

Letter: Anonymity is not negotiable when it comes to digital cash

To:
The Board of Governors,
The Federal Reserve System,
United States

We write in response to [the call for public comments to Money and Payments: The U.S. Dollar in the Age of Digital Transformation](#) to contribute a civil society perspective amid evaluation of a potential United States Central Bank Digital Currency (CBDC), sometimes referred to as a “digital cash”. This letter answers question 12: ***“How could a CBDC provide privacy to consumers without providing complete anonymity and facilitating illicit financial activity?”***

Any CBDC or government-backed form of digital cash must have anonymity equivalent to or exceeding paper cash — or as close to such anonymity as technology makes possible. Anonymity should be a paramount consideration in pursuit of a more just and safe financial system. Although physical cash is subject to counterfeiting and use in crime, we have always absorbed certain costs as a society in exchange for the enormous benefits that physical cash brings. We should similarly be willing to absorb proportional costs in exchange for the benefits that government-backed digital cash could bring.

The financial privacy of everyday people must come first. Strong encryption is crucial in ensuring safety in the digital world, and must be exploited to the greatest extent possible in the design of any digital cash developed by the US government. Privacy must be, to the greatest extent possible, protected by technology—not merely by statutory privacy protections which will not give people the confidence that their privacy is protected that they both expect and have a right to. Placing surveillance backdoors in every American’s wallet in pursuit of incremental progress on reducing crime will do more harm than good and undermine human rights.

It is also important that, like cash, CBDCs be designed to be universally accessible and exchangeable for goods and services without transaction fees. To the extent possible, the government should aim to issue anonymous digital cash that users can transfer directly to each other without fees, tracking, centralized ledgers recording every transaction, or requirement for a smartphone, tech savvy, or an internet connection.

Money should be private and permissionless. Just as with physical cash, there should be no middleman tracking every use of CBDCs or blocking transactions it does not like. Overbroad application of securities and anti-money laundering rules in ways that threaten to expand government surveillance or censorship of the financial transactions of everyday people, NGOs, and small businesses broadly threatens privacy and equity.

Financial regulators should consult with technologists and human rights experts to determine appropriate architectures, technologies, and policies to address fraud, abuse, and money

laundering where possible and without infringing on human rights or privacy. New technologies may make it possible for the largest actors to be held to account while protecting the privacy of ordinary people transacting at levels below the current \$10,000 cash reporting requirement. But a transition to public digital cash should not become a reach for a totalizing solution to every possible crime that is achieved by throwing privacy overboard. As with other illegal transaction vehicles (paper cash, art, diamonds), the authorities already have broad investigatory powers at their disposal to investigate illicit transactions, and those powers can be brought to bear on illicit digital transactions as well without baking surveillance into the very architecture of our new money

Creating a new form of money is a big step. If it is to be done, it must be done right. CBDCs should be a public good that is available to all and that, to the greatest extent possible, replicates the advantages of physical cash—especially privacy, anonymity, permissionlessness, and accessibility for all.

Signed,

ACLU

Fight for the Future

S.T.O.P. - The Surveillance Technology Oversight Project

Muslims for Just Futures

San Francisco Public Defender

Restore The Fourth

RootsAction.org

Constitutional Alliance

Erotic Service Providers Legal Education and Research Project (ESPLERP)

Yale Privacy Lab

Organization for Identity and Cultural Development (OICD)

Advocacy for Principled Action in Government