we suggest investigating is payment methods that exist in other jurisdictions, which are not present in New Zealand. This includes peer-to-peer (P2P) wallet apps (Alipay) and QR payment technology. BlockchainNZ believe that the concentration of power within payments and banking are currently reinforcing the status quo, and commend RBNZ for investigating external private innovations.

#### **Section Four: Opportunities for greater competition and further innovation**

**Do you agree that there is a significant opportunity to enhance competition and further innovation in a New Zealand context?**

17. BlockchainNZ is in absolute agreement that there is significant opportunity here to enhance competition and further innovation in a New Zealand context.
18. Regarding section 4.2 on banks providing a uniform standard of trust: We believe there is a misunderstanding on a uniform standard of trust, as retail customers and citizens cannot convert money into central bank money, nor may they be able to transfer money to another bank if, for example, they have evidence of crypto transactions and are discriminated against on this basis by the retail bank. The public perception is different from that of the RBNZ. It is one of the elite relationships between RBNZ and banks to maintain the status quo. Embracing innovation in private money can help repair this relationship and give New Zealand citizens and small businesses the choice to how they bank.

#### **Section Five: Risks with private innovation in money**

**Do you agree with the key risks to the stewardship of money identified here?**

19. BlockchainNZ agrees with the key risks provided, in particular, we agree on increasing efficiency of the current market. Decentralised ledger technology, cryptocurrencies and other technology allows for the chance to own our payment flows and innovate for the betterment of New Zealand.
20. We also note that given the card scheme dominance of payments and the amount of economic rent driven from this dominance, there are also positive economic benefits to this approach.

**Are there any other risks that we should consider? How significant are they?**

21. BlockchainNZ believes that there are other risks that the RBNZ should consider, whilst ensuring that current and existing risks are not ignored. For example, counterparty risks in banking, especially on redemption should be considered, as it is notable that recently the Bank of New Zealand had been bailed out. BlockchainNZ welcome further discussion on this point.
22. BlockchainNZ also points to the risk of marginalising cash. It is noted in point five of the core drivers that cash use is declining, but was not expanded on further within the issues paper. We believe that it should be included to emphasise the commitment to keeping cash as a functioning legal aspect of the monetary system.
23. BlockchainNZ also notes the software risks. Protocols and public (and private) blockchain networks are often reliant on a community of developers to maintain code integrity and safety. This technology has not been around long enough to accurately understand the impact of the possible migratory behaviour of developers to and from the ecosystem, nor the impacts of other social behaviours. BlockchainNZ welcomes the RBNZ to consult further on this matter.
24. In response to section 5.4, to enrich the views around the identified risks, the RBNZ may wish to consider how geo-political neutrality (and sovereignty over our economy) could be maintained in the event of local acceptance of non-New Zealand forms of new private money. We believe the RBNZ should consult with international counterparts to better understand this. It stands to reason that foreign, private underwriters could be subject to geo-political forces that may result in negative outcomes for everyday New Zealanders, for example impeachments on privacy or financial loss.

**Section Six: The Reserve Bank's proposed response**

**Do you agree with our proposed monitoring approach? Is there anything else we should monitor?**

25. BlockchainNZ suggests that the proposal to monitor wallets within the monitoring approach raises a privacy issue. Even if technically feasible, we believe that it does not need to become a normalised or mandated activity.
26. BlockchainNZ also believes that by only considering the risks within the monitoring approach is not comprehensive nor does it capture other needs of monitoring. If a monitoring approach was intended to incubate innovation, we believe that measuring and monitoring other dimensions of innovation and economic benefits should also be included within the monitoring approach.

**Do you agree that we should be open to alternative models of money? Can they work in the New Zealand context?**

27. Within the New Zealand context, BlockchainNZ confirm that there currently are other alternative models of money which have been adopted by the wider public, and that the RBNZ are open to these new forms.

28. New Zealand is a multicultural society, with many households running multi-currency accounting, which includes cryptoassets. New Zealand is currently well versed in foreign exchange, and third party payment and transfer providers and has often been at the forefront of adopting innovation in the financial sector. Innovation in money has, and will always continue to happen, with or without participation.
29. BlockchainNZ believes that the question is not about agreement if we should be open to alternative models of money, or if it would work in a New Zealand context. Moreso, we believe that the question to be asking is can we as a nation afford to ignore and stifle these alternative forms of money, when in other jurisdictions they are already being adopted. However, we also believe that if choice is a fundamental paradigm to the RBNZ approach to private innovation in money, we suggest that the RBNZ should allow market forces to determine whether a particular alternative model of money is appropriate in the New Zealand context or not.
30. Further notes on the establishment of a Central Bank Digital Currency: With other forms of money, a CBDC cannot be successful if considered in isolation as just a currency. A CBDC requires wallets and an open source eco-system for the fintech industry to engage with. Rather than regulating, the RBNZ could develop an open source bridge between their CBDC and their whitelisted, and ideally grey listed, cryptocurrencies. The RBNZ should take an initial open, collaborative and innovative approach instead of a standard regulatory approach. We believe that a recognition of transparency is a core feature of many cryptocurrencies, more so than national general purpose fiat currencies. This transparency is a feature, and can be extended to bridges and users, such that end users can "become their own bank" and make more informed decisions about which currencies they engage. The industry can also step in to provide liquid trading pairs between the CBDC and cryptos which help interoperability and allow better user risk management.

## **Section Seven: Conclusion**

**What issues do you think we should prioritise in developing further regulatory response? For example, should we prioritise issues about the rights of stablecoin holders, or the use of DAOs, or something else?**

31. BlockchainNZ believes that the interest in DAOs in the context of private innovation and new money forms is irrelevant on the whole. The use and adoption of private innovation in money is not reliant nor dependent on DAOs, therefore unnecessary to the consideration of furthering regulatory responses.
32. BlockchainNZ suggests that access and rights to banking services for businesses should be a priority to further encourage and allow for New Zealanders to conduct business onshore and to enable competition that drives innovation for the benefit of New Zealand citizens and our economy. We suggest that an investigation and adoption of a regulatory sandbox approach could be implemented in the short term to allow for innovation to continue in New Zealand. We suggest investigating Singapore's sandbox regulatory regime as a starting point and BlockchainNZ welcome further discussion with the RBNZ on this matter.

## **CONCLUSION:**

We thank the Reserve Bank for the opportunity to submit and provide feedback on the Future of Money - Private Innovation Issues Paper. BlockchainNZ is willing to engage further to discuss our submission and provide any additional assistance.

If you have any further queries, please do not hesitate to contact our team.

Yours sincerely,

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