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Bank of Japan

## Points Forming Lines, Evolving to Surfaces

*Opening Remarks at the 10th Meeting of the Liaison and Coordination Committee on Central Bank Digital Currency*

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(English translation based on the Japanese original)

Thank you very much for joining us today at the Liaison and Coordination Committee on Central Bank Digital Currency (CBDC).

First, I would like to discuss recent domestic and international developments. In Europe, in October last year, the European Central Bank (ECB) announced its aim to issue a digital euro in 2029, assuming legal frameworks are established this year. This initiative seeks to utilize CBDC in the retail sector. The ECB has also announced efforts to advance initiatives in the wholesale settlement domain. Building on proof-of-concept (PoC) experiments conducted by national central banks in the European Union (EU), these efforts involve using distributed ledger technology (DLT) to link central bank real-time gross settlement (RTGS) systems with private-sector platforms, enabling the settlement of digital assets using central bank money.

Meanwhile, various initiatives concerning stablecoins and tokenized deposits have emerged. Particularly notable is the movement in stablecoins. In response to the situation where over 90 percent of outstanding stablecoin balances are denominated in U.S. dollars, 10 European banks have announced plans to issue euro-denominated stablecoins in the latter half of this year. In Japan, three major banks have also announced joint efforts toward a PoC experiment for a yen-denominated stablecoin, with an eye toward its use in internal and external settlements by corporate entities.

Against this backdrop of various domestic and international initiatives aimed at improving payment services, our own deliberations are also progressing. The Secretariat will provide a detailed explanation of the recent status of these deliberations shortly. So I would like to take this opportunity to look back a little further and talk about the deliberations we have conducted thus far, with your participation, and also outline what kind of deliberations we plan to conduct going forward, taking into account recent domestic and international trends.

The Bank of Japan released "The Bank of Japan's Approach to CBDC" in October 2020, and the inaugural meeting of this Committee was held in March 2021, five years ago. At that meeting, we explained the core features that CBDC should incorporate and outlined the approach for PoC Phase 1, which began in April of that year. During the subsequent exchange of views, I recall that while expectations for innovative service provision were expressed,

many concerns were also raised regarding the relationship with various payment services already offered by the private sector and the costs associated with adapting to CBDC.

Building on the results of PoC Phase 1, which verified processing performance for ledger design patterns, we launched PoC Phase 2 in April 2022. This phase aimed to further verify the processing performance and reliability of the ledger system. We added features deemed desirable to confirm technical challenges early on, such as limits on CBDC holdings. We received numerous opinions from all of you, not only through discussions at this forum but also through various other channels. We compiled these active discussions and published them in May 2022 as the Interim Report of this Committee. This Interim Report, created with the expectation that it would serve as a starting point for broader discussions among stakeholders on the necessity of CBDC and the framework for its system, subsequently played that role as a foundation for the discussion at "the Expert Panel on CBDC," convened to organize the Design Outline of CBDC.

In April 2023, following the conceptual verification conducted up to that point, the next step -- the pilot program -- began. Nearly three years after its launch, verification using the system for the pilot program -- designed to address privacy considerations and facilitate high-frequency transactions -- has been completed in one of the pilot program's two pillars: development of a system for the pilot program and experimentation. We are now evaluating high-load tests and identifying challenges for social implementation, such as scalability in performance and functionality. For the other pillar of the pilot program, the CBDC Forum, numerous private-sector firms that have engaged in private payment systems have been actively discussing a wide range of themes across seven working groups (WGs), accumulating findings.

To summarize the results of experimentation using the system for the pilot program in a single sentence: At this stage, no critical technical issues preventing the social implementation of CBDC have been identified. However, the technical hurdles will vary depending on the content and scale of the system required for social implementation. Depending on the specifics, while not impossible, these hurdles could be undeniably high. In such cases, waiting for further technological innovation is one option. However, considering recent domestic and

international environmental changes, such as the expansion of stablecoin and tokenized deposit initiatives mentioned at the outset, continuing with such an option is not appropriate. We must firmly recognize that the progress of a nation's payment system has path-dependent characteristics. Utilizing the discussions thus far, we need to advance efforts to enhance the safety and efficiency of payment systems, building systems suitable for a digital society.

In this regard, with public interest in new payment services growing and expectations rising for discussions on the future of payment and settlement systems as a whole, the current timing seems ideal for advancing our efforts. Therefore, starting this spring, we have decided to integrate and reorganize the current seven WGs within the CBDC Forum into three discussion groups (DGs). This will enable more detailed, two-way discussions between the Bank of Japan and private-sector participants, with a view toward the future of payment and settlement systems as a whole, including CBDC. This operational review will enable us to broaden the scope of our discussions beyond the retail payments sector to include wholesale payment systems, covering topics such as DLT-related technologies and tokenization. We believe this will allow us to engage in deeper discussions on the ideal form of payment and settlement systems for a digital society. We intend to provide thorough feedback on the content of these discussions to this Committee.

Looking back on the discussions in this Committee, I am reminded that individual pieces of information and knowledge eventually lead us to consider the "lines" they form when accumulated and the "surface" they constitute. I ask for your continued cooperation in our efforts to ensure that the discussions, which were once merely individual "points," solidly crystallize into the "surface" of the future of Japan's payment and settlement systems as a whole. This concludes my remarks.

Thank you for your attention.