DIGITAL DOLLAR BUILDS MOMENTUM: A POTENTIAL WAY FORWARD

By Tyler Salathe, Senior Consultant

Introduction

Recently US lawmakers in both the House and Senate have repeatedly floated the idea of a USD digital currency as a means to more efficiently and rapidly distribute COVID-19 stimulus payments. While details regarding the digital currency's technical infrastructure remain obscure, the recent focus solidifies with legislative support a federal push for digital asset adoption. Below, we will provide an overview of the different pieces of legislation, including timelines and our thoughts on their significance.

TIMELINE

During mid-March, the House Democrats introduced two COVID-19 Stimulus bills titled **"Take Responsibility for Workers and Families Act"** and the **"Financial Protections and Assistance for America's Consumers, States, Businesses, and Vulnerable Populations Act."** Within these bills, the idea of a digital dollar was floated, with the Federal Reserve using a 'digital dollar' and digital wallets to send payments to 'qualified individuals,' consisting of $1,000 for minors and $2,000 to legal adults.

The legislation did not explicitly state digital dollars would be processed using distributed ledger technology (DLT), meaning digital tokens created and distributed via a decentralized peer-to-peer network, commonly seen in blockchain protocols. Instead, the legislation defined digital dollars as "a balance expressed as a dollar value consisting of digital ledger entries that are recorded as liabilities in the accounts of any Federal Reserve bank; or an electronic unit of value, redeemable by an eligible financial institution."

On March 23, Speaker Pelosi and Congresswoman Nita Lowey's **"Take Responsibility for Workers and Families Act"** pulled any mentions of digital currency from its text. That same day, the US Senate introduced its own version of the bill, championed by Senator Sherrod Brown, titled the "Banking for All Act" which proposed a digital version of the US dollar using similar language by defining dollar balances as consisting of "digital ledger entries recorded as liabilities in the accounts of any Federal Reserve bank."

It appears that Senator Brown's legislation did not make it into the final draft of the CARES act passed on March 27 as a continuation of the Families First Coronavirus Response Act signed two weeks prior. The push for digital currencies, however, did not end there. On April 16, Congresswoman Rashida Tlaib and Pramila Jayapa introduced a subsequent stimulus bill titled "Automatic BOOST to Communities Act," which supports the digital distribution of pre-loaded debit cards used to use online or withdraw physical currency at regular ATMs or FDIC-insured banks.

Congresswoman Tlaib's bill can be seen in many ways as a response to the inefficiencies and problems experienced in the first round of PPP support released to the public in April. With glitches in the stimulus payments preventing many from receiving funds or even viewing their eligibility status, Tlaib's bill would directly provide pre-funded debit cards to every person in America to address immediate income concerns. It also sets the foundation for funding via digital wallets beginning in 2021, providing a window to immediately address income concerns while opening the dialogue for future DLT infrastructure to be put in place.

SOME TAKEAWAYS

The above legislative pushes remain quite vague on implications for DLT, in part displaying a maturing understanding of the complexity behind digital currencies supported on blockchains. At this moment, it appears there are still more questions than answers, with additional clarity needed on oversight mechanisms for the distribution of digital dollars via DLT technology and the level of involvement required from the Fed. For example, there does not currently exist a DLT infrastructure that supports a federal token payout to every American. Everything from technical infrastructure to governance rules, regulatory implications, and payment support still need to be detailed and implemented.

Because of this, timely releasing funds to both the banked and under-banked populations within America instead via pre-paid debit cards demonstrates an acknowledgment of the hurdles the first round of relief payments faced. It also shows an understanding of the scope of necessary work required to use existing technology and industry leadership to work towards a sustainable digital wallet solution operating on distributed ledger technology.

A common criticism from some digital asset enthusiasts to the recent stimulus legislation has been that digital currency does not necessarily mean a DLT-supported digital currency. A likely point of relief for some would be that throughout the fury of COVID-19 stimulus bills, a renewed focus on digital asset taxonomy within the US Senate has also emerged. On April 9, congressman Warren Davidson introduced the “H.R.2144 - Token Taxonomy Act of 2019”. The bill aims to amend the Securities and Securities Exchange Acts of 1933 and 1934 to exclude digital tokens from the definition of a security, thereby opening room for the SEC to develop specific legislation regulating DLT-supported assets. With many touting regulatory changes within the SEC as the necessary pre-requisite for any meaningful digital asset adoption, Congressman Davidson’s legislation is a refreshing glimpse at a potential way forward.

Whether you believe in the long-term viability of stablecoins and digital assets or not, recent actions taken by US legislators have shown an increasingly positive view towards their adoption. If momentum continues to build at a federal regulatory level, utilizing current infrastructure frameworks, meaningful improvements may be seen in national adoption. In the meantime, Capco will continue to monitor this space and advise clients on opportunities to capitalize and/or navigate market dynamics.

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at www.capco.com, or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

WWW.CAPCO.COM

© 2020 The Capital Markets Company. All rights reserved.

CAPCO

THE FUTURE. **NOW.**

JN_2079