



Financial Services Management

U.S. Digital-Asset Policy

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Impact Assessment

- Treasury appears to be trying to build a case for CBDC.
- Mass adoption appears to be a desired outcome as long as appropriate safeguards are in place.
- Comments may largely be used to ratify Administration policy decisions given the pace at which these are being made.

Overview

As part of its response to the President's digital-asset executive order,¹ the Department of the Treasury is seeking views on the broad policy questions on which it believes answers might guide the Administration's next steps. The definition of digital assets on which comment is sought includes central-bank digital currency (CBDC) and other digital representations of value delivered via distributed ledger technology (DLT). As a result, Treasury's inquiry is comprehensive and results could have far-reaching implications, but the nature of the questions posed are so broad as to provide little indication of how Treasury plans to frame its report to the White House and proceed thereafter. The impact of this request will thus depend on what Treasury chooses to make of it or if it is a "check-the-box" exercise to show interest in public comment and gather input to validate conclusions already under Administration development.

Impact

As noted, Treasury's questions are at a very high level and do not raise any specific questions targeted on initiatives such as the Basel Committee's new

¹ See *Client Report CRYPTO26*, March 9, 2022.

consultation on bank standards,² the SEC's enforcement powers,³ or indeed most of the policy issues addressed in controversial Senate legislation.⁴ Shortly before issuing this request, the Financial Stability Oversight Council issued a statement revising its stablecoin approach from the initial President's Working Group recommendations⁵ in favor of allowing some forms of stablecoin issuance outside insured depositories. Again, however, no questions about how to do so are posed.

However, commentators can find ample opportunity to raise issues of concern to them on these and many other digital-asset considerations because of the wide-open nature of Treasury questioning. One can also infer that the Administration wishes to favor mass adoption as long as stringent safety-and-soundness, consumer-protection, and market-integrity standards are imposed due to the nature of the questioning. This would advance the conclusion in the President's order that digital assets may well be an important innovation with specific benefits to U.S. competitiveness, but the overall focus on "responsible innovation" makes it clear that any final statement about digital-asset benefits will be conditioned on ways to minimize the costs due to the numerous risks on which comment is also solicited.

Perhaps the most intriguing aspect of the President's order is its strong, if also conditional, endorsement of CBDC. This is in sharp contrast to the hesitant and even doubtful stance taken by the Federal Reserve in its recent discussion draft.⁶ However, it reflects thinking by some at the Fed – e.g., Vice Chair Brainard – and others on the National Economic Council that CBDC is a vital way to protect the value of the dollar, advance financial inclusion, and promote payment-system speed and efficiency. Comments directly to Treasury on the CBDC create an opportunity not only to repeat arguments provided to the Fed, but also to put them in a new context for a potentially more receptive audience seeking ways to meet the President's CBDC objectives.

What's Next

Treasury issued this request in consultation with the Commerce Department, other executive agencies, the SEC, CFTC, and the banking agencies. This request was published in the *Federal Register* on July 8; comments are due by August 8. The request came shortly after another, similarly noncommittal statement from Treasury about the international digital-asset framework it will pursue. This statement laid out broad goals and a commitment to international cooperation in concert with preserving "democratic values," enhanced U.S. competitiveness, and other goals that may run counter to those in other nations. No specifics about the parameters of U.S. advocacy within these high-level goals was provided.

² See **CRYPTO29**, *Financial Services Management*, July 7, 2022.

³ See *Client Report INVESTOR19*, October 5, 2021.

⁴ See **CRYPTO28**, *Financial Services Management*, June 14, 2022.

⁵ See *Client Report CRYPTO16*, December 28, 2020.

⁶ See **CBDC10**, *Financial Services Management*, January 27, 2022.

Analysis

A. Policy Objectives

These are:

- U.S. consumer, investor, and business protection;
- U.S. and global financial stability;
- Reduction of illicit-finance and national-security risks;
- Reinforcement of U.S. global financial-policy, economic, and technology leadership; and
- Responsible development of payment innovation and digital assets;
- Promotion of safe and affordable financial services.

B. Request for Comment

Treasury invites views, data, and other material on any matters commenters think warrant consideration. Specific questions include:

- The explanation of current digital-asset adoption rates and projections of those to come along with ways to encourage adoption;
- The principal use cases and opportunities for consumers, investors, and businesses, taking into consideration DeFi, new products or contracts, wealth-building, supply-chain efficiency, and cross-border payments and trade;
- Implications for equitable economic growth;
- Risks and mitigation, focusing on market transparency, data accuracy, technological risks, market-contract security, settlement and custody, fraud and scams, privacy, theft, intermediary and counterparty insolvency and other risks, authenticity, and information symmetry; and
- Impact on the most vulnerable, with sub-questions posed on matters such as product features to better reach the un- and under-banked and on potential risks.