As Prepared for Delivery

Thank you, Nick, for the introduction and for the invitation to speak with you today.

The United States and Europe face many common challenges. First and foremost, we are confronting Russia’s continued and unjustified invasion of Ukraine as well as handling spillovers that have reached everywhere from commodity prices to the fiscal space. We both are also continuing to recover from the disruptions caused by the coronavirus pandemic. Global monetary tightening presents new trials, as do the persistent effects of climate change.

As we meet these challenges we know are on the horizon as well as unexpected challenges that may come, it is crucial that our financial system is strong and flexible enough to respond to changing needs and resilient enough to withstand disruptions. There is a deep connection between maintaining an open, stable financial system and the task of securing our shared values and common prosperity.

The financial system needs to be flexible so it can effectively channel funds from savers to borrowers; resilient, so it can provide crucial liquidity and maturity transformation services without tilting towards runs and crises; it needs to be clear and transparent, so it is safe and fair for investors and consumers, allowing them to participate with confidence; and stable, so it can act as an intermediary for payments. The financial system should also bolster important societal goals: upholding human rights, improving financial inclusion and equity, and addressing climate change.

The rapid growth over the past few years of financial technology and innovation has profound implications for many of these values that are central to both our economic systems and our democratic societies. As policymakers, it is our job to
set rules of the road that foster responsible and equitable financial innovation—so innovators can experiment, take risks, and develop products and services that bring value to our economies—while making sure that this innovation does not cause harm. Innovation cannot simply be a way around regulation, but needs to enhance the functioning of the financial system. This innovation and the regulatory developments that may follow cannot happen in a vacuum in any one country because our financial systems are linked. As such, international cooperation among the United States and its allies is essential.

Close coordination with our European colleagues on our shared vision and values is a hallmark of the strong U.S.-European relationship. We have frequent exchanges with the European Commission, European regulators, and the European Central Bank, as well as with member states. We work together at the G7, G20, Financial Stability Board, and Financial Action Task Force, to name a few. And just this week, we hosted many of our European colleagues at the Treasury Department for the biannual U.S.-EU Financial Regulatory Forum.

Today, I am going to focus on our work in three areas: digital assets, payments systems, and cybersecurity and operational resilience. The presentations over the past two days demonstrate that in Europe, these areas are priorities for policymakers and industry alike. We too are hard at work in the United States.

**DIGITAL ASSETS**

Let’s start with digital assets. The market for digital assets and their use cases have grown rapidly over the past few years. In September, Treasury delivered to President Biden our first-ever comprehensive framework for responsible development of digital assets. We are continuing to carry out efforts articulated in the framework.

First and foremost, we are seeking to reduce the meaningful risks that digital assets pose for consumers, investors, and businesses. Over the past few months, we have seen consumers who have trusted crypto-firms with their money—sometimes their life savings—left with nothing as a result of gross negligence or outright fraud.

Our regulatory and law enforcement agencies are tuned in to the digital asset space and aggressively investigating and enforcing against malfeasance. Our work here is part of our larger effort to make the financial system safer and fairer for everyone.

Second, maintaining financial stability is one of our core priorities. While the recent bouts of turmoil have had limited spillovers to the broader economy to date, transmission channels for
stress could quickly become more significant if interconnections with the mainstream financial system grow. Past crises have demonstrated that financial instability can inflict enduring harm on the most vulnerable. To address this challenge, the Financial Stability Oversight Council has called on U.S. regulatory agencies to enforce their existing authorities and work together to address regulatory arbitrage. Additionally, while large parts of the digital asset ecosystem are already covered by the existing U.S. regulatory structure, the Council has called on Congress to pass legislation giving the federal financial regulators additional powers to regulate digital asset markets where there are gaps, including via a comprehensive federal prudential framework for stablecoin issuers.

Third, across the government, we are working to combat bad actors who are exploiting digital assets to launder illicit proceeds, finance terrorism and the proliferation of weapons of mass destruction, and conduct a wide array of other crimes. This includes monitoring the development of the digital assets sector, exposing and disrupting nefarious actors, and strengthening anti-money laundering supervision.

Last but not least, we are collaborating closely with our allies and partners around the world on digital assets. Past financial crises have taught us that risks from inadequate regulation rarely respect national borders. In fact, the challenge is almost certainly greater in the field of digital assets, where companies can be essentially stateless, and consumers may interact with companies across borders without recognizing that protections may change when they leave certain financial regulatory jurisdictions. In some of the more notable recent crypto crises, the firms were deliberately operating outside the U.S. regulatory system.

We have been working through the Financial Stability Board and other international standard setting bodies to develop strong, clear, and durable international guidance on digital assets. The Financial Stability Board’s proposed framework for the regulation and supervision of global stablecoin arrangements and crypto-asset activities and markets, which it published last October, is a big first step towards reducing the threat that digital assets pose to global financial stability.

We are continuing to engage with countries on the front lines of experiencing the opportunities, and risks, that digital assets present. We can learn from their experiences and provide support in the face of new challenges.

And of course, we enjoy a very strong relationship in this area with our European colleagues. I would like to congratulate them on bringing to the finish line the Markets in Crypto-assets legislation, which will bring comprehensive regulation for digital assets to the European
Union. I am excited to work closely with my European colleagues this year at the Financial Stability Board as we finalize our recommendations on a global baseline for comprehensive regulation of digital assets, which will serve as a guide as jurisdictions work to implement new digital asset rules.

**FUTURE OF PAYMENTS**

Now, let me turn to payments. Today, traditional finance leaves too many behind. Roughly 7 million Americans have no bank account. Another 24 million rely on costly nonbank services, like check cashing and money orders, for everyday needs. For those who do use banks, paying with traditional financial infrastructure can be costly and slow, particularly for cross-border payments. We do not have financial services that are affordable and accessible to all—and that is something we need to change.

With this urgent responsibility in mind, Treasury last year published a report on the future of money and payments that lays out steps towards achieving this vision. The report recommends that we encourage the use of instant payment systems, establish a federal framework for payments regulation, and prioritize efforts to improve cross-border payments. It also calls on us to advance work on a possible U.S. central bank digital currency, or CBDC, in case one is determined to be in the national interest.

While no decision has been made on whether to issue a U.S. CBDC, we are building capacity to support one and considering important design choices to maximize its potential benefits—such as improving financial inclusion and equity; fostering further technological innovation; facilitating more efficient cross-border transactions; and combatting illicit finance—while also minimizing risks. As the stewards of the global reserve currency, any exploration or technical experimentation with the U.S. dollar should be careful and deliberate.

Whether or not we ultimately issue a CBDC in the United States, we are committed to working with our partners around the world on the international dimensions of payments innovations, including CBDCs. It is critical that we establish clear standards so that the payment systems of tomorrow, whatever they may be, develop in line with critical values like the rule of law and sound economic governance. We cannot let new forms of money become a tool for surveilling everyday transactions, threatening human rights, and repressing dissidents. At the same time, we need to prevent digital payments from becoming a key tool for money laundering or terrorism financing. Our traditional banking system architecture has
many safeguards built into it. As the payment systems of tomorrow develop, we need to make sure the necessary safeguards can develop alongside it.

We are also deeply engaged in work to improve cross-border payments by building upon existing systems. The cost and speed of our current system places an unnecessary burden on the roughly one billion people who send and receive remittances. And it can dampen cross-border economic activity, especially for small businesses.

To make real progress on this issue, we have our work cut out for us in 2023. At the G20, we are committed to moving full speed ahead on our core priorities under the Roadmap for Enhancing Cross-Border Payments. At the G7, we will continue to shape a shared positive vision for the future of payment systems. And we will continue strong bilateral exchanges like the U.S.-EU Financial Regulatory Forum.

**CYBERSECURITY AND OPERATIONAL RESILIENCE**

Finally, I’ll turn to operational resilience, including cybersecurity and securing our critical infrastructure. The European Union has passed the Digital Operational Resilience Act, which overhauls the EU’s cybersecurity framework to meet the challenges of the modern era. Its goal is to protect people’s sensitive data and keep our infrastructure resilient to malicious activity—these are vexing problems facing both governments and companies. A hostile actor can make thousands of attempts to find the right backdoor, and they only need to be right once. We have to be right every time. And that is something governments cannot do alone.

Securing the financial sector must be done in partnership with companies, who operate most of the financial sector’s critical infrastructure. It has been our priority to improve information sharing between the public and private sector over the last year. These are not empty words—when an adversary launched multiple attacks on Treasury, we quickly alerted our private financial institution counterparts. So, when the bad actor turned their attention on the financial institutions a few days later, financial institutions were prepared. The same is true in the international space. The G7 Cyber Expert Group, as well as Treasury’s bilateral relationships with many of the authorities attending this conference, have been essential in keeping our financial systems secure in this heightened threat environment.

We’re also looking towards the horizon. Cloud computing is no longer an emerging technology. And the debate is often not if financial institutions should use cloud services but how they should use them. We’ve spent the last year assessing cloud services and at long last
released a public report on our findings. Today, many companies use the cloud for a variety of functions, from communications to risk management. But in the future, more components of our financial infrastructure, like trading and payments systems, may migrate to the cloud. And there could be a good reason for that—there are key potential benefits including from enhanced security and resilience.

Treasury itself relies on cloud services. And capabilities that accompany cloud adoption could help achieve the G20’s objectives to make cross-border payments faster, cheaper, and fairer. But we recognize the challenges this brings, such as the complexity of the cloud environment, the staffing needs to design and manage cloud services, and uneven or insufficient transparency on the risks.

We are committed to working with the private sector to address these challenges. And because cloud is a global technology, we should avoid international regulatory fragmentation that could make cloud services less secure and resilient. We’ve started initial conversations with our likeminded counterparts, including our friends in the EU, and hope to progress further in the coming months and years.

**CONCLUSION**

As I hope I’ve demonstrated, our approach to financial innovation directly affects many of the core issues central to financial stability, economic growth, and the values of democratic societies. Regulation shapes who is included in the financial system and how they are treated. Our approach to regulating financial innovation can also go a long way towards fostering societies that are open and transparent.

As we work towards these goals, it is critical that we harness innovation to improve upon our financial infrastructure that is so critical to weathering economic storms. The ability to channel funds to borrowers, make payments efficiently, and diversify savings allocations are crucial to the way our modern economy functions. And it is our goal as policymakers to enhance these capabilities. Whether it is digital assets, operational resilience, or cloud services, our financial system is entering a new era. Regulation already influences how the financial system operates. And regulation will shape how it evolves.

To be successful in these efforts, we must continue to work together. We have the opportunity to demonstrate to the rest of the world the indisputable and inherent
advantages of an economy and financial system built upon a foundation of shared values. A
financial system that delivers prosperity.

I have been at the Treasury Department for roughly six months, and it has been encouraging
to see just how close a relationship we share with our European colleagues. We have a lot of
work ahead to deliver on our shared mission, and I’m confident we can get there together.

Thank you.