Remarks by Under Secretary for Domestic Finance Nellie Liang to the National Association for Business Economics

March 22, 2022

As prepared for delivery

Thank you to Julia and NABE for inviting me to participate in this panel. I will talk today about two topics. First, I will review the recent executive order (EO) on digital assets and Treasury's work on the future of money and payments. Second, I will describe the President's Working Group (PWG) analysis of stablecoins and our recommendations to reduce risks while allowing for development and innovation.

Earlier this month, President Biden signed an executive order on digital assets. It calls for a coordinated and comprehensive approach to the responsible development of digital assets as a new means to provide financial services, including money and payments. The primary objective of the EO is to address the risks and harness the potential benefits of digital assets, which will reinforce American economic competitiveness and global financial leadership.

Over the coming months, Treasury will partner with colleagues across the government to produce a series of reports and concrete recommendations. Treasury has significant responsibilities in at least four areas. First, the future of money and payment systems, with a discussion of central bank digital currency (CBDC); second, financial stability risks and regulatory gaps posed by various types of digital assets; third, their use for illicit finance and associated national security risks; and fourth, international engagement to support global principles and standards for digital assets and CBDC.

Our work on the EO will be guided by some shared core values for financial services. We want broader access to safe and affordable financial services, which can foster equitable economic growth and financial inclusion, while protecting consumers, investors and businesses from significant risks of digital assets.

We want to maintain a resilient financial system. Regulatory policy for new financial products may need to evolve, but should follow "same risk, same regulation," in the sense that regulations should be based on risks of the activity rather than the technology itself.

We also want to reduce illicit finance risks and safeguard national security from misuse of digital assets. And, for technology, we want to encourage responsible innovations that reinforce US leadership and are consistent with democratic values.

Let me turn to the report on the future of money and payments.

Treasury will write this report and will consult with others. There are a focused set of topics to address, including new forms of money, both private and sovereign, new ways to transfer money, and implications for the economy, financial system, financial inclusion, and national security. Some specific questions are the consequences of possible design choices for a CBDC; how private digital assets would interact with CBDC; and the effects of advances in CBDC in other jurisdictions. The EO emphasizes an urgent need for research and development on the potential design and deployment options of a CBDC so that the US is prepared to move forward if it is determined that it would be in the national interest.

As we start, we recognize that new forms of money are gaining popularity in part because existing forms of money and payments have some weaknesses. For example, costs and fees for bank accounts with low balances can be high. In addition, cross-border payments, including remittances, are inefficient and slow. . Reflecting these and other factors, some households may not have adequate access to bank accounts and reliable payment systems.

We also recognize that there are developments that could address some of these issues. For example, FedNow aims to be a 24/7 payment system that will be low cost to users and widely available. Because FedNow relies on the banking system, there already are safeguards for consumers and businesses. In addition, bank-based money usually has deposit insurance and banks are generally eligible to obtain access to the lender of last resort. These two backstops help to ensure that bank money is not runnable. Another example are stablecoins if well-regulated. With appropriate guardrails, they could support efficient provision of payment services.

Our work will complement other important efforts, including the Federal Reserve's recent paper on CBDC. In that paper, the Fed emphasized that any CBDC should ensure privacy for its users, have an intermediated model, be transferable, and prevent illicit finance. The Fed's paper does not make a determination of whether a CBDC would be in the national interest, but raises a wide range of issues and asks for public feedback.

The EO calls on the Fed to continue studying CBDC, and in particular how it might affect the ability to effectively implement monetary policy, recognizing that sovereign money is at the core of a well-functioning financial system, macroeconomic stabilization policies, and economic growth. In addition, the EO calls on the Office of Science and Technology Policy and the Chief Technology Officer of the United States, in consultation with the Fed, Treasury, and others, to issue a report on the technological infrastructure, capacity, and expertise that would be necessary to support a CBDC system should one be proposed.

In addition to the new work on the future of money, I'd like to talk about ongoing work on stablecoins.

Stablecoins play a significant role in the emerging set of digital assets, activities, and services. The distinguishing feature of stablecoins is that they are designed to maintain a stable value relative to a reference asset – often, the U.S. dollar. Stablecoins have grown rapidly, from a market capitalization of roughly $5 billion at the start of 2020 to approximately $175 billion today. The PWG, plus the OCC and the FDIC, issued a report in November 2021 that focused on stablecoins because the offer of a stable value means they have the potential to be used widely used by households and businesses to make payments and purchases. Many companies are exploring ways to increase their use for these purposes.

The PWG report highlighted some significant "prudential risks" associated with stablecoins for payments. First, run risk -- a scenario in which loss of confidence that a stablecoin will be stable could trigger a wave of redemptions, which could have spillover effects for the broader financial system. Second, payment risk -- including operational issues that could interfere with the ability of users to actually store and transfer them to make payments. And third, concerns related to concentration of economic power – for example, if a stablecoin provider gained market power and harmed competition and consumers.

The PWG report found significant gaps in authorities that would address these prudential risks. Some of the largest stablecoin issuers operate with limited regulatory oversight, and there are significant questions about whether they are adequately backed. Even where a stablecoin issuer is subject to oversight, supervisors may not have sufficient visibility into the broader operations, such as custodial wallet providers, that support the use of the stablecoin, which may be distributed across multiple entities. Current requirements under state money transmitter or securities laws were not designed to address the risks of runs, payment system, or concentration of economic power for a payment instrument based on new distributed ledger technology.

To fill this regulatory gap, the PWG report recommended legislation to ensure a consistent and comprehensive framework that is proportionate to the prudential risks posed. Importantly, such legislation would complement existing authorities with respect to market integrity, investor and consumer protection, and illicit finance. The report recommended specifically: to limit issuance of stablecoins to insured depository institutions; to give supervisors of stablecoin issuers visibility into the broader stablecoin arrangement, and authority to set risk-management standards for critical activities related to use of stablecoins for payment; and to consider other protections – such as data privacy or interoperability -- to reduce concerns related to concentration of economic power.

In developing the recommendation for stablecoin issuers to be insured depository institutions, the PWG report relied upon the flexibility that the banking agencies would have to adjust for differences between stablecoin issuers and traditional commercial banks, and to new products and structures that may emerge over time.

Digital assets and the associated technology have introduced new channels for the delivery of financial services. These may be part of creating a more efficient inclusive financial system alongside other efforts. There are, however, some known risks that should be addressed. For example, it is important to keep moving on our efforts on stablecoins-- they are growing and regulators need to establish guardrails to prevent significant systemic risks from emerging. We will appeal to our shared goals of protecting consumers, financial stability, and American leadership as we work together to ensure the strength of the financial system.

####