Remarks by Under Secretary for Domestic Finance Nellie Liang at the Brookings Institution

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INTRODUCTION

Thank you for inviting me to join you today to talk about recent reports led by Treasury as part of President Biden's Executive Order on Ensuring Responsible Development in Digital Assets. My remarks today will focus primarily on how digital assets could alter the future money and payments system in the US, and recommendations in the report to prepare for that. But I will first take a few minutes to talk about the here-and-now of digital assets—how they are currently being used and their effects on consumers, investors, and businesses. And next month, the Financial Stability Oversight Council will issue a report on the financial stability risks of digital assets and regulatory gaps.

CRYPTO-ASSETS

For the report titled "Crypto-assets: Implications for Consumers, Investors, and Businesses," the charge was to focus specifically on current use cases for crypto assets, and especially use by and effects on more vulnerable communities. A main finding of the report is that the most prevalent current uses of crypto-assets are for trading, lending, and borrowing. Use of crypto-assets to deliver other types of financial services, like payments at lower cost, higher speed, and without intermediaries, has not materialized yet.

The report finds significant areas of concern. There are frequent instances of operational failures, market manipulation, frauds, thefts, and scams. Consumers and investors are exposed to improper conduct in crypto-assets for a variety of reasons, including a lack of transparency, non-compliance with existing regulations, as well as that crypto-assets have novel and rapidly developing applications. In addition, while the data for populations vulnerable to disparate impacts remains limited, available evidence suggests that crypto-asset products may present heightened risks to these groups, and little evidence of financial inclusion benefits.

Based on these findings, our first recommendation is for agencies to continue to aggressively pursue their enforcement efforts focused on the crypto-asset sector. A second recommendation is for agencies to clarify their existing authorities to ensure they are applied appropriately to crypto-assets, and for regulators to work cooperatively so they can be more comprehensive and increase compliance with existing rules. These recommendations recognize that agencies -- including the CFPB, SEC, CFTC, and DOJ – have been hard at work to address this unlawful activity and to protect consumers and investors. Agencies have expanded and prioritized resources – the SEC, for example, has brought more than 80 cases. The recommendations also reflect a principle that financial services, whether provided by crypto technology or traditional financial firms, should be subject to the same rules if they pose the same risks. That is, rules should be technology neutral.

The report also recommends that agencies work together, through the Financial Literacy and Education Commission, to improve the quality of information about crypto-assets for consumers, investors, and businesses. The goal is to make trustworthy and consumer-friendly materials accessible and inclusive.

FUTURE OF MONEY AND PAYMENTS

I'll now turn to the report on the future of money and payment systems. Here we focus on digital assets used for money and payments, as well as instant payment systems, and make a set of recommendations to put us on a path to a more efficient, innovative, and inclusive money and payments system, and to reinforce U.S. global economic and financial leadership.

The current money and payment system has many strengths. The system has supported over a century of U.S. growth, processes an enormous volume of transactions, and supports privacy, civil rights, and other democratic values. But some parts of the payment system are expensive and carry high fees, and other parts are slow. It also is not as inclusive as it should be: The percentage of the United States that is unbanked is higher than in all other G-7 countries.

Looking forward, recent innovations in digital assets and other technologies could have far-reaching implications for money and payments. These innovations include a central bank digital currency (CBDC), retail instant payment systems, and stablecoins. The report builds on the work of the President's Working Group on Financial Markets, which recommended legislation for consistent and comprehensive oversight of stablecoins. The report does not make any new recommendations regarding stablecoins, but instead considers implications of stablecoins for the payment system.

I'll now discuss the money and payment systems and the recommendations reviewed in the report.

CBDC

I'll turn first to CBDC. A CBDC is a digital form of a country's sovereign currency. It is a liability of the central bank. A U.S. CBDC would serve as legal tender, be convertible one-for-one into paper currency (Federal Reserve notes) or reserve balances (deposits at the Fed). It would clear and settle with finality and nearly instantly.

The report's first recommendation is for the U.S. to advance work on a possible CBDC should one be determined to be in the national interest. There are potential benefits that could affect a decision to adopt a U.S. CBDC, such as preserving the uniformity of the currency, or providing a base for further innovation. There are many important design choices that would require additional consideration. For example, a retail CBDC would be broadly available to the public, while a wholesale CBDC would be limited to banks and other financial institutions. This choice could affect private credit availability in normal times and in periods of stress. There also is a need for further research and development on the technology to support a U.S. CBDC, which could take years.

For the U.S. to build capacity to adopt a CBDC, even as deliberations continue about whether one is in the national interest, the report suggests work in a number of areas. In addition to supporting continued evaluation and periodic updates to the public by the Federal Reserve, Treasury will lead an inter-agency working group to support the Fed's efforts and advance further work on a possible U.S. CBDC. The CBDC Working Group will consider the implications of CBDC in areas such as financial inclusion, national security, and privacy. Leadership from the Federal Reserve, the White House, and the Treasury Department will meet regularly to discuss the progress of the CBDC Working Group, and to share updates on CDBC and other payments innovations.

INSTANT PAYMENTS

I'll turn now to instant payments. Retail instant payment systems transfer funds nearly instantly, as opposed to the multi-day settlement period that occur on some legacy systems. In the U.S., examples include the Clearing House's RTP Network, launched in 2017, and the

FedNow Service, which the Fed plans to launch in 2023. Global experience suggests that instant payments can contribute to making the payment system, as a whole, more competitive, efficient, and inclusive. Yet frictions may limit the extent to which the potential benefits of instant payment systems are realized. Consumers, businesses, and financial institutions may be slow to adjust their habits and procedures to new technologies. In addition, instant payment systems are generally accessible only to depository institutions.

To maximize the benefits from instant payments, the report suggests efforts in three areas. First, the U.S. government should continue outreach efforts around instant payments, with a focus on inclusion of underserved communities. Second, the U.S. government should promote development and use of innovative technologies that allow consumers to more readily access instant payment systems. And third, in settings where appropriate, U.S. government agencies, which send and receive millions of payments a day, should consider and support the use of instant payment systems.

FEDERAL FRAMEWORK

The report's third recommendation is to consider establishing a federal regulatory framework for nonbank providers. This recommendation recognizes that nonbanks are increasingly providing payment services. These newer entrants may contribute to higher enhanced competition, inclusion, and innovation. Today, oversight of nonbank payment providers is generally at the state level, varies significantly, and may not address certain risks in a consistent and comprehensive manner. A federal framework could provide a common floor for minimum financial resource requirements and other standards that may exist at the state level. It also would complement existing federal AML/CFT obligations and consumer protection requirements that apply to nonbank payment providers.

A federal framework for payments regulation could work in conjunction with a U.S. CBDC or with instant payment systems. It could provide oversight of firms that a potential U.S. CBDC system may rely on for a range of financial services. It also could lay out a path for nonbank payment providers to participate directly in instant payment systems.

CROSS-BORDER

The report's final recommendation prioritizes work to develop a faster, cheaper, and more transparent international payment system, while considering potential risks of greater integration of cross-border payment systems. Indeed, private sector payment innovations have been driven in part by inefficiencies in the current cross-border payment systems. Cross-border payments can take multiple days to clear, and may carry high fees.

The U.S. has a strong national interest in supporting global standards for cross-border payment systems that reflect U.S. values, including privacy and human rights; are consistent with AML/CFT considerations; and protect U.S. national security.

CONCLUSION

To conclude, as laid out in the Executive Order, new technologies when developed responsibly can lead to significant efficiencies and further innovation. The future of money and payments report sets out a set of recommendations with a deliberate path forward to determine if a CBDC is in the national interest and to support the development and adoption of other innovations. This path will achieve the potential benefits of innovations while mitigating risks to consumers and economic growth and stability.

Fact Sheet: Treasury Report on Crypto-Assets: Implications for Consumers, Investors, and Businesses