Remarks by Deputy Secretary of the Treasury Wally Adeyemo at Consensus 2022

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Thank you so much, it's great to be here with you in Austin. I especially want to thank CoinDesk for inviting me here today to discuss how the Treasury Department is approaching the digital assets landscape, and the role of regulation in promoting the kind of innovation we need to maintain U.S. leadership of the global financial system.

I spend a great deal of my time working on issues at the intersection of national security and economic policy—on a set of issues that includes sanctions, illicit finance, and investment security. Two of the areas I've been most focused on over the last few months are Russia and Afghanistan. And each of them, respectively, demonstrates the risks and promise of digital assets—why certain forms of regulation are urgently needed, but also the value that new ways of making payments could have in reducing cost and creating opportunities for billions of people around the world.

Let's take Russia first, where the Biden Administration and our allies around the world are taking steps to support Ukraine as they defend their country against Russia's brutal and unprovoked invasion. Sanctions have played a central role in our efforts to starve the Kremlin of revenues and degrade their ability to project power.

And though cryptocurrencies to date have not been used as a major avenue to evade our sanctions, we know that Russia is otherwise a hub for cyber criminals that use cryptocurrency in furtherance of their crimes.

Treasury is already taking action on this front. For example, in April, Treasury imposed sanctions on Hydra—the world's largest darknet market, which operates out of Russia—and Garantex, a virtual currency exchange that also operates out of Russia and caters to illicit actors. Analysis of Garantex transactions indicates more than $100 million in transactions associated with illicit actors and darknet markets.

What stands out about these entities is that their role in financing and facilitating criminal activity was well known, even before they were subject to sanctions. In too many cases, some investors and firms in the crypto ecosystem are willing to look the other way when jurisdictions like Russia offer a haven to criminals abusing digital assets.

On the other hand, I've spent a great deal of time seeking to mitigate the humanitarian crisis in Afghanistan. Part of the problem is that few companies—especially financial institutions—want to do business in a place that recently experienced a government overthrow and where the Taliban has repeatedly gone back on its commitments, especially when it comes to women's rights.

As a result, Afghanistan's economic crisis has continued to fester, with little ability for citizens and businesses to get access to the financial resources they need. Many local banks are at risk of failure, humanitarian organizations are struggling to bring funds into the country to pay for their operations, and ordinary Afghans cannot access the cash needed to pay for basic needs.

Just imagine what a frictionless, global digital payments system with appropriate controls for illicit finance could do for people in places like Afghanistan—if relatives abroad could easily send remittances, or if NGOs could pay their staff halfway around the world with the click of a button on a smartphone. This is one of several problems that digital assets can help to remedy.

It is critical that we balance both sides of this proverbial digital coin, the risks and the opportunities. And I believe that when it comes down to it, we as policymakers and you as investors, builders, and innovators in digital assets want the same things:

To foster innovations that bring better technology and better financial services to consumers and businesses, especially those who have traditionally been underserved or excluded;

To provide appropriate consumer and investor protections;

To ensure financial stability; and

To root out crime, fraud, and other abuse from the financial system we collectively depend on.

Some of these goals may require legislative or other government action. TerraUSD and Luna's collapse reinforces this need, including for legislation to address the risks presented by stablecoins. And we are currently working across the Treasury Department and the broader

Biden Administration to answer the questions posed by the President's Executive Order on digital assets.

In many cases, though, proactive, self-regulation will be necessary. Let me be clear: When digital asset companies and exchanges allow bad actors to remain a part of this ecosystem or take advantage of vulnerable consumers, they risk harming the reputation of your firms and your industry. And they heighten the impetus for strict regulation.

In response to Russia's further invasion of Ukraine, many of the world's leading companies acted early to cut off ties with bad actors, even before they were required to, because it was the right decision for their businesses. I encourage you to take the same approach when it comes to illicit finance—to be proactive in identifying risks and isolating bad actors from the digital assets ecosystem.

Of course, we know that while some illicit actors are flagrant in their disregard for the law, others may not be so easy to identify. At Treasury, we view it as one of our primary regulatory roles to help ensure that financial institutions understand red flags for potential illicit activity and can make informed determinations about who to do business with. We are also working closely with our foreign allies and partners—especially through the Financial Action Task Force—to work toward implementation of international standards when it comes to illicit finance rules for digital assets that make it easier on the industry to comply.

We view you and your institutions as our partners in that effort—both in taking the actions needed to implement rules and sanctions but also in helping to develop the technologies we use to collect and analyze the information underlying them. In the spirit of that partnership, I want to share with you the focus of our regulatory efforts over the next several months.

First, we are focused on Travel Rule compliance in the cryptocurrency sector. As you all know, the Travel Rule requires that information is collected about who—that is, the real-life person, not an online persona—is sending and receiving funds, and that this information is transmitted to all financial institutions involved in a payment. This information helps us enforce the Bank Secrecy Act and safeguard our national security.

While Travel Rule compliance creates additional reporting needs for some digital asset companies, we know that many of you are already doing this. This information is critical to our ability to defend America's national security—we know too well the role that cryptocurrencies can play in financing the activities of our adversaries. We're focused on arriving at a regulatory approach to the Travel Rule that will strike the right balance between allowing the market to continue innovating when it comes to payments systems and technologies, while also ensuring these innovations are not abused or used to undermine our shared interests. That balance, fundamentally, is what we are aiming to achieve.

Second, we are working to address the unique risks associated with unhosted wallets. Because unhosted wallets are effectively just addresses on a blockchain, it can be difficult to determine who really owns and controls them—creating opportunities to abuse this heightened anonymity. Fundamentally, financial institutions need to know who they are transacting and doing business with to make sure they are not making payments to criminals, sanctioned entities, or others. When it comes to unhosted wallets, we are working to provide them the information they need to avoid facilitating these kinds of illicit payments.

Let me close by reiterating our hope that digital asset businesses like those represented here today share these concerns. We look forward to working with you to build a regulatory architecture that protects the financial system from illicit activity while providing you the support and room you need to continue to innovate.

America's international position and ability to safeguard our national security rest in no small part on our global financial leadership. We in government know, as you do, that the future of the global financial system is increasingly digital. Our goal is to ensure that system is not only safe and secure, but that it benefits from the innovations of companies that depend on our regulatory framework. We look forward to using our tools, in concert with yours, to preserve our leading role in the international financial system and build that financial future together.

Thank you.

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