COWEN

COWEN WASHINGTON RESEARCH GROUP

MACRO COMMENTARY

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- WRG Crypto Currency
- WRG Financial Services

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POLICY NOTE

WHERE WE STAND: WASHINGTON'S CRYPTO VISION COMING INTO FOCUS

THE COWEN INSIGHT

We believe Washington is laying out its vision for crypto regulation with President's Working Group report, the crypto sprint and more coming from the Federal Reserve. White House may also issue an executive order. To us, the underlying principle is that crypto will be regulated similar to the non-crypto product it is trying to replace. That includes consumer protection, tax, and money laundering.

Today we assess where crypto policy stands. We see this as the right time to take stock as the President's Working Group has issued its report on stable coins, we got the crypto sprint and the Federal Reserve is expected to issue white papers on a digital dollar.

Our View

1. Government regulation is inevitable. Crypto products will be regulated the same as similar non-crypto alternatives. We see no way to avoid this outcome.
2. Crypto-based payments represent a fundamental risk to debit interchange.
3. Until the federal government accepts crypto for taxes, crypto must get converted back to dollars. It is this conversion that gives the government power.
4. To us, crypto companies will be better in the long run if they embrace oversight now. The alternative is to stymie regulators until there is a crisis, which there always is with financial products. That would cause Congress to step in with a more onerous regime.
5. There is growing concern that the collapse of a widely used stable coin will trigger a systemic crisis. It is why we see pressure building to regulate stable coins as money market mutual funds and/or limit issuance to banks.
6. The government is likely to regulate the ability to lend out crypto and to pay interest on crypto deposits. We don't see crypto industry pushback succeeding. Banks are regulated. Money market mutual funds are regulated. The crypto alternatives will be regulated.
7. Give the government its money. Tax enforcement is going to skyrocket with Congress expected to impose a wash sale rule and to require more reporting.
8. Crypto trading platforms will have register with the SEC as the SEC is deeming tokens to be securities. We believe the SEC has a strong case, but even if it were to lose in court we expect Congress would deem tokens to be securities.
9. We believe the Fed will issue a digital dollar in the next five years. This will mean oversight of crypto will be divided among the Fed for the digital dollar, the SEC for tokens and stable coins and the CFTC for cryptocurrencies that lack central control.
10. The approval of a crypto futures ETF does not portend approval of an ETF that directly holds crypto.
11. Expect a renewed focus on criminal uses of crypto. It is not just ransomware. It will be broader application of AML/BSA to crypto platforms and more documentation of identity to track trades.

Continue to our FULL NOTE for more.

Where Are We Headed?

We believe there is enough data now to outline where Washington is headed when it comes to crypto.

Our central thesis remains that Washington intends to regulate crypto the same as the non-crypto product that is being displaced. This is what we have heard from the Comptroller, the SEC chair, the Federal Reserve chair and the Consumer Financial Protection Bureau director. It is as unified a message as one can get in Washington.

We believe this is reflected in the crypto sprint, which regulators previewed in November.

The sprint told us:

- Banking regulators are not trying to kill crypto, but they also intend to subject it to existing regulatory regimes. That means banks are likely to become key players for crypto trading and lending, but it won't be immediate.
- There is a spotlight on loans collateralized by crypto assets. We believe the concern is broader than trading platforms that permit investors to pool cryptocurrencies that other investors can borrow to leverage their crypto investments. It is a concern that this type of lending could expand, which means there is a bigger risk of defaults and a greater need for underwriting.
- Stable coins also are a top priority. The SEC was not part of the crypto sprint, though we expect the agency will end up regulating most stable coins. The issue for bank regulators is whether to permit banks to issue stable coins that are backed by FDIC insurance and the Federal Reserve's liquidity facilities? We think regulators eventually will move in that direction, though they may wait on legislation.
- This also represents a pause on the ability of banks to act as crypto custodians. To us, this reflects the general skepticism that the bank regulators have about crypto though we see banks as well suited to hold crypto for clients. It is why we believe this is a pause rather than a final edict.
- The ultimate question is how regulators will apply existing capital and liquidity regimes to crypto. Those regimes are what make banks especially strong competitors in crypto activities as it protects them from collapse, but it also could give them a financial disadvantage if less regulated nonbanks with no capital requirements are allowed to compete for business.

This is the key section of the document:

Throughout 2022, the agencies plan to provide greater clarity on whether certain activities related to crypto-assets conducted by banking organizations are legally permissible, and expectations for safety and soundness, consumer protection, and compliance with existing laws and regulations related to:

- *Crypto-asset safekeeping and traditional custody services.*
- *Ancillary custody services.*
- *Facilitation of customer purchases and sales of crypto-assets.*
- *Loans collateralized by crypto-assets.*

- *Issuance and distribution of stablecoins.*
- *Activities involving the holding of crypto-assets on balance sheet.*

The agencies also will evaluate the application of bank capital and liquidity standards to crypto- assets for activities involving U.S. banking organizations and will continue to engage with the Basel Committee on Banking Supervision on its consultative process in this area.

The crypto sprint follows the report from the President's Working Group, which asked Congress to enact legislation to limit stable coin issuance to FDIC-insured banks and to give regulators the power to police online wallets that hold stable coins. This includes the power to bar online wallet providers from loaning stable coins to customers and to prevent stable coin issuers from affiliating with commercial companies. This is the same restriction that applies to banks. It also wants Congress to protect transaction data from being used for marketing purposes and to mandate interoperability of stable coins to keep any entity from concentrating economic power.

Recognizing that Congress is unlikely to act quickly, the PWG also vowed to take interim steps. For instance, the SEC should regulate stable coins to the extent they are securities. And the CFTC should regulate stable coins that could be deemed commodities.

The Federal Reserve also is likely to get a role. The PWG said the Financial Stability Oversight Council should deem stable coins as systemically important for payment, settlement and clearing. That would give the Federal Reserve oversight powers.

The sprint and the PWG report front runs two white papers we are waiting on from the Federal Reserve. The Federal Reserve Board is expected shortly to unveil a white paper looking at the policy challenges to the issuance of a digital dollar while the Federal Reserve Bank of Boston has a report coming out on technical challenges to issuing a central bank cryptocurrency.

Bigger Fights

Where is all this headed?

We see five distinct battles playing out as Washington establishes a more mature approach to crypto oversight.

These fights are:

1. Digital Dollar
2. Stable Coins
3. Tokens/Trading
4. Law Enforcement/Taxation
5. Future of the Internet

Below we delve through all five of these fights.

Digital Dollar

- We believe a digital dollar is inevitable as Democrats see it as expanding financial inclusion and Republicans view it as necessary to keep pace with China, which has its own digital currency. In addition, the EU and other countries are looking at issuing their own digital currencies.
- The Federal Reserve Board is expected to issue a report shortly on the public policy implications of digital dollar while the Federal Reserve Bank of Boston is expected at the same time to issue a white paper on the technical challenges to issuing a central bank cryptocurrency. We expect these reports will define the policy and technical debate over a digital dollar.
- One should not underestimate the challenges of a digital dollar. It could lead to runs on banks during times of economic stress as digital dollars could be seen as safer. It also could limit the ability of banks to extend credit as they would not actually hold the digital dollars as the crypto would remain in electronic wallets. That means they could not turn those digital dollars into loans. There is also whether use of digital dollars will be tracked. Tracking raises privacy concerns, but without tracking digital dollars could be used for illegal activity, terrorist financing or fraud.
- Yet there are solutions. The government could limit how much in digital dollars that individuals could hold. That would prevent flights to digital dollars and ensure most deposits stayed in banks to fund loans. It would then be similar to deposing cash on a stored value card. It is also possible for the government to outsource wallets to banks and financial firms, which consumers already trust with their transaction data.
- We do not see how debit interchange survives with digital dollars. There would be no reason to ride the debit rails when a consumer and merchant can exchange digital dollars without incurring network charges.
- Stable coins also may become less relevant with a digital dollar as the digital dollar should be able to provide the same instant settlement for crypto purchases that stable coins facilitate today. It also is hard for us to see the relevancy of a stable coin-based consumer payment system like Diem if there is a government-backed version that has even greater safeguards and uses.
- Federal Reserve Gov. Lael Brainard is an advocate for a digital dollar. This is relevant as she has been nominated as Federal Reserve vice chair and is a contender to replace Janet Yellen as Treasury secretary whenever Yellen opts to depart. (We don't expect that until after the mid-term elections.) Our point is that she has considerable influence over the digital dollar.
- Progressive Democrats see a digital dollar as a social justice issue. It is a way to deliver financial services to low income and under-served communities. The idea is that the government would issue wallets either directly or via banks to all consumers. That would bring the unbanked into the banking system. We see the digital dollar replacing Postal Banking as the rallying cry among progressives interested in extending services to the unbanked.
- We do not expect the Federal Reserve to issue a digital dollar in the next few years. The challenges are too great and the policy debates are too significant for rapid action. Instead, we see this as the start of a five-year process that leads to a digital dollar no sooner than 2026. It could easily take even longer.

Stable Coins

- The President's Working Group of financial regulators issued a report on Nov. 1 calling for Congress limit stable coin issuance to FDIC-insured banks. Legislation also should ensure that all the same limits on the use of consumer transaction data and the mixing of commerce and banking apply to stable coin issuers just like they apply to commercial banks today.

- Legislation is possible despite partisanship. Sen. Elizabeth Warren and Sen. John Kennedy are on opposite sides of the political spectrum, but they appear to share similar crypto concerns. That could open the door to legislation implementing the President's Working Group's recommendations either next summer or in the lame duck session between the November 2022 election and the swearing in of the new Congress in early January 2023.

- In the interim, we expect the SEC to take charge by declaring stable coins to be securities. That will require issuers to be registered as Money Market Mutual Funds. We would expect SEC Chair Gary Gensler to provide frequent updates into next year on this push. SEC can act more quickly than realized through use of an interim final rule. Means could have a registration requirement next year.

- Government's primary concern is that the collapse of a stable coin could destabilize the financial system, especially if stable coins expand beyond being used to facilitate trading in other cryptocurrencies to being part of the broader payment system. This concern is centered on the structure of a stable coin. The issuer needs to invest the dollars, which means there are liquidity concerns if there is a surge in redemptions. Fire sales of assets could cause asset prices to plunge, impacting Money Market Mutual Funds and other investors.

- The Consumer Financial Protection Bureau also has concerns that stable coins could be used to circumvent consumer protections like error resolution and fraud protections. We would expect the agency to be actively policing this space.

- Other primary government concern is the use of stable coins to evade anti-money laundering laws, circumvent sanctions and finance terrorism. The worry is that these transactions could occur outside of government control. One option is to regulate the wallets, which would be limited to those whose identities have been confirmed.

- The Federal Reserve also sees stable coins as a threat to its ability to conduct monetary policy as they could hamper its ability to influence interest rates by reducing the role of banks in taking deposits, which then get turned into loans.

- Even absent a digital dollar, it is not assured that stable coins will become the future of consumer payments. The Federal Reserve is expected to deploy its Fed Now instant payment system in 2023. This will permit consumers to pay for items out of existing checking and debit card accounts with instant settlement. Such transactions today could take a few days to clear. It is possible FedNow will provide all the benefits of stable coins for transactions without the policy concerns that surround stable coins.

Tokens/Trading

- SEC Chair Gary Gensler has endorsed the SEC's historical view that a token is a security if its value is dependent upon the work of others. This is often referred to as the Howey test after a Supreme Court decision.

- We believe the SEC views the Howey test as causing nearly all tokens to be securities. That matters as securities must be registered with the SEC. They also have disclosure and liability requirements.

- The exception is bitcoin. We believe Gensler agrees with former SEC Chair Jay Clayton that bitcoin is fully decentralized which means its value is not dependent on anyone else's work.

- If nearly all tokens are securities, then trading platforms needs to be registered with the SEC. This is because federal law regulates the ability to trade securities.

- Platforms also will trigger SEC authority if they permit investors to pool their tokens to be loaned out to others in exchange for a rate of return. The SEC will assert that these platforms are operating money market mutual funds, which have to be registered with the agency.

- We appreciate the idea that decentralized finance is about removing costs from the extension of credit. Our point is that the government is unlikely to view the value of removing the middlemen as worth the risk. To the government, the middlemen are the ones who guard against money laundering, fraud and terrorist financing. The U.S. government will require that these controls are retained regardless of how the financial system evolves.

- The Consumer Financial Protection Bureau is a good example of the risk of additional government involvement. If the pooling of tokens are just being used to extend limited leverage to investors in tokens, then the risk of loss is low as the platform can automatically liquidate the investor's position if there are margin calls. Risk is much higher, however, if this type of lending extends beyond trading leverage. The government will not permit these platforms to extend consumer or business loans without complying with all existing regulations, including ability to repay assessments. Such loans also will require servicing, which is much more hands on then extending leverage on trades. Servicing also has its own extensive set of rules. CFPB Director Rohit Chopra already has said that he wants to look at crypto to ensure consumers are protected.

- Crypto takes place over the Internet, which is why some contend it is beyond the reach of the U.S. government. We disagree. One might be able to house and trade crypto offshore. The problem is bringing proceeds back into the United States. That is going to have to involve a transfer to a regulated entity, even if that entity is just a digital wallet. We saw this in 2005 when Congress made Internet gambling illegal. The enforcement focused on the repatriation of funds from these casinos to U.S. bank accounts. In addition, the U.S. government has the ability to try to block offshore exchanges. These hurdles may not matter as much to retail investors who figure the government is not going to pursue them over a few tokens. It would matter to institutional investors given their fiduciary responsibilities. We don't see how a fiduciary could invest or trade in anything the U.S. government contends is illegal.

- If we are wrong, then we believe there is a much greater fundamental threat to crypto than what we have been describing. Governments will not permit an alternative monetary system to exist outside their control. Such a system could be used to shelter income from taxation, to protect profits from criminal activities and to finance terrorism. We can debate how successful the government would be in the long-term, but to us it is clear that the investing environment will be much different if the U.S. government is at war with crypto then if it is incorporating crypto into the financial mainstream. It is why we often argue that the regulation of crypto is a sign the sector is maturing. It should be a positive as the alternative is far riskier.

- To us, much of the regulatory focus will be on the electronic wallets and accounts used to hold and trade crypto. Even if one keeps their crypto in cold storage, they must eventually use an electronic wallet to trade it. The government is expecting those wallets and/or accounts are being treated the same as every other financial account. That means know your customer requirements, which involves verifying the identity of the owner. It means money laundering controls and the filing of Suspicious Activity Reports as well as transactions that exceed $10,000 in value. That also means compliance with U.S. sanctions. And it entails tax reporting to the IRS. It should be the same to open an account to trade crypto as it is to open an account to trade equities. We see this meaning that entities which offer these accounts will be liable if the accounts are used to illegally trade crypto assets just like the banks were liable for consumers who tried to illegally gamble.

Law Enforcement/Taxation

- We believe law enforcement and taxation issues often do not get enough attention. Crypto has grown with comparatively unequal focus on AML/BSA and on taxation. This is typical when there is significant innovation. The innovation phase is always of limited duration. To us, it is ending now that crypto has gone mainstream.
- The President on Nov. 15 signed into law the infrastructure bill. This includes a requirement that crypto exchanges, platforms and wallets report crypto trading to the IRS in the same way that broker-dealers report equity trading details to the government. That should ensure crypto trading profits are taxed.
- We also expect the Build Back Better reconciliation package will include the so-called Wash-Sale rule. This rule already applies to equity trading. It is designed to prevent investors from selling solely for tax purposes by preventing the investor from taking the tax loss if they repurchase the same securities. It covers the 61-day period beginning 30 days before the sale and continuing for 30 days after the sale. This could reduce crypto trading volume by discouraging sales and purchases when prices are dropping.
- More broadly, the IRS is prioritizing crypto tax evasion. We expect criminal enforcement for tax evasion to become far more common in the coming year or two. This includes those who pay for items with crypto as the IRS is going to see that as a taxable event.
- On the law enforcement side, this is about whether crypto players are properly verifying the identity of their customers. We see a concerted focus on those that provide crypto wallets or let people open accounts to trade or purchase crypto. The expectation is the review will be the same as if one opened a brokerage account or a bank account.
- There is also concern about the use of cryptocurrencies to evade U.S. sanctions. The idea is to pay for products in a way that is more difficult to track than cash transactions. The dovetails with the concern over payments in bitcoin for ransomware attacks. The concern is that the more confidential nature of some cryptocurrencies makes them ideal for criminal behavior.
- Our biggest worry, however, is if bitcoin is associated with a terrorist attack on U.S. soil. This is not something that we believe is easy to guard against no matter what companies do to try to prevent such use. Our concern is how Congress would react. As we often write, Congress often overreacts when there is a crisis. We suspect this would be the case here. It would be the only way we could see either a ban on the use of fully decentralized cryptocurrencies or a toughening of reporting and supervision that could make crypto less attractive.

Future of the Internet

To us, crypto is the future of the Internet.

The blockchain appears to be a more secure and efficient way to store key data. That could vary from medical records to mortgages to car titles to estate documents.

Future uses of this technology are beyond our purview on the policy front. But we see smart contracts as a future that we are rapidly heading toward as the existing infrastructure increasingly becomes exposed to hacking and data breaches.

The positive here is that Washington has yet to realize that the future of crypto is more than just payments. As a result, there is no political pressure for Washington to shape the development of the Internet 2.0. Capitol Hill is quiet and regulators do not discuss this.

We would expect Washington to remain hands off for at least the next few years. It could be even longer. This is partly because Congress and regulators will be focused on crypto trading and payments. It is also because there are fewer policy concerns with innovative ways to securely hold key records.

Risk is not zero. All it will take is a big controversy that involves lots of voters for Washington to quickly prioritize regulating the rollout of the Internet 2.0. This could be the failure of a system or a deficiency in the technology. Regardless, the result could be unworkable legislation with unintended consequences.

It is why we believe it would be positive politically if crypto advocates created a nonprofit to establish industry standards for resiliency, reliability and customer access. Such standards could guide Congress if lawmakers feel compelled to act. And it could also give Washington an excuse not to respond even if there are troubles.

Views of Key Regulators

Financial regulators are getting more vocal when it comes to the future of crypto oversight.

<u>SEC Chair Gensler</u>

SEC Chairman Gary Gensler has found himself in the crypto spotlight as his agency appears to have the strongest case for directly regulating much of crypto.

Gensler has argued:

- Almost all tokens are securities that must be registered with the SEC.
- If tokens are securities, then entities that facilitate token trading are exchanges that must be registered with the SEC.
- Stable coins are securities. As such, they should be regulated as if they were money market mutual funds. That means issuers would be MMMFs.
- Depositing tokens on a platform in exchange for a fixed return is the same as depositing cash in a money market mutual fund in exchange for a fixed return. As such, this activity should be regulated the same as MMMFs.
- There is too much risk of manipulation for the SEC to approve a Crypto spot ETF.

Much of Gensler's justification for his crypto oversight powers rests on a Supreme Court decision known as the Howrey test. This holds that any instrument whose value is dependent upon the work of others is a security subject to SEC oversight.

This definition exempts bitcoin as it is decentralized. That means the value of bitcoin is dependent upon what others are willing to pay for it rather than on the development of some network or business.

Most other cryptocurrencies, however, are dependent upon the work of others for value. The easiest example is a business that issues a token to get the cash needed to make the business operational. That token only has value if the business the issuer is creating is successful. The same can be true for a stable coin as the value of the stable coin is dependent upon how the issuer invests the reserves.

There have been legal and lobbying efforts to overturn the Howey test or to create a less stringent standard for crypto. We don't see the court cases succeeding as the Supreme Court upheld the logic behind the Howey test. It is hard to see why different technological solutions to delivering the same result should impact the court's thinking. It is also difficult to see Congress imposing a different test. Some Republicans may lash out against this test, but we don't detect real objections. And no lawmaker wants to back legislation that could then lead consumers to being scammed. It is why we expect the Howey test to remain the law of the land.

<u>Fed Chair Powell</u>

Federal Reserve Chair Jerome Powell also is central to crypto regulation as the central bank both must decide whether to launch a digital dollar and if banks should play a central role in stable coins.

President Biden has nominated Powell to a second term, and we expect the Senate will confirm him.

So where does Powell stand on crypto?

We note the following:

- Powell has been careful to avoid getting ahead of Congress or the White House on a digital dollar. We have always interpreted his remarks as broadly positive for a central bank cryptocurrency, but he has always refrained from committing to deploying a digital dollar.
- We believe Powell is concerned about stable coins, especially if they become used for functions beyond purchasing other cryptocurrencies. This is about more than whether there could be a redemption run. It is also the Federal Reserve loosing control over monetary policy.
- Now that he has been nominated for a second term, we expect Powell will get more vocal. To us, central bankers in the big economies seems to recognize that central bank-issued digital currencies are inevitable. It is hard to see Powell letting the United States fall behind.
- On narrower questions such as which entities will issue digital wallets, what should happen to stable coins and should banks provide custody and trading for crypto, Powell has been quieter. We expect to get more from him in the coming month when he has his Senate Banking confirmation hearing.

<u>Acting Comptroller Hsu</u>

Acting Comptroller Michael Hsu recently gave a key address on crypto. As comptroller, Hsu is the primary regulator of national banks.

Hsu argued:

- Crypto products should be regulated the same as non-crypto-based alternatives. We see this as a key line from the speech: *While the convenience and benefits of rapid innovation can be enjoyed immediately, the risks and harms to consumers and businesses of engaging in financial activities with fewer controls tend to emerge only later.*
- Some financial crypto firms want to offer everything from custody to retail brokerage to market making to asset management to prime brokerage. The problem is no regulator has a universal picture of what these firms are doing, Hsu argued.
- This lack of universal oversight is what triggered the Financial Crisis as risks grew outside the oversight of banking regulators such as at AIG. The resulting crisis impacted all financial firms.
- His solution is to "level up," which means subjecting crypto financial firms to the same rules as banks. This will build customer trust while protecting consumers and the financial system. He urged crypto firms to embrace this approach as it would differentiate safe and sound crypto from riskier crypto.

<u>Acting CFTC Chair Behnam</u>

Rostin Behnam is the acting chair of the Commodity Futures Trading Commission. The CFTC has jurisdiction over commodities, which includes bitcoin.

We do not focus much on the CFTC as we are most interested in the trading of cryptocurrencies, the use of stable coins and the deployment of cryptocurrency payment models. Those are generally outside the bailiwick of the CFTC.

Key Members of Congress

When it comes to Capitol Hill, a few lawmakers are standing out from others when it comes to crypto policy.

- **Senate Banking Chair Sherrod Brown.** Sen. Brown controls the agenda for the Senate Banking Committee, which until recently has not had a big crypto focus. That seems likely to change with Brown writing to key crypto firms about how they protect consumers and investors in stable coins. Crypto legislation needs to clear the Senate Banking Committee to become law.
- **Sen. Elizabeth Warren.** We normally view Warren as progressive crusader. On crypto, she is more of an early actor. We believe she is worried that consumers and investors are at risk, especially with stable coins. We see her as a Democratic leader on crypto issues.
- **Sen. John Kennedy.** The Louisiana Republican appears to be working closely with Sen. Warren as they are the top two senators on the economic policy subcommittee. Kennedy is likely to be key as he could make any legislative effort bipartisan.
- **House Financial Services Chair Maxine Waters.** Nothing happens in the House Financial Services Committee unless Chair Waters wants it to occur. That makes her the most important lawmaker in the House when it comes to crypto. We see her as an advocate for a digital dollar, but otherwise skeptical of crypto.
- **Sen. Cynthia Lummis.** The Wyoming Republican is one of the most consistent advocate for crypto on Capitol Hill. She has said that she personally is invested in cryptocurrencies and generally favor a light touch from government. And she has warned that too much

regulation will do more harm than good. Her influence now is limited given Democratic control.

- **Rep. Bill Foster.** This Democrat comes up often when we discuss crypto as he sits on the House Financial Services Committee. He probably has the deepest understanding on crypto on Capitol Hill. He also has been skeptical of bitcoin given the amount of electricity needed to support the cryptocurrency. He is a co-chair of the congressional Blockchain Caucus.
- **Rep. Darren Soto.** The Florida Democrat is co-chair of the congressional Blockchain Caucus. That makes him one of the more pro-crypto Democrats, though he also has taken a hard line on needing to prevent bad actors from taking advantage of crypto.
- **Rep. David Schweikert**. We are not going to list every member of the Blockchain Caucus, but we flag the Arizona Republican as he has been active on the use of crypto as the next generation of the Internet, especially for storing critical records.

Next Steps From Washington

As we assess the policy calendar, we will be looking for the following on the crypto front:

- **Dec. 8 House Hearing.** House Financial Services Committee on Dec. 8 will hold a hearing on digital money and the future of finance. We expect this will focus primarily on decentralized finance. We see the hearing as less about legislating and more about providing political cover for the SEC to act.
- **Late December 2021.** The Federal Reserve Board is still trying to finish its white paper on public policy challenges for a digital dollar. We believe the internal release date is in late December though it could fall until January.
- **Late December 2021.** The other big white paper on the digital dollar is the Federal Reserve Bank of Boston's analysis of technical challenges to launching a central bank cryptocurrency. We expect the timing to match the Fed's policy white paper.
- **Early 2022.** Senate Banking Chair Sherrod Brown sent a letter to major crypto players asking how they comply with the law. We expect those responses will lead to a hearing as soon as January.
- **First Half 2022.** We would expect the SEC by late in the first half of 2022 will propose to regulate stable coins as money market mutual funds. We concede that the timeframe could shift, but there is significant pressure on the SEC to move quickly.
- **First Half 2022.** OCC in the first half of 2022 also should conclude its review of whether national banks may serve as custodians for crypto assets. We expect the OCC will reaffirm this authority.
- **Summer/Fall 2022.** Banking agencies in summer/fall 2022 should complete work on much of the rest of the crypto sprint. This would include rule for banks that hold crypto on their balance sheets as well as what banks can do to facilitate customer crypto purchases and how they can extend loans backed by crypto.
- **Fall/Winder 2022.** We see as the most likely window for legislation cracking down on stable coin issuance to be in the fall before the election as Congress often likes to score a few bipartisan wins before voters head to the polls. That is followed by the lame duck session, which is after the election but before the new Congress convenes.
- **Late 2022/Early 2023.** The Federal Reserve in the second half of 2022 is likely to start publicizing the Fed Now instant payment system, which is scheduled to be deployed in 2023.

More on Crypto

For more on Washington's approach to crypto, please click on our notes below from the past several months.

- Senate Banking Chair Puts Focus on Stable Coins; Risk Rising For Legislation
- Regulators Release Crypto Policy Sprint; Policy Changes To Take Longer
- Update: Initial Views of What Washington Advanced This Week on Crypto Policy
- Crypto & Payments Monday: Comptroller Previews Crypto Oversight; Report Coming
- Looking Forward: PWG Report Puts Stable Coin Regulation In November Spotlight
- Crypto Policy: SEC Poised To Okay Bitcoin Futures ETF, Not Bitcoin ETF
- Initial Views on Coinbase's Push for a Distinct Crypto Regime
- What is SEC Chair Gensler Telling Us About Crypto Policy?
- Crypto and Payments Monday: Global Central Bank Push for a Digital Dollar
- What Is Sen. Elizabeth Warren's End Game for Crypto Regulation?
- Crypto & Payments Monday: Powell Talks Crypto; New Paper Questions Stable Coins
- Crypto Policy: Quarles Sees Stable Coins, FedNow as Digital Dollar Alternatives
- Crypto & Payments Monday: Are Governments Pushing Back Against Crypto?
- Crypto & Payments Monday: Downside of a Central Bank Digital Currency
- Crypto & Payments Monday: Progressive Agenda for Crypto Payments
- Crypto & Payments Monday: Fed Spells Out Conditions For Digital Dollar
- Crypto & Payments Monday: Where Does Team Biden Stand on Crypto?

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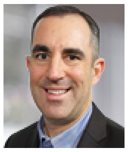

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