



# FX Focus: CBDCs

## Connecting the dots

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- ◆ Central bank digital currencies are slowly taking shape...
- ◆ ...but linking them for cross-border transactions has been no easy feat thus far
- ◆ Common rules of engagement and technology, for example, are needed for CBDCs to connect; this is where the focus lies

Global central banks are pushing forward with the development of their respective digital currencies (CBDCs). However, a major **hurdle is how to connect them but with agreed operating rules**. This is no easy feat and much work is still needed.

Some central banks have already collaborated in this space. Going back to May 2019, the **HKMA and Bank of Thailand signed a memorandum of understanding on fintech, which eventually led to the so-called 'Project Inthanon-Lion Rock'** project. This was a corridor network to connect the CBDC blockchains of the HKMA (Lionrock) and BoT (Inthanon) to test cross-border payments at the wholesale level via a proof of concept platform. It was an ambitious attempt to facilitate a connection between the different central banks/authorities, aimed at enhancing the transparency, efficiency and compliance of operating such a digital corridor.

**The HKMA and BoT's efforts laid the foundations for a broader initiative**, involving the PBoC's Digital Currency Institute, the Central Bank of the United Arab Emirates alongside the BIS Innovation Hub, the BoT and HKMA. This was called the Multiple CBDC Bridge or rather mBridge.

In late 2021, the published findings were encouraging on the mBridge with transactions being completed in seconds with lower costs and settlement risks. Following on from this, another initiative called 'Project Dunbar', that included the RBA, MAS, Bank Negara Malaysia and the South African Reserve Bank, took the mBridge efforts a step forward. For example, it showed how financial institutions could transact CBDCs issued by the participating central banks directly or on a shared platform with one another. This pilot also addressed challenges in operating an mBridge platform across central banks and participating financial institutions.

**Despite these promising steps, there has been a question as to how to connect even more central banks and to establish clear guidelines** and principles for interoperability of their CBDCs. This is where the BIS and others are expanding their reach and will continue to do so, we believe. In our view, improving coordination may level the playing field, as central banks are on different paths with their CBDCs. It could set the rules of engagement, providing an operating umbrella to allow CBDCs to link up better. This sounds promising but there is a long list of challenges.

*This is an abridged version of a report with the same title published on 06-Sep-22. Please contact your HSBC representative or email [AskResearch@hsbc.com](mailto:AskResearch@hsbc.com) for more information.*

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