



Federal Financial Analytics, Inc.

THE DIGITAL-ASSET DESTINY

The U.S. has set course on digital assets, CBDC, and cross-border payments with immediate impact on financial-institution franchise value, the future of core infrastructure, and the extent to which global finance fragments into currency zone.

The analytics below are based on in-depth reports provided to FedFin clients.

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President Biden's executive order on March 9 set a new direction for near-term U.S. money and payment policy no matter all the commentary that said it did little more than raise questions lots of long reports may come around to answering. As FedFin's in-depth [report](#) detailed, the order in fact circumscribes all of its studies within a new policy context which:

- recognizes that digital assets are a permanent fixture of global finance;
- demands a raft of new rules governing them not just with regard to safety and soundness, but also consumer protection, investor safeguards, competition, economic equality, law enforcement, and — often overlooked — U.S. dominance;
- comes as close to ordering the Fed to establish a central bank digital currency (CBDC) as the law allows; and
- establishes an America-First construct for U.S. participation in ongoing global decisions crafting rules in this sector, redesigning cross-border payments, and preventing illicit finance and sanctions violations.

Key strategic considerations now include:

- What will Treasury say about what kind of firms have access to the U.S. payment system -- i.e., to the keys allowing entry into the national and global financial kingdom? The Fed has tried to clarify this critical question in a new proposal — see FedFin's [analysis](#) — but we think it actually made the answer still less clear via a suggestion that yet another novel charter might gain favor.
- Could the Fed still say no to a CBDC? Despite all a CBDC's complexities, and consequences, we doubt it given all the White House said in its favor and the extent to which Treasury must do as it's told.
- If so, what should a CBDC do for whom and how?

- Will FSOC designate crypto companies, tech-platform firms, targeted exchanges and/or infrastructure, or individual asset classes? We think so -- Treasury, the Fed, the SEC, and most other agencies on FSOC want digital assets pushed back within the regulatory perimeter and they want this push-back hard and soon.
- What does the America-First strategy mean for global financial infrastructure? At the least, the U.S. intends to build on the strength demonstrated by the dollar in the course of the [Ukraine crisis](#). But we think it will go farther and perhaps even faster to take decisive steps to freeze China's CBDC out of the global payment system and redefine what were once neutral-messaging rules to reflect U.S. objectives.
- What will the CFPB do when to ensure that digital transactions meet its consumer-protection, competition, and equality standards? We believe it will start with a long-overdue rewrite of the rules dictated by the Electronic Funds Transfer Act, but it won't stop there. New standards mandating accountability, liability, transparency, and error resolution would radically redefine some of the most formidable fintech business models.
- And, speaking of which, what's to come of digital assets in the ongoing rewrite of bank-merger and antitrust policy? Although the Department of Justice and Federal Trade Commission are only "encouraged" to think about this, Treasury surely will take this on in its mandatory report back to the President at the end of this year. Everything from the nature of U.S. payment infrastructure and the future of big-tech platform firms in the cryptosphere is thus in play -- hard play with a very significant end game for the future of finance.

In addition to the FedFin reports cited above, we have at hand in-depth analysis of other key policy actions such as the Fed's CBDC [discussion draft](#) and work to date on cross-border [payments](#). We are also advising clients on the proprietary impact of all of the answers likely to these questions as and what can best be done about them.

To learn more about Karen Petrou's book, *Engine of Inequality: The Fed and the Future of Wealth in America*, click [here](#)

Karen Petrou's latest column can be found [here](#)

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