

New York Fed completes the first phase of tests on a U.S. dollar CBDC

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(Kitco News) - The Federal Reserve Bank of New York has revealed the successful completion of a test that involved the use of a central bank digital currency (CBDC) for wholesale, cross-border transactions, exchanging a U.S. digital dollar with experimental foreign currencies on separate blockchains.



According to a [press release](#) prepared by the Fed, the central bank's New York branch has released the results of its Phase 1 trial of Project Cedar, a multiphase study designed to help develop a technical framework for a "theoretical wholesale central bank digital currency (wCBDC)."

Unlike retail CBDCs, wholesale CBDCs are primarily used by financial institutions and international banks.

[Project Cedar](#) is the inaugural study being conducted by the New York Innovation Center (NYIC), and is intended to explore fundamental design choices and modular technical features of a possible U.S. CBDC. Security, speed, interoperability and ledger design are key areas of focus for the research.

The recently completed Phase 1 of the experiment explored the potential applications of blockchain technology "to enhance the functioning of cross-border payments." It lasted for 12 weeks and included the development of a wholesale CBDC prototype.

According to the NYIC, the experiment demonstrated that wholesale cross-border digital

currency transactions supported by blockchain technology can deliver fast and safe payments.

The pilot test vastly improved upon the current average time required for the clearing and settlement of transactions, reducing it from two days to under 15 seconds. The two-day lag is known to increase counterparty, settlement and credit risks, so improving settlement speed was a primary objective of Phase 1.

Transactions were completed on an “atomic” level, which eliminated the risk of partially completed transactions. In atomic settlements, “both sides of the transaction are settled either simultaneously or not at all,” according to the release.

The test successfully cleared payments at near-instantaneous speeds between a digitized dollar and eight experimental currencies run on separate blockchains. Due to the fact that foreign exchange spot transactions often involve multiple counterparties, the project decided to use multiple ledgers for transactions as opposed to a single ledger with multiple nodes.



The IRS is preparing to crack down on “hundreds” of crypto tax cheats

Along with faster payment times and atomic settlement, the experiment also demonstrated that distributed ledger systems allow for payments to occur any time, day or night, all year round.

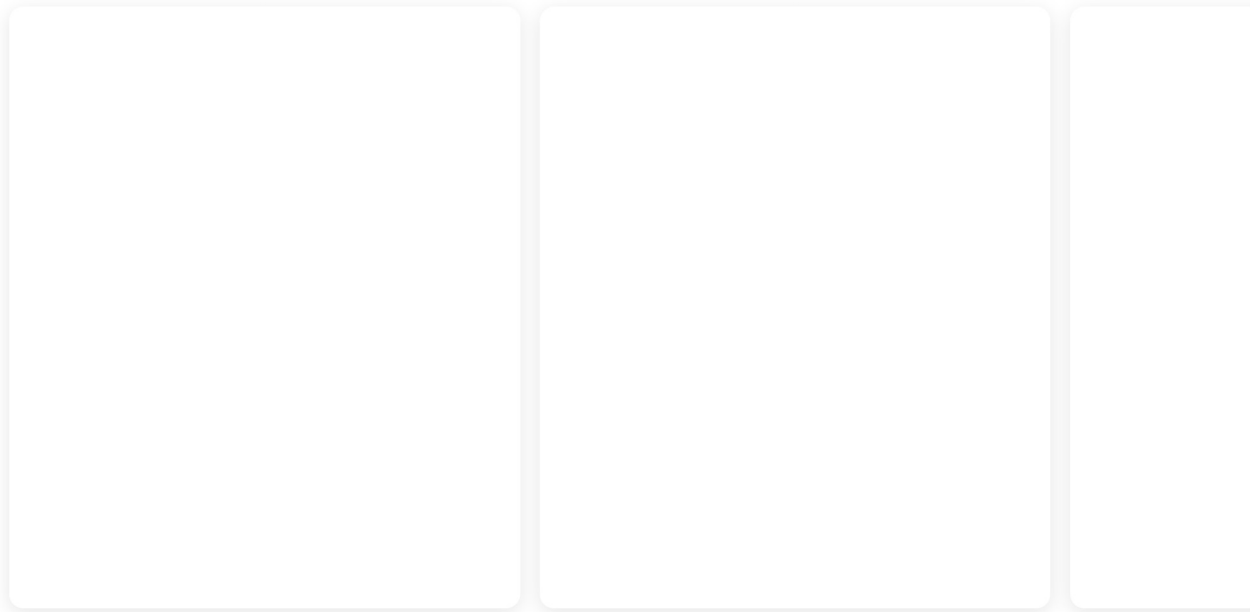
“Project Cedar Phase 1 revealed promising applications of blockchain technology in modernizing critical payments infrastructure,” said Per von Zelowitz, director of the NYIC. “Our inaugural experiment provides a strategic launch pad for further research and development regarding the future of money and payments from the U.S. perspective.”

Future experiments by the NYIC will explore questions related to interoperability and ledger design, including how to achieve concurrence and best enforce atomic transactions across different blockchain-based payment systems.

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