

Chapter 17

Accounting for CBDCs: Policies, Issues, and Impact

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ABSTRACT

This chapter initially explores the implementation of CBDCs, especially the plausible accounting treatments—from the central bank’s perspective as well as the commercial banks it would normally transact with. Both real and perceived issues are analyzed, with emphasis placed on how such barriers can be overcome. Furthermore, noteworthy historical occurrences which have recently impacted central banks are discussed, such as the 2007-08 financial crisis and the COVID-19 pandemic. As it did with accounting treatments for CBDCs, this work projects the impacts of such events onto the current CBDC implementation struggles in Western economies. Traditional political stances against the central bank’s actions, such as its balance sheet expansion and intervention in free-market economies, are balanced against newly developing public attitudes about digital currencies—their potential role in settling transactions, government regulations and controls, security of personal data, and the like.

INTRODUCTION

The question of why accounting for central bank functions matters is a fair one. Accounting is often perceived as a difficult profession (DaRin, 2017) and accountants are traditionally viewed as “introverted, cautious, methodical, shy, timid, and boring” (Albu, N. et al, 2011). While the importance of accounting in small businesses (Kinden, 2021) and publicly traded corporations is well covered (Nichols & Wahlen, 2023), the accounting for central bank functions is rarely analyzed in adequate detail.

Candidly speaking, central banks are responsible for a significant amount of public funds and play a significant role in the economy. Since the functions of central banks have such profound, far-reaching impact on their respective countries, it is important to pay due attention to the accounting practices in the banking sector. The understanding and monitoring of central bank accounts by the public is undoubtedly an important part of accountability and transparency. However, in many jurisdictions, central banks are not subject to the same level of scrutiny as other public bodies in order to protect their independence

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Accounting for CBDCs

(Bholat & Darbyshire 2016). In recent advances of Central Bank Digital Currencies, or CBDCs for short, evidences can be reasonably deciphered as support of an opposite trend- a growing public interest in the actions of central banks, partly due to concern over CBDC implementation (Anthony & Norbert, 2023).

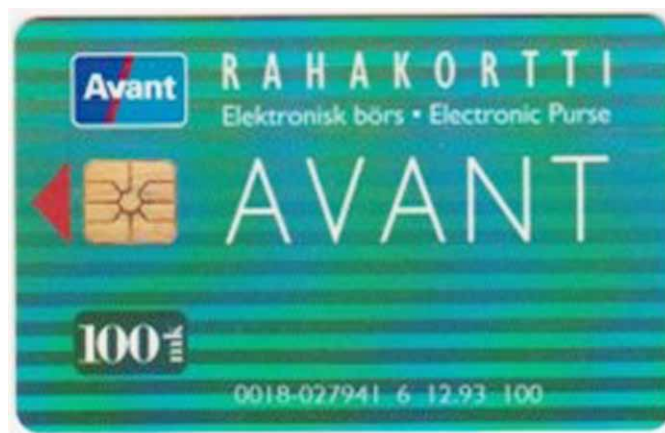
In 1993, Finland's central bank released what is considered to be the world's first CBDC (Singh et al., 2022). The Avant phone card, shown in Exhibit 1 below, was originally meant to be a phone card- basically, cardholders could use the credit on the card to pay for calls at a phone booth. Later, the same card could be used for parking meters, buses, vending machines, and certain retailers. However, the card did not catch on (largely because a fee was charged to load it) and was discontinued in 2006 (Gerard, 2020).

The basic functionality of the Avant card can demonstrate the accounting theory behind CBDCs quite well. The initial transaction leaves a party external to the central bank, be it a commercial bank, business or an individual, holding an asset. This is simultaneously the creation of a liability for the central bank. Even though currencies are no longer backed by gold or other item of value, they are still backed by the federal government which states that the CBDC, in this instance, has value. Hence, the central bank is effectively liable for the value of the CBDC held by the external party. This is realistically no different from the central bank guaranteeing that bank notes and coins hold their stated value and must be accepted as legal tender in a transaction (Chen 2023).

As CBDCs, and cryptocurrencies in general, have grown ever popular in the years since Finland's introduction of the Avant card, there has also been growing interest from governments in overseeing, regulating, and even adopting the new technology. Hence, we are in the middle of a vast experimentation phase in which central banks around the world have attempted to develop CBDCs and effective policies.

This chapter will initially review existing study in the accounting for CBDCs space. Then, a brief overview of accounting policy in central banks will be provided. This will be followed up with a detailed look at how accounting processes for CBDCs might unfold. Since there has been significant debate on central bank balance sheet expansion, especially in the United States, the chapter will explore some of the public pressures sometimes faced by central banks. As CBDCs will likely also result in central bank balance sheet expansion, this will be an important element for governments to maneuver around. In some instances, implementation may prove to be especially tricky given the other reservations about CBDCs. Hence, the chapter will not only center around accounting policy but extend out to relevant surrounding factors.

Figure 1. Avant card, issued by the Bank of Finland in 1993 (Colnect, 2003)



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