



BANK OF ISRAEL

May 11, 2021

Public call for responses to the Bank of Israel's Steering Committee on the potential issuance of a digital shekel

1. Introduction

On May 11, 2021, the Bank of Israel published “A Bank of Israel Digital Shekel – Potential Benefits, Draft Model, and Issues to Examine”. The objective of the publication is to update the professional community and other relevant entities regarding progress of the Bank of Israel's examination of issues related to a central bank digital currency (CBDC), and to thereby encourage thinking on the issue among such entities as well.

The Bank of Israel is preparing an action plan so that if conditions develop in the future that would lead to a Bank of Israel assessment that the benefits of issuing a digital shekel could outweigh the potential costs and risks, the Bank of Israel will be prepared to put such a plan into action. In order for the work plan to be as informed and comprehensive as possible, it is important for the Bank of Israel to monitor the thinking on the matter among various entities in the Israeli economy—from the payments, finance, and technology sectors, relevant government bodies, academia, and various organizations—even if it is decided in the end not to put the plan into action. Therefore, the Bank of Israel calls on these entities to send responses to the contents of the document and to relevant aspects of a potential future issuance of digital currency by the Bank of Israel.

2. Content of the responses

The responses should deal with the respondents' positions on the potential issuance of a digital shekel, with an emphasis on the following topics:

- a. **The benefits and motivations for a potential issuance of a Bank of Israel digital currency:**
 - i. **The benefits identified by the steering committee that are detailed in the document:** To what extent are these benefits relevant to the Israeli economy? Can these benefits be gained through the issuance of a digital currency, or through other methods? What smart applications will be able to be built on a digital shekel infrastructure, and will provide a response to existing needs in the Israeli economy? Will a digital shekel be able to support competition, innovation, privacy, and the needs of population segments that have difficulty using digital means?
 - ii. **Additional potential benefits:** What benefits can be derived from the issuance of a Bank of Israel digital shekel that have not been reflected in the document?

b. Draft model outlined by the steering committee:

- i. **Structure of the system:** What are the advantages and disadvantages of the two-tier model detailed in the document? What other models should be considered? What function should payment service providers fulfill in a digital shekel array? What could be a business model upon which payment service providers would base their activity in the digital shekel array?
- ii. **Technology:** What are the advantages and disadvantages of using DLT compared with established central ledger technologies? What infrastructure is necessary in order to support advanced applications, interoperability, and cross-border payments? How can information security be ensured throughout all parts of the system? What payment interfaces are necessary for the end user? Is there a material need for the system to support offline payments?
- iii. **Privacy:** What system characteristics are necessary for it to be in line with money laundering prohibition rules and with government efforts to prevent tax evasion? What extent of privacy is necessary vis-à-vis payment service providers? What commercial use of user information should be enabled, if any?
- iv. **Economic characteristics:** Should a digital shekel bear interest? What limitations should be imposed on holdings or on performance of payments, and what are the implications of such limitations? How should the system be specified so that the cost of using a digital shekel is low? Who should be permitted to hold and pay with a digital shekel?

c. The issues being examined by the steering committee:

- i. **Economic issues:** The financial stability and monetary policy implications of issuing a digital shekel. The implications of issuing digital currencies in other countries, or of broad adoption of private currencies.
- ii. **The payment system:** A digital shekel's impact on competition, efficiency, and redundancy in the payment system, and on the cost of making payments in Israel and abroad. The system's characteristics for supporting government policy to reduce the use of cash. The parameters that will influence the extent of a digital shekel's adoption by households and merchants.
- iii. **Technological aspects:** Various technological alternatives upon which a digital shekel system can be built. The dependency on other technological developments. The potential for technological innovation in the payment system. The possible benefits of conducting practical trials.

d. Other relevant issues

The Bank of Israel will publish the main findings of an analysis of the responses it receives.

3. Guidelines

- a. Responses should be sent by email to CBDC-Public-Consult@boi.org.il between May 18, 2021 and July 31, 2021. **The responses should be contained in a Word document attached to the email. The document should be no longer than 10 pages long, with the first page containing a summary of the response.**
- b. The response should not include offers of services or any other business offer to the Bank of Israel. Such offers will not be examined and will not be answered.

- c. Responses can be submitted in Hebrew or in English. However, the responses should be relevant to the needs of the Israeli economy.

4. General information, clarifications, reservations, and maintenance of rights

- a. This public call does not constitute a request for information or a request for proposals, and does not constitute part of a tenders process. Therefore, it does not serve to create any commitment on the part of the Bank of Israel toward any of the respondents to purchase any product or service, and is not subject to the tenders laws that apply in Israel.
- b. The Bank of Israel shall be permitted to make any use of any information submitted as part of this consult. The Bank reserves the right to answer or not to answer any responses it receives to this consult. It is clarified that the Bank of Israel is not obligated to accept any position that may be submitted. The Bank of Israel shall be permitted to meet with any entity or respondent that it sees fit, at any stage, and without being subject to any limitations.
- c. This consult shall not be viewed as any form of commitment on the part of the Bank of Israel toward any other entity. This consult shall not be viewed as a commitment on the part of the Bank of Israel to take any action, and this consult shall not obligate the Bank of Israel toward respondents to this consult.
- d. Any expenses incurred in the preparation and submission of information in response to this call are to be borne exclusively by the respondent.