Technology Policy Institute

What Does the EO Mean for Crypto Policy?

Panel discussion

Panelists:
Paul Brigner, Head of U.S. Public Policy and Strategic Advocacy, Electric Coin Company
Kara Calvert, Head of U.S. Policy, Coinbase
Paul Kupiec, Senior Fellow, American Enterprise Institute
Jennifer B. Lassiter, Director, The Digital Dollar Project
David Mills, Bank Operations and Payment Systems, U.S. Federal Reserve Board

Moderator:
Sarah Oh Lam, Senior Fellow, Technology Policy Institute

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Event page: https://www.youtube.com/watch?v=XwPtN6DoqSs

Sarah Oh Lam:

Hi, and welcome to the Technology Policy Institute's virtual panel entitled, "What Does the EO Mean for Crypto Policy?" Today is Wednesday, March 30th, and today we have a panel of experts in digital asset policy and regulation. We'll be discussing the President's recent executive order on digital assets. On March 9th, 2022, the White House released an EO called "Ensuring Responsible Development of Digital Assets," in which President Biden directed federal agencies to produce over a dozen studies and reports over the next six to 12 months. Of concern to the President are matters related to central bank digital currency, or CBDCs, elicit finance, consumer protection and privacy, international frameworks, and financial stability. Each of our panelists today will give their takes on how the EO and subsequent federal reports will shape digital asset policy in the United States. And whether these regulatory efforts will be good or bad for the crypto industry and the broader economy. Our panelists today are Paul Brigner, Head of US Public Policy and Strategic Advocacy of the Electric Coin Company, Kara Calvert, Head of US Policy at Coinbase, Paul Kupiec, Senior Fellow of the American Enterprise Institute, Jennifer Lasseter, Executive Director of the Digital Dollar Project, David Mills, Associate Director of Reserve Bank Operations and Payment Systems of the US Federal Reserve Board, and I am Sarah Oh Lam, Senior Fellow at the Technology Policy Institute.

So, let's start today with a lightning round with one minute for each panelist, in the order that I introduced them. If you could each just give a statement about what's your take on the EO, and would you please describe how you will engage with the EO from your current positions? So, we'll start with Paul.

Paul Brigner:

Thank you, Sarah. And thank you to TPI for hosting this discussion, very timely and very important. The electric coin company is the developer of Zcash. Zcash has special privacy enhancing features that allow it to be used in ways that promote economic freedom and give people the ability to use it as true digital cash.

I have participated in technology policy for 20 years now. And I look at this from that broad perspective. And what I see is that the administration is treating digital assets differently than they are other technologies, or at least how they have treated other technologies in the past. I think back 25 years to the framework for a global economic commerce that came out of the Clinton administration that had a hands-off, do no harm approach. You can look more recently at the Trump administration and the national strategy for critical and emerging technologies that was based largely on a market-oriented approach. What I see here is an approach that is primarily about reducing harms and risks, and not much about out promoting the emerging technology. And I do find that very unfortunate. What I hear a lot is responsible development, it's in the title, and responsible development is terminology you often see quoted in executive orders and legislation on issues like natural resources and energy, not in technology policy.

So, I am somewhat disappointed that the White House is not focusing on this issue from an angle that is promoting the development of the technology. I think that's very unfortunate. I think what has happened here is that the technology has grown so fast, and become adopted so quickly, that government has no choice, but to address it, try to control it and to be very candid, to co-opt it with the approach of a CDBC. And, I do have concerns about going forward and the potential for very specialized regulation in this area and a high degree of scrutiny.

Kara Calvert:

Sarah, do you want me to jump in? All right. So, Kara Calvert, I am with Coinbase, as Sarah mentioned. Coinbase is the largest US exchange. And we, we serve about 90 million customers right now. We have more than more than 10,000 institutional investors. And our mission is really to increase economic freedom throughout the world. And I think much like Paul mentioned, we were surprised to see, after seeing some of the statements that came out from some of the key members of the administration. But I think we're very forward leaning in trying to promote innovation and think about the future. And then the executive order reflected a much stronger, I think, direction toward risk and mitigating those risk and very little about how we wanted to promote innovation.

At the same time, we were very pleased that they are understanding the breadth of this issue. I think where we will see some complicating factors is we really need to understand the technology. You can't regulate it until you understand it. So, there was, I think, some good recognition in having OSDP, having [inaudible], having some others come to the table, and understanding the technological needs here, because the technology is changing the market. It's changing consumer expectations. It's changing how we think about intermediaries and regulation. And so, I think that they're much is a need to study this and understand how crypto is changing some of these very real economic and national security issues. At the same time, I think it's really important if we're going to have such a strong focus on, to Paul's point, responsible innovation. We really have to think about responsible regulation.

It can't over-rotate, and it can't be designed in a way that doesn't allow some of these technologies to flourish. So, we're really hopeful that the administration, the White House, I think has set a good tone so far in having some input or some stakeholder input sessions. I think it's really important that they work with their agencies to also identify people and points of contact inside those agencies, to make sure that we're all aiming and aligning toward the same goal of promoting innovation and thinking about not just regulating for regulation’s sake, but to actually solve a problem, if there is one. And that's, I think that’s where we'll have to have to determine if there's really a problem that we need to regulate toward, because in some instances there may not be, and we don't believe there will be. So, we're really excited to work with the administration and with all the agencies. It's a massive task ahead of us for the next six months, and we're really excited to be a part of it.

Sarah Oh Lam:

Thanks Kara. Next, we have Paul Kupiec.

Paul Kupiec:

Hi. Thanks for inviting me, Sarah, and for the Technology Policy Institute for having this session. I'm Paul Kupiec. I'm an economist at the American Enterprise Institute, where I focus on banking and financial sector regulation. I've spent a lot of time working on issues in systemic risk in the last dozen or so years. You know, I think the executive order is, it's needed it's well timed. I think the industry has grown a lot, and it really is time for the administration to get a handle on how they assess this and where they want to go in terms of regulating or not regulating the industry. I mean, I think they do mention they should come up with a method that supports technical innovation. I think that's point F in the first section where they actually acknowledge it.

But I do agree with the with Kara and Paul, that it very much is focused on risks or risk mitigation, because the government, I think, does feel threatened by some of the development in these markets. I think this will give the chance for the administration to sort of decide how it wants to approach it, rather than let the individual regulators kind of wrestle over who has regulatory authority over what, and various senators and congressmen introducing their own legislation, which the administration may or may not prefer. So, I think it gives them a chance to get ahead of it and control the discussion. I think the timing is good. I think there's a lot of issues here that go unsaid though. The blockchain and distributed ledger technology is very much a new competitor in terms of payment systems, and maybe David from the Fed will have something to say about this, but I think that's an underlying tension that's there.

And how does the government want to deal with that? The Federal Reserve has had regulatory authority over the payments, the banking payment systems, and to some extent other parts of the payment system, or states have over things like PayPal. But right now, this technological payment system, this new innovator isn't really subject to any regulation or oversight. And I think that makes people in the government nervous. Whether they should be nervous or not is a different question, but I think it does make them nervous. There's also a very big tension, do payment systems stay focused on bank control, or we're going to keep a bank centric system, or are we going to go to, you know, so-called de-fi, where everybody, you know, clears and settles without an intermediary. That's a really big issue. There there's a competition among the regulators, which the EO, this executive order, may sort of get under control.

The SEC wants to regulate things, the CFTC does, the Fed wants to treat things like banks, or the FDIC, the president's working group. So, I think there's a lot going on there that the administration probably wants to sort of get their ducks in a row. And then there's issues about how the market develops and whether there's disintermediation or not. Will it impact in an important way how firms and individuals get loans, raise capital? I think those are all policy issues on the table. And then of course, there's the whole issue of, of maintaining the dollar's place in the international markets. Certainly, the government doesn't want to lose that advantage of having the dollar be the international currency of choice, and I'll stop there.

Sarah Oh Lam:

Yeah, that's a good segue. And to the next speaker, Jennifer Lassiter.

Jennifer B. Lassiter:

Thank you, Sarah. Thank you for having us and Technology Policy Institute for hosting this conversation. I think I agree with Paul, that this is a timely matter, and it's really important to have diversity in voices and perspectives in the conversation. So, I am Jen Lassiter. I'm the executive director of the digital dollar project. We are a nonprofit, a public charity that exists to further the research and exploration of a US Central Bank Digital Currency. And we support that research and exploration through multiple venues. But probably the most pertinent to this discussion is our pilot program, where we are curating private sector actors and thought leaders to experiment on specific hypotheses around a US CBDC. So with that in mind, I do want to say what some of my takeaways from the executive order are, but I think it's also important, listening to some of the introductions, to clarify what an executive order is, because I, having been on the other side of the fence as a regulator or at a government agency, you're not able to work on things that you are not mandated or given remit or jurisdiction to work on.

So, the executive order, I think, does just that, which provides this permission, this remit to the agencies that were listed, and their partners, to start to resource and align research efforts around digital assets. So, I think that's important, because without that official mandate we would not see the activity that we're seeing now. So, with that in mind, I had four quick takeaways I wanted to touch on from executive order. Some which have already been mentioned, so I'll move quickly. So, breadth of scope, I thought it was very interesting that there were some agencies and some unique authorities that were referenced in the executive order that we don't normally see or think of when we're thinking about digital currencies. I was really encouraged by that. I thought it really helped codify this whole of government approach, which is what I think the executive order was trying to set out to do, to provide that umbrella.

I thought it was balanced. So, I felt like it said, this is what could go wrong. These are the risks that we see in front of us, but I felt like it also said here are potential benefits. And it was very kind of glass half full, glass half emptied, neutral perspective in how it was talking about and approaching digital assets, but I thought it was very forward leaning for the US federal government, just to be completely honest. I agree that the private sector, right, I think we, we've probably got 15 years of work in this space and the government is just now throwing the flag down and being like, okay, we're coming in. We're here to learn. We're here to understand. So, I thought it was really bold that there was this urgency around research and development that was put out there.

I was also very encouraged by the language around private public partnership, because again, we've got many years of experience under the private sector belt, most large things that we have done in the United States historically have been taken under a private-public partnership framework. There is a way to expedite this process, I think, through that relationship, and then fourth, I would just say it was very nice to start to see language that was defining what it means to code democratic principles into a digital dollar. So, that's a very specific thing, but I think for while we've been talking about why the United States needs to continue to lead or be a leading voice in this conversation globally, and this was the first kind of step forward from an official capacity where we saw language that said, “This is actually what democratic principles are in the context of this digital space.” So I was, I was very encouraged by that, and I'll pass to David.

David Mills:

Well, thanks. And thanks Sarah and TPI for organizing this panel. It's a very interesting discussion already, and I think being from the Federal Reserve Board, I would be remiss if I did not provide a little disclaimer that what I'm about to say are the views of my own, and not necessarily those of the Federal Reserve Board or anyone in the Federal Reserve system besides myself. But having said that, I think it's worth kind of pointing out the Fed is in an interesting position with the executive order in the sense that the Fed is not part of the administration. So, there's nothing in the executive order that directs the Fed in any meaningful way. There are places where we are referenced and consulted, but by and large, this is administration executive order.

And the Fed is not part of that administration. So, my perspective here is really to just think a bit about, you know, places or the sort of scale and scope of the executive order and how the Fed is already kind of actively engaged in this space and has been actively engaged in this space for a number of years. And a little bit about where we are, so first obviously there, there are a couple of key areas of activity that we're engaged in on the crypto and stablecoin landscape, in particular, our role as bank supervisor and federal bank supervisor, along with the FDIC and OCC, are actively engaged in a crypto sprint, which I can touch on a little bit later, but is trying to clarify sort of roles and responsibilities, permissible practices around banks, bank activities related to crypto and stablecoins. That's one.

Another, we were very actively engaged in part of the president's working group on stablecoins alongside the other members of the president's working group, which were the Treasury, the SEC, the CFTC, and by invitation the OCC and the FDIC, where we produced some recommendations around how to treat stablecoins from a regulatory perimeter point of view. And the third area I would emphasize, or being actively engaged, is that just very recently in January, we issued a discussion paper on the future of money. It would be primarily often thought of as a central bank digital currency discussion paper, where we ask a lot of questions in a very neutral way. We take no position on whether or not to issue a central bank digital currency, but recognize there are a lot of equities in the space, and we want to hear from a lot of range of stakeholders, with a range of views on that, and our discussion is ongoing on that.

And we are currently in a period of time where we're welcoming a lot of submissions for comment, public comment on that discussion paper, through a series of questions. And so that really though is kind of stepping back and asking what's the future look like? How do we think about this technology? How does this change the financial ecosystem? So, it's kind of complimentary to some of the things that are in the executive order, but more from a Federal Reserve focused perspective, which again, we could talk a little bit more about later on, but that would be my opening remark. So, thank you, Sarah. I'll turn it back to you.

Sarah Oh Lam:

Great, thanks. So, from all our different perspectives there are many ways we can talk about the EO. It was broad reaching. There's so many topics involved in the EO. I mean, there's illicit finance, which we haven't really talked about. And [inaudible] had a report last year and has had several reports about, about that. But this EO is asking for more about risk mitigation and systemic risk. We can also talk about central bank digital currency, which seems to be a little bit of a different topic cabined in its own arena. Which of these topics or reports do you foresee being more con controversial or more difficult to reach consensus, or are they all difficult topics that need more, more development and discussion?

Jennifer B. Lassiter:

I'll actually start off Sarah, just by acknowledging the timelines that were called out in the executive order, which I had my heart beat a little bit faster healing for some of these agencies with 90 and 180 day deadlines. I think it takes time. This is really complex, as you just said, a lot of broad topics. And it takes time to gather the data and start to understand the data. So, I'll just put that out there as which is just empathy, perhaps for some of the timelines that were laid out acknowledgement that there's so much complexity to the conversation that those timelines might be challenging.

Kara Calvert:

I would echo that. I think the challenge here is really the collection of data. And we at Coinbase, I know there are a lot of other major players in the space who are trying to determine, how do we gather data in a way that's useful to the government, and again, I think the goal here is what are outcomes that we want at the end of the 210 days. And if we can all align on those goals, which I think that that's really the complexity, right? Is are we all gearing toward the same thing? And if we are, then what data is going to help get us there? And it feels right now that it's not clear exactly where, where the outcomes or what we all want to achieve in the outcomes. And part of that is again, because I think this is information gathering.

I think it's really that the government is very new to this, and there are a lot of agencies and we're starting these conversations really at the ground level. And so, I think to sequence it, is going to be the challenge, and sequence how we gather the information, how we determine the outcomes, and then how we actually get to that end point. So I, you know, I think this goes back to the organization and the structure, and if the agencies can help provide us a transparent process, a process that's based on stakeholder input from a broad range of folks. And then again working with them on a reasonable timeline, I think that those are probably some of the key points to making sure that we reach those milestones.

Paul Kupiec:

I agree that the timeframe is short on a lot of things given how complicated some of these issues are, but it, I think you need to think about it probably as just a start. I mean, these are the first reports. They're not immediately going to read them all and put out a policy the week after that. I mean, this is going to have to be digested for a long time, but they're some markers that are down, that have been put down by the administration, the stablecoin report by the president's working group. You know, that lays down a marker. They want to treat stablecoins like bank, and make them register like banks, which would have pretty big ramifications for the stablecoin industry. And then that would mean if stablecoins are banks, then the SEC isn't going to regulate them as securities.

Unless of course they want to have security type stablecoins and bank type stablecoins. Like we have money market mutual funds and bank money funds. I mean, it depends on if they want to go that way. There's other aspects, but there's the taxation issue, which isn't clear.

The EO directs AG Merrick Garland to decide whether the Fed acts, whether the Fed needs legislation in order to issue a digital currency. That's a pretty big, that's a pretty big ask. I mean, right now, and Powell has testified. Chairman Powell has testified you that the Fed wouldn't do this unless Congress, you know, bought in… that would be the first thing they'd have to have. They wouldn't go forward. And you know, getting an opinion from the Attorney General about whether legislation's needed or not, because if legislation's needed, then that's a whole other ball of wax that has to go up. And that won't be settled before, certainly before the midterm. So there, I mean, there's a whole lot of things pending here. So, this is a first step towards getting their arms around lots of issues. And, and I don't see a resolution of a lot of these things really quickly. It's just like you say, it's information gathering, I think, which is a good thing to start for sure. Maybe it's already too late to start it, but it's good they're starting it. <Laugh>

Paul Brigner:

Sarah, maybe I could add a slightly different challenge that I see is very fundamental to this whole discussion. And that is how are we going to ensure that our democratic values are reflected in all that we're doing? It's been, I think mentioned by a few panelists already in that we want digital assets CBDCs, whatever comes out of this executive order and the reports, to really reflect our values and to truly benefit from this technology. And I personally see that the fundamental basis of that is about decentralization, and it's about the potential for efficiencies. And disintermediation, it's the opportunity to give individuals back some power and to promote liberty. And all of those values, I think, are not quite reflected enough yet. I'm hopeful that they will be through the processes that are kicked off and developing these reports we're certainly going to be actively involved in that.

And you know, I, I would say that I have very serious concerns about the development of a CBDC. I think that over the years, I've focused a lot on encryption and that type of technology. And I cannot imagine a bigger honey pot of data than what will be created through the use of a CBDC. And most cryptographers will tell you that when there is a private key that unlocks all the doors, that key, is most likely going to be secured by attackers. It's very possible. So, it's something that I just have in the back of my mind that I'm just really concerned about. And I think that there's a lot of efforts underway that don't have that same level of vulnerability.

Jennifer B. Lassiter:

I just wanted to… two things, Paul. I agree completely actually, when I was thinking about this question and, and when I talk kind of about the challenges, privacy is the number one thing that comes to mind, right? If we are looking at a digital form of cash, what are the things that cash provides for us? One of the main principles or benefits of cash is its anonymity. And how do we both reflect that in a potential central bank digital currency, while also balancing the needs to be able to monitor and surveil for bad actors. Right? And so, I think that's a really critical discussion. I don't think that we've done, we don't have data that actually shows either way where there's not a lot of public discourse in terms of the types of technical design choices that could be made.

And what types of policy design choices would need to be made to support those technical choices. That is exactly where I think we need to be spending a lot of time, and it needs to be done in an incredibly transparent way. I will shamelessly plug that the digital dollar project has a set of privacy principles that we released to just start the conversation. I would encourage everyone to head to our website to check it out. But it is, across the board, no matter who I'm talking to, privacy always comes up as a primary concern in terms of understanding both the benefits and the downsides as we consider this future. The second thing, and this one, I'm curious a little bit curious about how this group is going to respond to it, but I also think along those lines, changing the way that we're thinking about our regulatory framework is part of that process.

And so, as we're thinking about the decentralized nature of a future ecosystem, as we're thinking about privacy in that context, I think also a discussion about moving from a principal based framework to a rules based framework within the regulatory agencies is an important discussion. Because again, it's talking about how do you give the agencies enough flexibility to meet their mandate and their jurisdiction while also evolving and meeting the needs of new technologies, this potential new ecosystem, and quite frankly, the needs of our citizens, right? There's a reason that digital assets are having the traction that they do. We can make the assumption that there are gaps in our current system that are potentially being filled by this technology and these assets. How do we go about understanding that and then giving our agencies the framework to be able to meet those needs, but also fulfill that mandate that they've been given.

Kara Calvert:

I think it's really important when you, when you think about the regulatory structure, we actually believe some regulatory clarity in this will really help unlock some of this innovation. And when we think about how assets they actually, they don't all look and feel and do the same thing. And so we, we really feel strongly at Coinbase that we need to have a new way of thinking about these. We shouldn't be trying to put, you know, the same old cliche round peg in a square hole, but we need to have a new way of thinking inside these regulators. And I think that there are some very good folks who are doing this. David, I know you guys have been working on payment technologies for a very long time, right? There are a lot of people who are very committed to thinking about new ways of doing things.

Kara Calvert:

But I think the importance is, you know, when you have something that looks like a commodity, it shouldn't be regulated the same way as a security. It shouldn't be regulated the same way potentially as a currency, right? So, we need to be thinking about how these may look and act differently. And then again, build up the technical expertise to know about those intermediaries and the disintermediation, the decentralization. And then what kind of risks, are they new risks? We should really be thinking about this in a risk based. And so that's, I guess if we look at one positive thing that is in the EO, it's about risks, right? It's not about just regulating for regulation's sake. I think we just have to determine what are those risks that then tailor appropriately for those risks.

Sarah Oh Lam:

And I'm curious to hear more from you David, about, you know, the activities that the Federal Reserve, like the you've mentioned a CBDC discussion paper and a crypto sprint between agencies. So, if you could talk a little bit about all the activity that's happening at the bank.

David Mills:

Yeah, sure. So, I think, well, one thing just, just to add a little bit on the consensus challenge, I think it is it we're in a very dynamic, transitory period of time with this technology recognizing there's a lot of rapid development and assumptions you might have made two years ago, no longer apply, but then, you know, some of us in Washington tend to still think about it this like we're talking about two years ago and not today. So, it's very hard because one of the challenges on the consensus side is really to be able to kind of know what the future state looks like and be able to apply, you know, very basic principles of same risks, same regulations, or same rules where they apply, understand where there are differences.

And it's kind of hard to do that in the middle of a transitory period. Like and so that I think is one of the challenges which will make it a bit difficult for consensus on a range of potential topics, but, you know, hopeful again, because this is, I think you know, Paul mentioned it earlier, this is like a first step up a phase one of a fact finding exercise that will gather a lot of information and hopefully engage a lot of stakeholders along the way that will help provide that broader view that I think that Jennifer was just appealing to just before now. So, Sarah, a little bit to your questions. So, we are very much at the Fed grappling with this idea of what's the future state look like. And again, we are not taking any position on what the Fed should or shouldn't do.

I think we, you know, we recognize it's maybe a whole of government decision and a congressional, you know, ideally a congressional decision about whether or not a central bank digital currency is part of that future state. And I say part, because it doesn't mean it's either/or. it could be a both/and, when it comes to a central bank digital currency and other forms of digital assets. But that's a question we ask because we're really just trying to begin a dialogue, again, to understand where the future’s heading. What are some of the different equities that are important to different segments of the US economy, the US population, US industry? How do we begin to unpack some of the challenges that might arise? Because the Fed primarily is going to be mostly concerned with monetary and financial stability, safe and efficient payment systems, and also the, the prudential supervision of the banks that we supervise.

So, those sort of fundamentals for us, kind of try to guide all of our thinking, and that doesn't require necessarily one specific solution or one size fits all, but we have to have that kind of framework. So, the discussion paper is kind of focused a lot on that future of the financial system, the future of money. The crypto sprint is kind of getting more at like, how do we make progress in providing adequate guidance with today's rules, today's authority along with the other federal bank supervisors, to be able to guide banks in ways in which they understand permissible activities, permissible expectations under existing authority. So, we don't want to just stand still. We want to make sure that we're able to also provide any necessary guidance and parameters around things as we're developing and learning new information, and continuing to understand where the technology is taking us. So, it's a bit of a multi-pronged approach that we're taking. So, we're trying to address some things in the short run, but we still need to have that long run view. And that's, that's something that this discussion paper hopefully will get a lot of input on from, from various stakeholders.

Paul Kupiec:

So, can I speak a minute about the privacy issue? So, and I'm agnostic about central bank digital currency. I don't really see the need for it, but then, you know, maybe other people that matter may decide otherwise. But I mean, in the Boston-Fed, MIT work that they've been doing on this and the Bank of Canada's joined in and the Bank of England, they're developing systems, which aren't blockchain based, which the Fed would be central to the whole process of clearing and settling these things. But, they do say in this paper that they have provisions where the Fed wouldn't know, necessarily, the privacy information that they would have an intermediated central bank digital currency, where you'd essentially you go to something like a bank.

Maybe it would be a bank, maybe it would be something else, and you'd open up an account. And that would be the customer interface with the financial system. And the Fed would do the clearing and settling of the digital central bank currency. And the banks, the intermediaries would be responsible for the terrorist finance, know your customer, money laundering rules, just like they are today. And at the one level, that's kind of what we have today with bank accounts. And I wonder, so those that are in favor of, you know, private stablecoins and things like that, is that an unacceptable solution, that, you know, that is the status quo right now, in terms of the information that you have, that banks have to know about you, to use the financial system? Is that too much information? Is that wrong? Do we have to be completely decentralized, or how do you feel about that? Because I think that's a central issue, if that project is any guide, central banks don't seem, you know, to be going to adopt some sort of a complete distributed ledger, blockchain type thing. They're going to want to control the core of the clearing and settlement. I think maybe David could speak to that, but I'll stop there.

Paul Brigner:

I can speak a little bit to the privacy concern. And in, in my view, I think people will need to have options. They should be able to go to their bank and have a bank account there, but they should also be able to hold money very privately and do it in such a way that they have complete control over that. And they can hold that in a way that gives them confidence in it. So, if you think about out going to the bank and putting your money there, your information is subject to the third party doctrine, where by giving that information over to this intermediary, you have you no longer have an expectation of privacy in that data, and that has been taking advantage of, I think many times now, and it's very well known that that is used to enable surveillance activities on individuals.

So, that is that is a concern, I think, that we could do better. I think that we could have something that is basically the same as cash. We could have digital cash. And there's a question in the forum about why do we need crypto anyway? Well, that's my answer. At least one of them, is that we need something in the digital world. We all realize our lives are moving to the digital world more and more. We need a digital cash, and we need to be able to have the kind of transactions online, like we do offline, with physical cash. Of course, there's a lot more to that too. There's the potential for a whole new internet based on decentralized technology as Web 3.0. So, there's a lot of reasons why this technology is critically important to the future.

David Mills:

And I would say, Paul. I know, you referenced a bit about, you know, the Fed's role as central bank, digital currencies, right now, our discussion paper, we kind of laid out for high level objectives or principles. You know, privacy is one of them first and foremost. Now, there are foundational questions about how to actually credibly be able to provide private framework with the central bank digital currency. And again, it’s one of the reasons we're asking this question. At the same time, we also have a responsibility to have a sufficient know your customer types of rules and regulations in order to comply with AML, BSA types of requirements. That's a difficult needle to thread. And I think it demonstrates some challenges of being able to meet both objectives at the same time. And so, again, we hope to have some questions.

We pose a lot of these questions and hope to get some insightful answers from experts on this technology, on capabilities, you know, demonstrate whether it is or is not achievable. You know, I think we're welcoming all sorts of thinking around this, because I think it's a challenge for us. It's a puzzle for us, right? The third element, you know, and you alluded to this earlier, was that we put a stake in the ground that it would be intermediated. And again, intermediated is one way to think a bit about at least privacy from the government, but it's still not anonymous, as maybe some elements of crypto could achieve or accomplish, like cash is not certainly a cash equivalent in that context. So, I think we recognize that, but we do sort of think that there's some merits to thinking around intermediation as at least a baseline model that currently threads this needle of privacy, at least from some aspects of the economy, the aspects of government, but also being able to provide law enforcement with the adequate tools that it would need.

And then the fourth thing, you know, it gets to, we want any sort of central bank digital currency, we think should be transferable. And that just sort of means it, you know, should be able to be exist on a lot of platforms publicly or privately provided. And again, that sort of suggests some degree of interoperability, some flexibility around, you know, maybe there's a quality asset, but the asset is being distributed on multiple different types of platforms. How is that achievable? But again, we're sort of thinking in an environment that looks a lot like today's world, but actually leverages some potentially new technologies. But we do think that there's some role to play for intermediaries and for multiple platforms from the private sector that would help contribute to this. So, it's really just kind of again, thinking about it. How do we think about design? Those are sort of our guardrails for now. We would want to hear again how it's achievable or unachievable. These sorts of elements are knowing that there are sometimes in contrast with each other in terms of competing objectives. So that's a little extra context on what we're hoping to find out and learn more about from various stakeholders.

Jennifer B. Lassiter:

I think another principle that's often in conflict that we haven't talked about yet at is financial inclusion. And I think when we're talking about potential benefits for central bank digital currency, in whatever form it takes, right? I think it's hard to say whether we should have one or not is difficult because we don't even know what we're talking about when we're talking about a central bank digital currency yet, right? Like there has not been a choice made, but when you think if universal access is one of the goals that we are striving towards and looking at that population of people that are currently not having their needs met by the traditional banking system understanding. And I think there was a question in the Q&A, what type of problems are we solving here is a wonderful place to start.

Who are our users? Where is the friction? Why are they looking for alternatives to the status quo, whether it be a dollar or a PayPal, right? And using that information to also think about what tools we have in our toolkit as a government to be able to do the things that we set out to do vis-a-vis monetary policy, right? So, I think it's important. And it's one of the places that Project Hamilton through the Federal Reserve Bank of Boston led with, right. They partnered with MIT and Maiden Labs out of Boulder, Colorado to do a first round of user research. The Digital Dollar Project is working in their retail pilots, specifically in communities where people have not been traditionally banked, to understand what that interface with a mobile wallet, right. It can be that simple, looks like, and what are the pain points and the benefits that we're looking for in this future space, but it's a voice that needs to be elevated. I think it talks about what problems we're solving and makes sure that we're not solving for the wrong problems or problems that maybe don't exist because we aren't including the users in that conversation.

Kara Calvert:

And I think Jennifer, that's an important point went to make because, and the EO recognized this as well, right. That there will be privately issued stablecoins. And what is that filling? What is that meeting right now in terms of the needs of a variety of use cases, right? So, it's being used to move value. It's being moved to make it frictionless, to make it cheaper. It's being used by underbanked who may want to use self-hosted wallet to access an economy that they don't have access to right now. And so, that's really one of the benefits going back to one of the questions, what's the benefit of crypto? There are a number of them. One of the most important is access, and anybody can access it through their computer, through their mobile phone, go into the library if that's where they get their internet. It really just takes an internet connection.

And so, to some of the risks, I think what we need to look at is, again, that what kind of risk does that present to somebody who may be new to this system? Does it require disclosures? Does it require education? At Coinbase, we have an education system that actually helps with financial literacy. So, you know, what it means to own a stablecoin or a different type of asset, and what can you do with that and where can you hold it? And so, I think that education is a really important part of this for that when we talk about financial inclusion, and access, and how we want to spread the benefits of crypto more broadly, not just here in the US, but globally. And I think that global integration and that global cooperation was also very central to the EO. And when we think about CBDCs, there will be many countries that are going to have a CBDC, and they're already gearing toward that. So, how does the us fit into that with our global cooperation? So, just a few points

Sarah Oh Lam:

And for the stablecoin point, in my mind, it seems very traditional, like the money market funds and regulating and auditing statements by the money market providers, I guess, that they have the collateral backing to back the pegs that they state they have, and that whole system of auditing and consumer protection. In your minds, I mean, to me, stablecoins seems to be an area that would be more straightforward to regulate. What is different about stablecoin regulation than money market funds, like the reserve broke its peg in the last financial crisis. Shouldn't that inform our treatment of stablecoins?

Paul Kupiec:

Well, there's a couple issues here. One, most stablecoins I'm familiar with don't pay any interest and the reason they don't pay any interest is because if they payinterest, they'd be deemed a security and be subject to SEC, all the rules, they would have to register as a security. They would have to file you know, 10-quarterly reports they'd have all that stuff. So, one, right now they don't pay interest. And as interest rates go up, there's going to be pressure on stablecoins to start the paying interest. And then they're going to be afoul of the securities laws. One way around that is to, if you have their banks, if they turn out their like bank accounts, then banks don't banks don't have to register with the SEC.

So, you have those two types of regulatory ways you could go. But I think as interest rates rise, there are almost certainly going to rise. And, and I'm sure David's not going to want to talk about that, but I'm, <laugh>, they're going to have to go up. Stablecoins are going to be under competitive pressure to actually pay somebody a return and the ones that exist now, don't. There's another kind of stablecoin that actually doesn't have a physically managed reserve. They’re DAOs, decentralized autonomous organizations, but these are smart contracts that create a stablecoin with a smart contract and release funds. So, they don't have a management. They don't have any financial statements. They don't have profits. They can't register them as securities because securities have to have a management.

It has to have audited financial statements, and it has to have material outlooks and reports, and DAOs are these bots. They're these financial bots that create stablecoins. So, they don't fit into the regulatory framework in any shape or form. So, there's different flavors of stablecoins. Some of them could look like a traditional money market fund. Some of them are these bots, bot type DAOs that don't really fit in anywhere. And those have a lot of promise because a lot of these smart contracts would potentially make some type of intermediations a lot more efficient. They would maybe cut out the middleman if they work out right, but we don't have a legal framework that allows those to develop in any sensible way. And we talk about what's the future? Well, you're not going to get to the future unless you get some kind of legal framework to let things like that actually form and develop and see what they can do. So right now, we're kind of at lager heads on that, I think.

David Mills:

You know, I'd say, from a public policy perspective and there may not be one, again, one universal answer when thinking about stablecoins, but it's like, at the end of the day, what purpose the role did they serve? And I think, you know, why we have in the PWG report, what was put in there you'll notice, it kind of narrowly focuses on what are called payment stablecoins. What are those? Well, you know, the idea is that consumers will perhaps at one point in time use these for everyday types of transactions. And I think that that's kind of a, you know, a vision of certainly some in the stablecoin marketplace is that they would like that to be something that is offered, or you know, in a much broader set of use cases than say currently is being offered in, you know, more narrowly in the crypto space.

And so, then what is it? Is it a security? Is it money? You know, how do we think about money? Because, I think that the motivation that we get on the public policy side, when you start to think about it as money, you start to think about it like bank deposits or substitutes for bank deposits, substitutes for currency, you know, and we have history of monetary economics. There's a long history of different types of monies, money doesn't stay stable. But there are desirable properties and stability properties that you like to put in place for money that you may be less inclined or feel less need for if it's sort of more narrowly used in a more, you know, limited context. So, these are some of the kinds of questions that you know, we continue to wrestle with because they are currently being used primarily as a gateway into the broader crypto space, being used for exchanges, having certain convenience uses there. And that's like a different ecosystem than say just everyday payments, and a different set of expectations about the types of risk that the end users might be having. And so, how do we just, how do we settle on what these things are is a lingering, I think, public policy question that not just here in the US, but even globally, that a lot of jurisdictions continue to struggle with how to identify, because there's elements of both in it, or potential elements of both in it.

Sarah Oh Lam:

Which kind of circles us back to CBDC, I guess all the conversations kind of are related, but I can see that the appeal for a digital dollar, because it is stable because it's pegged to the dollar. It's directly from the Federal Reserve bank. But that involves also the monetary transmission angle of interest rates and open market operations. I mean, there's an argument that if individuals have bank accounts with the Federal Reserve, you don't need open market operations. The bank can just raise interest rates directly into consumer deposit accounts. So, how do you see, David, the different roles for money and then even the Treasury direct accounts and T-bills. Is there a role for change in that arena?

David Mills:

Yeah, these are all important and difficult questions. I think, you know, as we did our initial analysis for the discussion paper we leaned heavily on if there were to be a CBDC in the US, it would be intermediated mostly. I mean, I think there's a fundamental shift if we, in thinking a bit about the Fed providing accounts to every American that wanted one, in a way, I think it obviously has some privacy concerns, I know Paul brought up a bit earlier. It does have disintermediation impacts, you know, is that sort of destabilizing in certain ways? It's a question. I don't know the answer. But there are a lot of fundamental challenges to thinking about those sort of direct models. And so we, you know, we like many of our peer central banks have kind of emphasized that any possible CBDC would likely involve intermediaries in some way.

And I think, it establishes sort of the core functions of the role of the public sector versus the private sector, the central bank versus the private sector institutions. Private institutions will do a lot of things better than central banks could do on the consumer facing level. There are other aspects tto consider as well from destabilizing the current ecosystem in a way that, you know, could cause some additional challenges for the broader macroeconomy. These are all just sort of questions, but how do we sort of think a bit about that broad picture? And so that's why we kind of you know, we've leaned more into sort of one of our principles being intermediated as I think that it seems to have some resonance. Now, do you give up some of these direct implications for like monetary policy in new and different ways perhaps?

Obviously, there's a very vibrant academic literature in economics that is kind of looking at ways in which this could be enhancing, but it doesn't come without costs. And of course, these models can't, these economic models are not going to be able to sort of capture everything in all the broad implications that you might have, but it does, you know, ask a lot of interesting questions about, again, what the future of money should look like. It expands as you think about what the role of banks in the, in the economy would be like. How is credit provided in the economy broadly? You know, and how all these sorts of things cascade from a lot of what we're talking about today, which is new technologies to rethink the way financial activity is conducted. And so that, you know, that's why we're here. That's why we're talking about this. And these are very hard questions.

Paul Kupiec:

So, the fact the administration put this out, and the administration seems very heavily influenced by the progressive left. You actually had Sherod Brown put out a bill a year or two ago that would allow every American to open up a bank account at any Federal Reserve bank. And it would be free, and the Fed would pay for it, or any bank that was a member of the Federal Reserve system that was bigger than, I forget what it is, a hundred billion or something, and they would have to eat the cost of that. And that would be his financial inclusion. And that would be his central bank digital currency. Then you have Elizabeth Warren coming out, and Sherod Brown coming out, very, very very much against private stablecoins.

So, to what extent should we be worried that those, what I would call fairly extreme views, of those people like that influence what comes out of this executive order? I mean, I don't have any… I don't view either of those proposals as anywhere close to mainstream, but I'm, again, they're a pretty powerful force. So, do we have to be worried about things like that? Them hijacking the EO studies and where it goes? Or maybe you like their ideas, I don't know.

Kara Calvert:

Without putting David on the spot again on these kinds of questions. I think that, you know, I totally agree with you, Paul, that there are some extreme views coming out, particularly from Senator Warren. And I think what we've seen is that this is really not a partisan issue. You may have extreme views on the Democratic side with a few folks. But I think we're seeing a much broader group of Democrats who are actually supportive and trying to find a path forward on crypto, on CBDC, on stablecoins, on a range of issues. And I think it's incumbent on us as part of the industry to make sure we help them understand why it's valuable to the people, whether you're a Democrat or Republican, how you in fact benefit from this and then make sure that we surround some of the, I think the more extreme views, with more educated views and how these can solve problems and how we can… whether or not it's legislation.

I think we're seeing some really good efforts. We're seeing things come out from Republicans and Democrats, bipartisan bills that would regulate stablecoins. I think we're going to see more that allow for flexibility. And really approach this in a pro-innovation way, but I think it's really important that we don't believe that the far left has co-opted this issue, because I think we're just seeing that it's really not, it's becoming much more bipartisan. And I think that has what that has demonstrated is'more longevity and a longer-term plan. I think David, you mentioned we have short-term needs, but we need a longer term view, and that's going to have to span both parties because who knows what happens in the next couple of elections.

Jennifer B. Lassiter:

I'll echo that as well. Kara, just to say that we are also starting to see a lot of legislation being spun up and this hunger for education and what is the applicability? How do we talk about it? How do we legislate it from both sides of the aisle? I think we will see this year, some of these statement pieces of legislation, that parts of the legislation will then be broken off and sent to committees and worked on. And you know, if we all play nicely in the same in box together, maybe we have bipartisan legislation next year that can be introduced and genuinely considered. I also think part of the underpinning of the primacy of the us dollar is partially because of the independence of the Federal Reserve system, right? So, I think we have to trust the independence of that system, the work that is happening both from a policy perspective in the board, but also at the banks.

And there's a lot of various flavors of understanding and research and experimentation happening at the bank level. And I will say the same as you think about the federal agencies. There are career civil servants who are smart and dedicated and committed to figuring this out and letting data really drive the decision-making process. And that I think was what was encouraging around the research piece, which said we have a lot of assumptions, both about the technology and the users. So, how do we start to generate the data so that we can make decisions based on facts and not on various political talking points or assumptions or feelings that we might have in this space?

Paul Brigner:

I would just like to point out that I really love a lot of what I'm hearing today from the other panelists, particularly on just being willing to rethink how things work, go back to first principles, take this technology in, and figure out how the world could be different. I think I've heard a lot of that in this conversation, and that's very encouraging. I don't think we're going back far enough, however. I think that we're continuing to hold a place for our existing institutions and the ways that we're doing things. And we're trying to, as was mentioned earlier, put that in round peg in the square hole. I think what this technology gives us is the ability to rethink the entire financial ecosystem. It gives us the ability to go back and think about whether the Fiat system is right from the beginning.

And I mean, I've done a little research on this. I know others on this call are much more are aware of the history than I am, but it shocks me to realize that the Fiat system has developed largely within my lifetime, and the central bank system, and that whole development of central banks around the world, much of that has happened in the last 50 years. It didn't have to be this way, and maybe it shouldn't be this way. Maybe there's a new technology that gives us powers that we never dreamed of, that we should rethink everything. And that's really hard. That is very difficult given how important these institutions are to us, but we have a special opportunity. And I really hope that we go back all the way to those first principles and think of about how things could be absolutely and totally different.

Sarah Oh Lam:

Great, and we do have a few questions other questions here in the Q&A, and I thought I'd bring them up to the panelists. Are there any crypto policy issues that have come up that have surprised you, things that you would not have expected to be issues a few years ago? So, like David mentioned even two years ago, the crypto policy landscape was different from today. What surprises you about the posture of where we are today?

David Mills:

Maybe since I was referenced, I could try to go first… Sorry, Kara, do you want to go <laugh>

Kara Calvert:

It's all yours, please.

David Mills:

I think, you know, one of the things that is to sort of point to the dynamism of this industry is that a problem from a couple years ago can have a solution. And, and I think what we run the risk of on the policy making side is attaching a problem in early day as something that's unsolvable by the solutions themselves. And so, I think you know, that that's an interesting example. The narratives need to change in some sense that we kind of fall too quickly on some of the negatives. So, again, people continue to have a narrative that the crypto space is for crooks and criminals, and not much else. And that is, you know, that's a narrative that's kind of old and stale, but it still can permeate certain aspects of Washington because that's just all people can think of when associating with crypto.

But rather what you know, you see is when there are technical problems, there are maybe some hold ups. Obviously, there's some innovation that tries to address those things and the industry advances. That's why I just, you know, feel like it's such early days for this type of technology in the industry, and that we don't have the full landscape. We don't have the steady state yet. And that's what makes it hard. And we should be open to the fact that some of these problems that appear are infancy problems that can be resolved with some learning and some expertise and perhaps some help from the public sector even, dare I say. So, I think that's the kind of I think thing that I think of when I say this is such a dynamic place and the narrative continues to change, but sorry, Kara, I didn't mean to interrupt you.

Kara Calvert:

It's way better coming from you. Let's be honest. But, in fact what I was going to say is I think this idea that two years ago, this is evolving so quickly and that it it's going to require a little bit of humility, I think on the part of industry, on the part of regulators, government policymakers, legislators, to understand that we just won't know the path forward on a lot of this technology. It is so dynamic, and it's moving so quickly, and we have so many smart people thinking about it, that it will not be in the same place in two years, as it is now, as it was two years ago. So, I think that's really important. The other thing that has surprised me, and I know I just hit on this, but this idea that you can have progressives and conservatives at the same table and coming to some of the same conclusions. They're coming at it from different directions, but they're actually meeting in a place where again, the innovation has the potential to benefit such a broad swath of citizens that I think that we all have to be respectful of that, and so that's a thing that surprised me is that conservatives, progressives, and everybody in the middle are coming together on this.

Sarah Oh Lam:

Any other surprises? I think, at least for me, I've been doing these panels on blockchain for three, four, five years now. And yeah, we had said back then, you know, crypto's not going anywhere, and really it's not. I mean, it's only growing. Like all the tax forms have crypto now <laugh> built in to them. And all the crypto exchanges have tax reporting ready to go. So, that to me is a mark of, "Oh, crypto has arrived because the IRS is paying attention." And so, I think just as a closing thought, where do you see crypto going in the next, you know, two to five years, what will it look like? Will there be major legislation? Will other countries, you know, kind of force the US into making certain decisions? How do you see the future?

Jennifer B. Lassiter:

I'm happy to… Oh, Paul, you go <laugh>.

Paul Brigner:

Well, I can't tell you exactly, of course, but I sure have some hopes for the future. I hope that the action of policymakers and regulators is to think about all the different possibilities, and take it very slow with regard to specialized regulation and excessive scrutiny, because I think there's a lot of regulation in place that addresses almost all of the issues that really are of great concern. It's just getting them applied and making sure that they're applied in an even way. I would say that I think it's two to three years from now. It's so hard to say where things are going to be. I absolutely agree with what Kara said. I think this is truly a nascent space, and there is so much happening. So much talent has come into the space to develop new ways of doing things.

New cryptos, all new cryptos are being released almost every day or week, for sure. So, they're all having new features that are going to be important and meaningful, and we need to take that in. We need to give them time to thrive and to grow. So, I encourage our policymakers to do really what they've done with other emerging technologies in the past. And that is to promote them, to be excited about them, of course, watch them carefully, and really to be right there, and you know, make sure that the United States continues to lead through our private market efforts.

Jennifer B. Lassiter:

I agree. I will also echo what Paul said earlier, which is that our regulatory systems are like 90+ years old. So, this is a great opportunity, right, to kind of look towards the future and think about, again, that outcome-based approach, which is what are we striving towards, what other principles we're looking towards achieving, and then kind of building the different roadmaps to get there and using experimentation and data to drive that. I also saw, there was a question in the chat around stablecoins versus CBDCs, building off of Kara's earlier comment around cryptocurrencies not being monolithic. I think all digital assets are not monolithic. Even if we had central bank digital currencies live globally, each country would have its own respective central bank, digital currency that would look different from the others. So, I think it's very important to remember it’s not monolithic, let's look at a menu of options, what it already exists?

Stablecoin technology exists. It is out there. It is being used at a mass level, right? What can we learn from that technology? How can we pay some of that learning forward potentially into the central bank digital currency research and exploration. Let's look at this as how do we create choices and understand which choices we might make dependent on the outcomes that we're striving to achieve. So, I hope we continue down this path, and I hope it continues to remain a multi-stakeholder, private, public, all of the audiences chiming in and providing perspective about what this future could look like.

Paul Kupiec:

I'll give my views a little bit. I think the government has in this EO, and in other things they put out recently, has articulated the fact that they're scared about a lot of things. That they don't know a lot about things. The regulation may have big gaps. And, and I think they've communicated that to the extent that this study maybe comes to the conclusion of some of what Paul had said earlier, the other Paul, that maybe all these issues really are covered under current regulation and law, and maybe the report points that out, and people get more comfort with some of the things they've been worried about. But the growth in the industry, if it keeps at the same pace, the government, their people are going to want some assurance that, you know, there's not some time bomb here.

That's about to blow up on them with fraud or consumer finance or terrorist financing or payment system instability. I mean, that's what they worry about, and they've articulated that. So, the report, I mean, in order for things to run their course for the next three or four years, and we see how the thing develops before we do anything new and rash, that sounds like a good idea, but I think that's going to going to be at odds with some of the concerns that have been voiced. And, if the industry keeps expanding, there's going to be a lot of pressure to prove they have a handle on things, because you know, if things go south, they don't want to be blamed for it for, for being asleep at the switch. So, I think we have to recognize that too. So, hopefully the EO will produce a lot of good information in that regard and they don't, you know, when the wheel doesn't need to be reinvented, maybe they'll point that out.

David Mills:

Maybe I'll go. And I'll be somewhat unhelpfully generic because I think that's the biggest question is like, what… well, it might not even actually be five years, but what does the steady state look like? What does this new ecosystem look like when it's settled, and sort of sets and becomes kind of normal, in some sense. And I guess that just means for the way things are evolving. I would say one, is the industry will continue new to mature, and that is like today's problems may be advanced because some smart engineers figured out ways to improve on current pain points or there's additional regulatory clarity that enables, you know, clear paths and guardrails that are going to be important to help guide in key areas. So, I think maturity is one big theme, but I also still think there's still a lot of frontier work that's going on.

And that there are things we can't quite anticipate on the crypto space that again, the boundaries will continue to be pushed. And that is to really try to find new ways to offer products and services. Again, they could be rough. They could be incomplete. They could be very risky. But I think, I still think, that there'll be certain boundary pushing on the frontier that ultimately might lead to new ideas for financial transactions or conducting financial transactions. Maybe it's in trying to further integrate the existing ecosystem into this newer ecosystem. But, that's kind of where I would see that there are these sort of competing pressures, and smart people in the space are working on both. So, I expect to see advances in both directions.

Sarah Oh Lam:

Great. Well, we're at the end of our session here. Thank you so much for joining this discussion and for watching crypto and being on top of this executive order, and we'll keep an eye on where policy goes and read the reports in six to 12 months with great interest. So, thank you all.