CIRCLE

Not all Money is Created Equal

A Tale of Crypto, Money, Stablecoins and CBDC

Bio

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Dante Disparte is the Chief Strategy Officer and Head of Global Policy for Circle, a leading digital financial services firm building the most trusted treasury and payments infrastructure for the internet, including the fastest growing dollar digital currency, USDC. Prior to joining Circle, Dante served as a founding executive of the Diem Association, leading public policy, communications, membership, and social impact.

Dante comes to Circle with two decades of experience as an entrepreneur, business leader and global risk expert, most recently as founder and CEO of Risk Cooperative, a strategic risk advisory and insurance brokerage based in Washington, D.C. Dante also serves as an appointee on the Federal Emergency Management Agency's (FEMA) National Advisory Council, the United States' federal emergency response agency. He is also a member of the World Economic Forum's Digital Currency Governance Consortium, helping drive global standards and regulatory harmonization for digital currencies.

Dante is a frequent speaker and commentator on business and political issues shaping the world. His views on risk, economic competitiveness and security issues are regularly featured in leading media and publications, such as Harvard Business Review, BBC, Forbes, and Diplomatic Courier, where Dante serves on the editorial advisory board.

Dante is a graduate of Harvard Business School and holds an MSc. in Risk Management from the NYU Stern School of Business and a B.A. in International and Intercultural Studies from Goucher College. He is the co-author of "Global Risk Agility and Decision Making" (Macmillan, 2016) and was recognized as one of the 40 leaders under 40 by the Washington Business Journal and in the inaugural Powermeter 100 list. Dante is also a life member of the Council on Foreign Relations.

Learning Journey

A guided tour through the future of money and the movement of value.

What is money?

What are the central banks thinking?

Completing the financial system or competing with it?

What is money?

Money has 3 building blocks

50% of the world's population are subject to hyper-inflationary domestic currencies and 60% of transactions are still in cash.

Store of value

Unit of account

Medium of exchange

Our Belief Systems

Humanity is unique in its ability to ascribe collective beliefs into amorphous concepts and institutions.

Some examples include democracy, public institutions and money.

There are philosophical questions about money and value that cryptocurrencies have challenged:

Is it really ***your*** money if you have to ***pay someone*** to hold it and ask for ***permission*** to send it? Meanwhile, your financial needs and global financial markets do not take bank holidays.

Would regulators approve an innovation called “cash” by today’s compliance standards?

Central Banks and Digital Transformation

To CBDC or not to CBDC, that is the question?

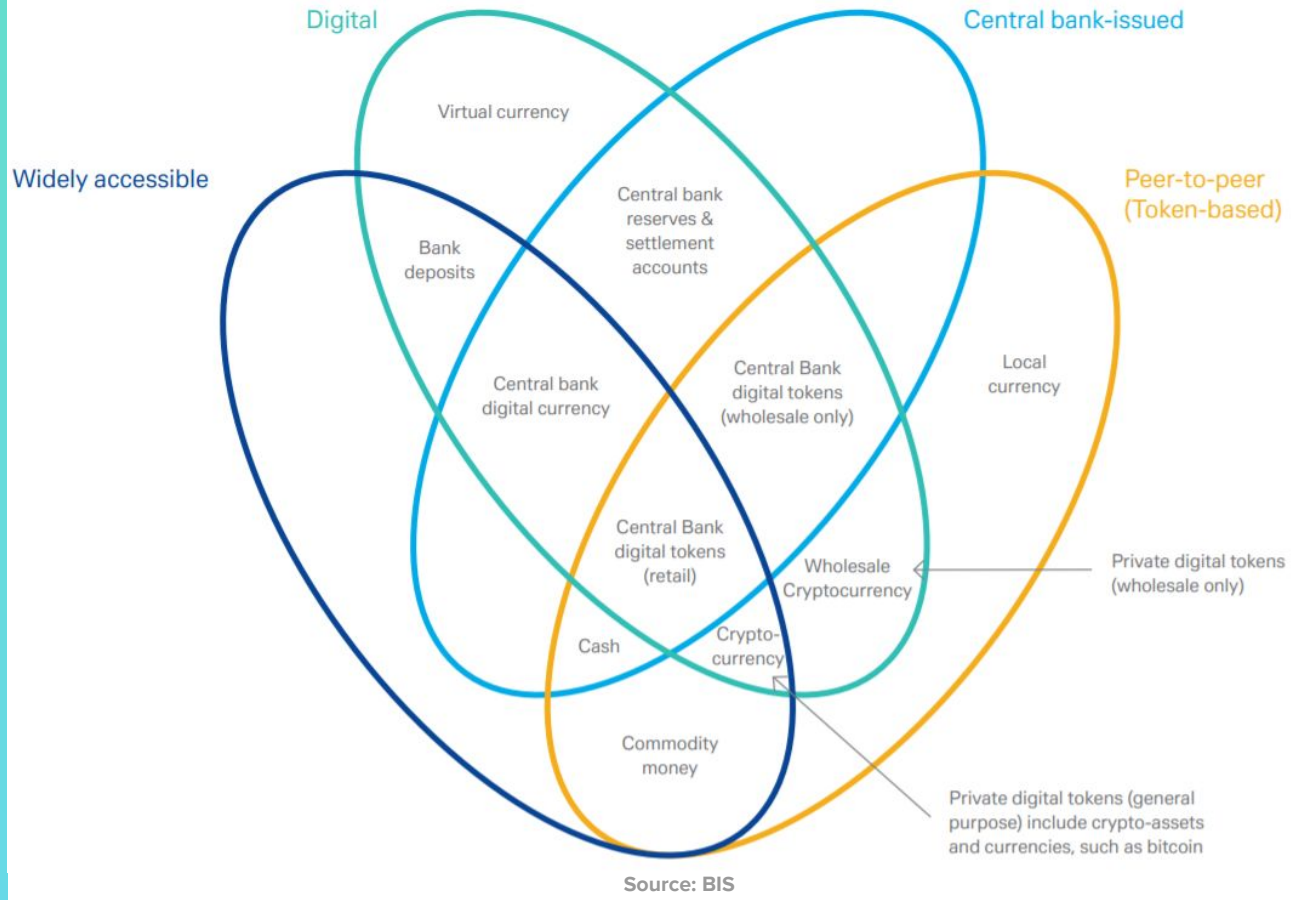
The Money Flower

Situating digital currencies along a spectrum of monetary and money movement innovations.

It costs approximately .5% of a country's GDP to manage its money supply.

Central Bank Digital Currencies (CBDCs) are being touted as a panacea or cure all for all of the world's financial frictions.

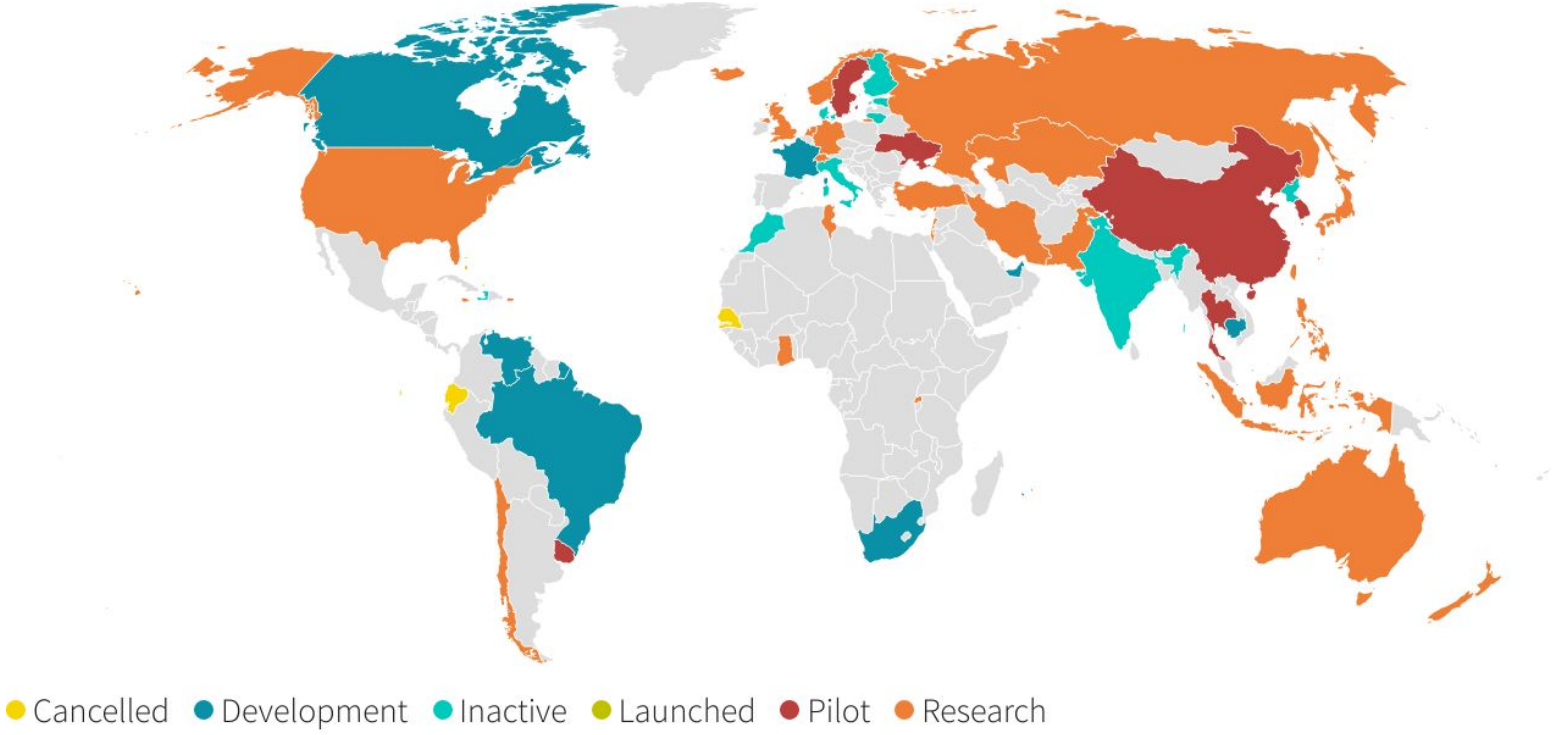
But are they?



Source: BIS

Central bank digital currencies across the world

CBDC projects are moving ahead across the world - though few have gone past the drawing board



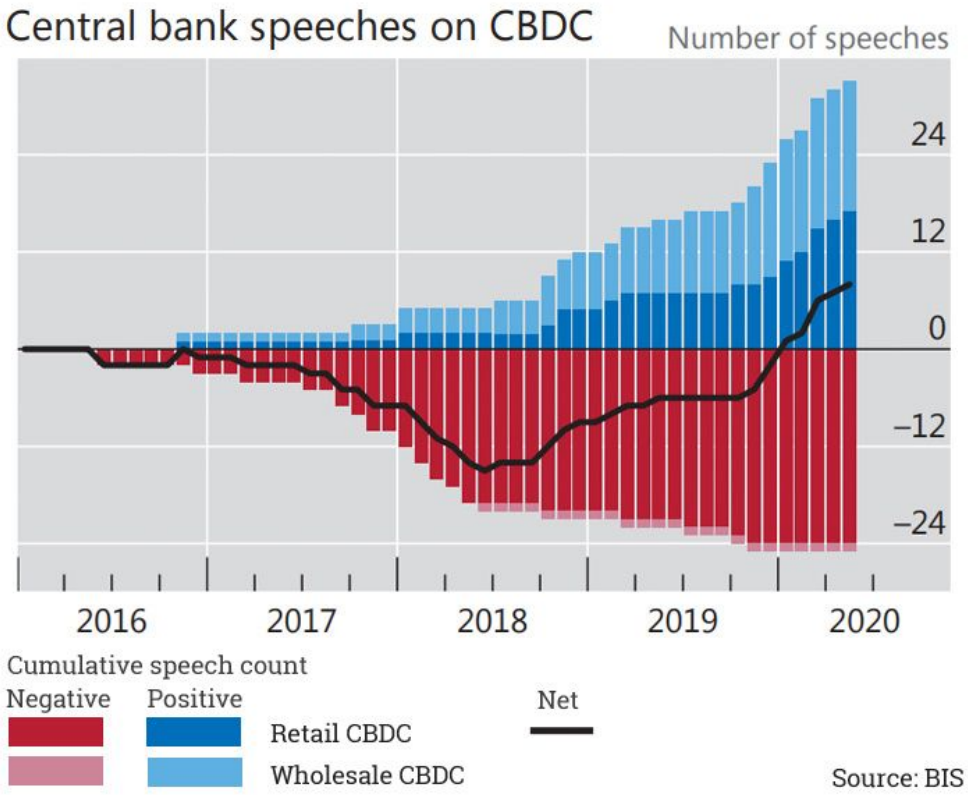
Source: Atlantic Council

CBDC sentiment is improving...

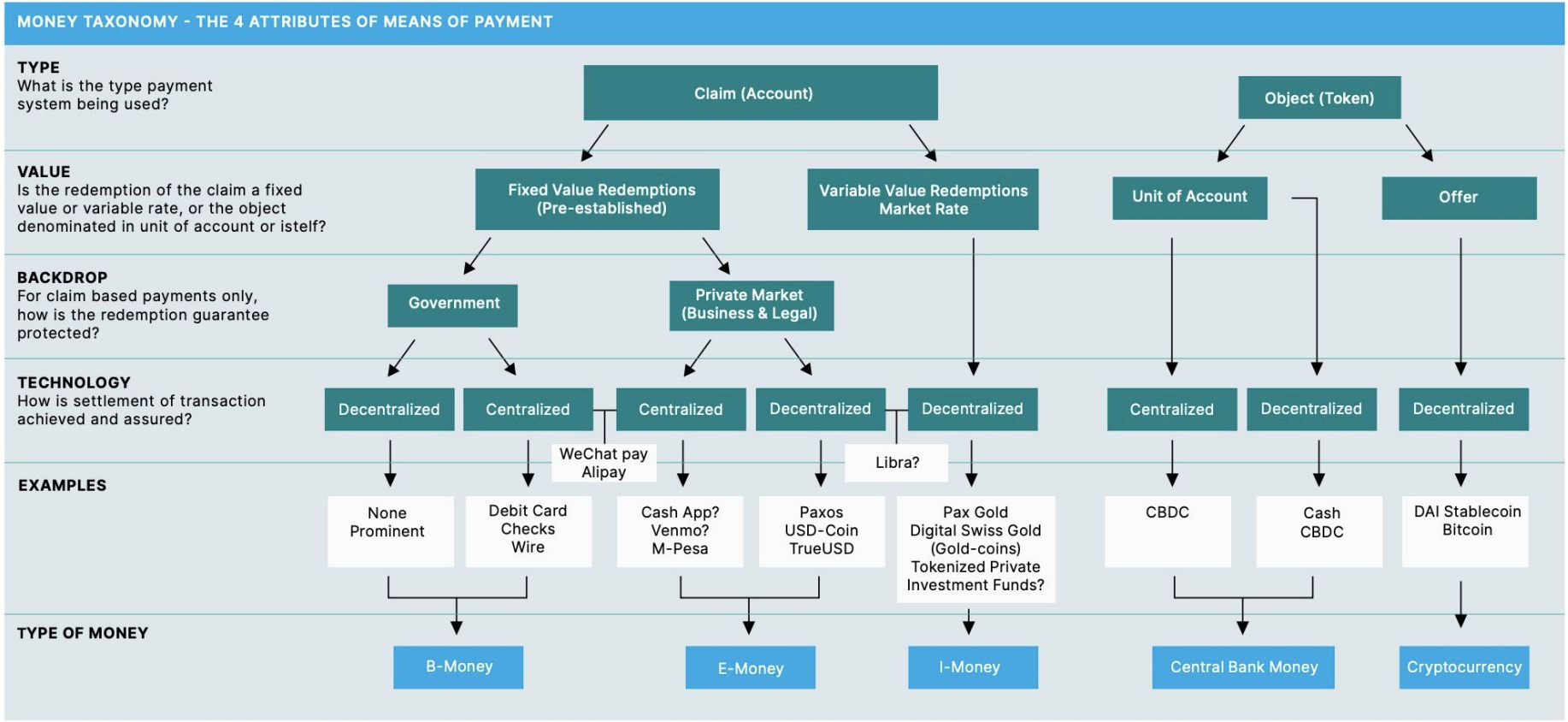
Not all money or stablecoins are created equal, CBDCs come in a variety of flavors and sizes - although most remain abstract.

The big word of caution is that a CBDC fundamentally imports the good or bad behavior of the underlying central bank, as much as a stablecoin imports the economic properties of its underlying reference assets.

Central banker sentiment is beginning to skew positive on digital currencies.



...although there is no consensus on the best approach.

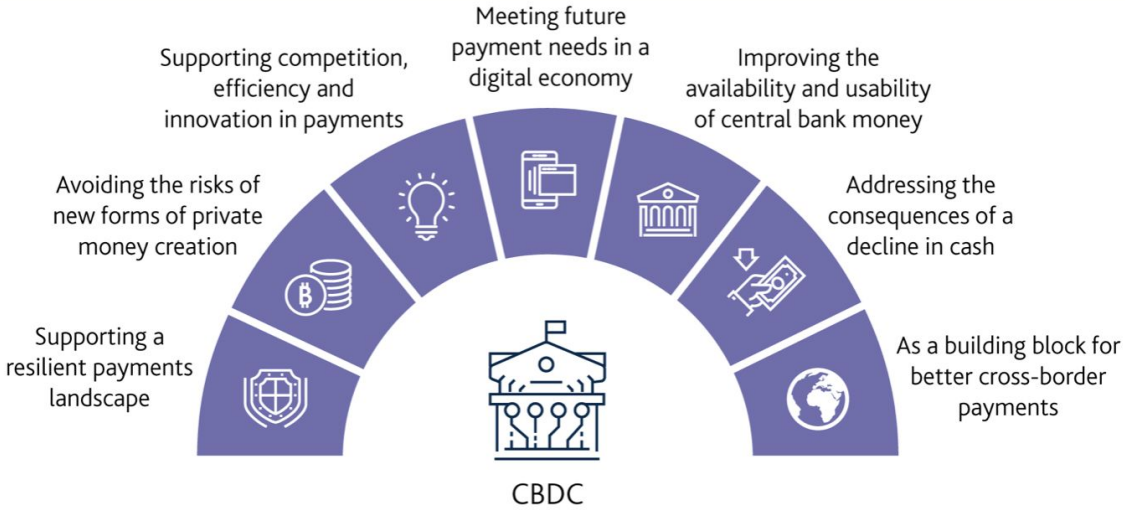


Source: The Block / IMF

What central banks hope to achieve with CBDCs...

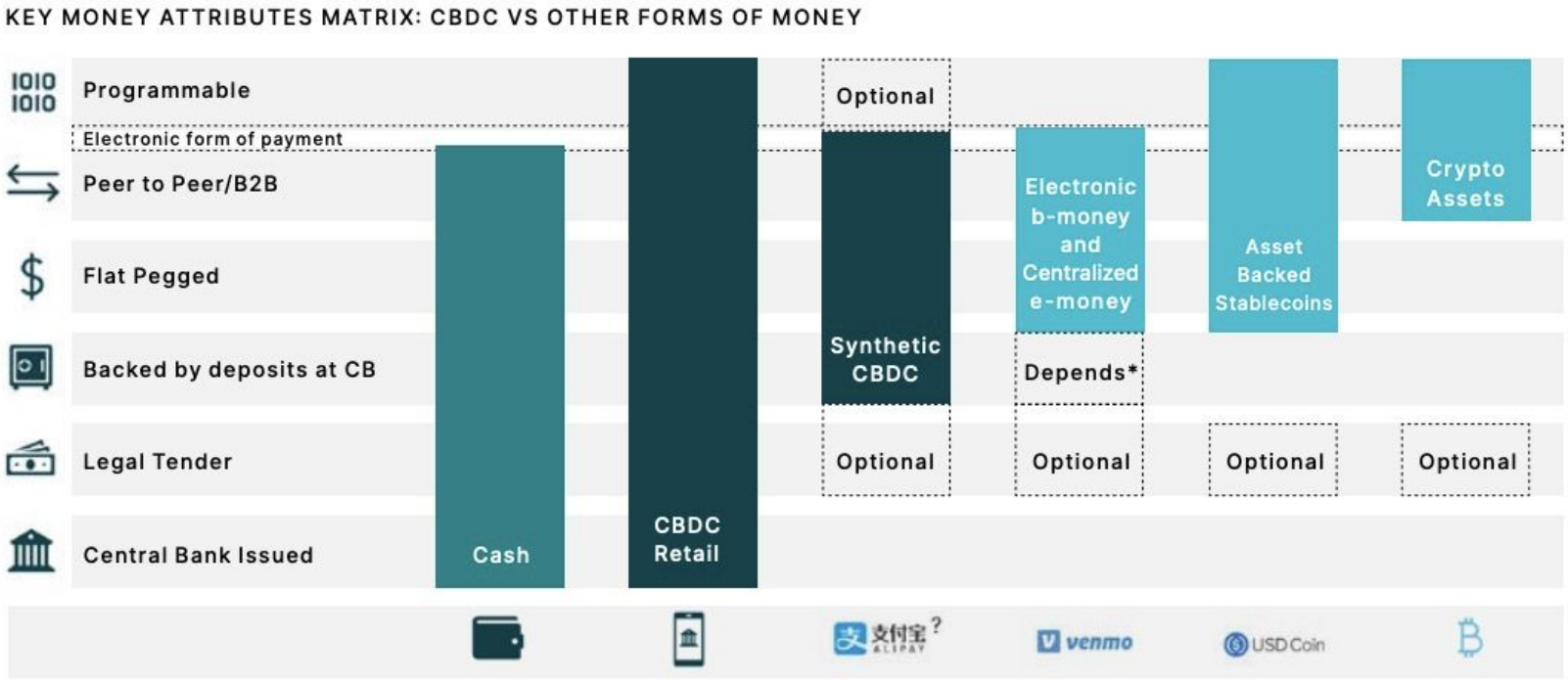
Opportunities for the Bank's objectives

CBDC could present a number of opportunities for the way that the Bank of England achieves its objectives of maintaining monetary and financial stability.



Source: BOE

...Is already being met with privately-issued digital currencies...

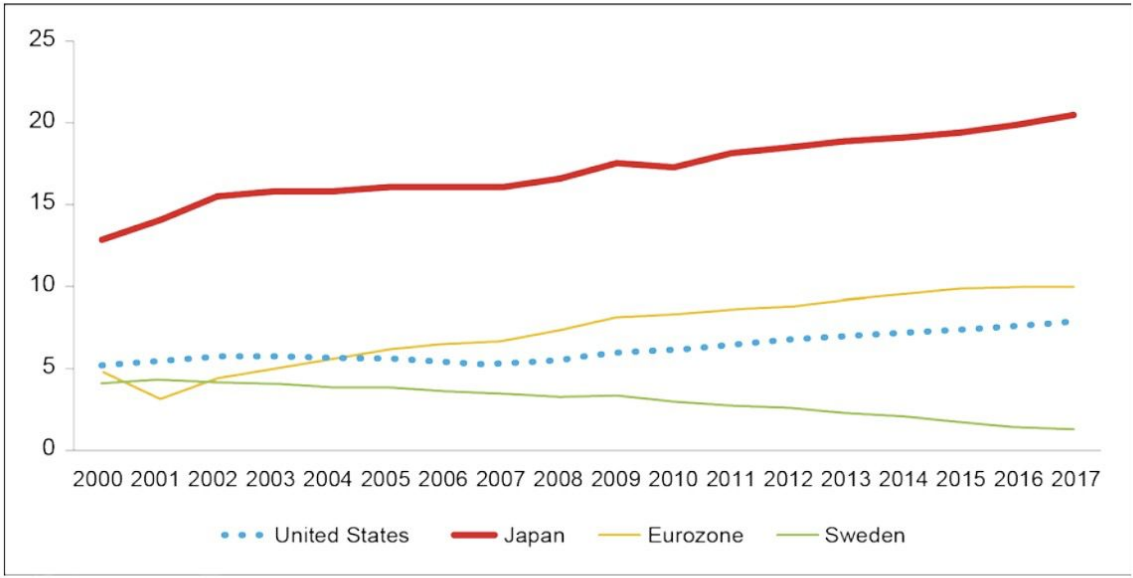


...acknowledging that most "value-added" money in circulation today rides on private or consortium rails.

Is cash dead?

- **NO** - 60% of the world's transactions remain in cash.
- "Deleting" cash is not a desired end-game, as this would remove critical optionality in payments and exacerbate poverty and other social ills.
- Cash has limitations however, including:
  - Opacity.
  - Physical limitations.
  - Vector for disease resulting in actual "money laundering."

Figure 2: Cash in Circulation in Advanced Economies
(% of GDP)



GDP = gross domestic product.
Source: CEIC, US Federal Reserve of St. Louis, International Monetary Fund.

Reasons for concern

- A CBDC like any digital twin is the sum of the parts that underlie it.
- CBDCs raise the risk of disrupting the very two-tier banking system through which monetary policy is conveyed and relies.
- CBDCs pose substantial privacy and censorship risks - to the right of lawful, the use of money (in all its forms) should be as free and open as possible.
- CBDCs would represent “technology capture” of the monetary and banking system, transferring vendor and technology risks to taxpayers.
- Most of the technology stack being proposed for CBDCs would negate the fundamental risk resilience gains from distributed systems. The financial system has too many single points of failure and privacy-eroding honey pot databases (recall Equifax?).

Money matters

Scalability

Extra services

Interest returns

Acceptance

Settlement Assurance (finality)

Ease of use (or loss)

Default risk - assurance

Level of friction

Anonymity

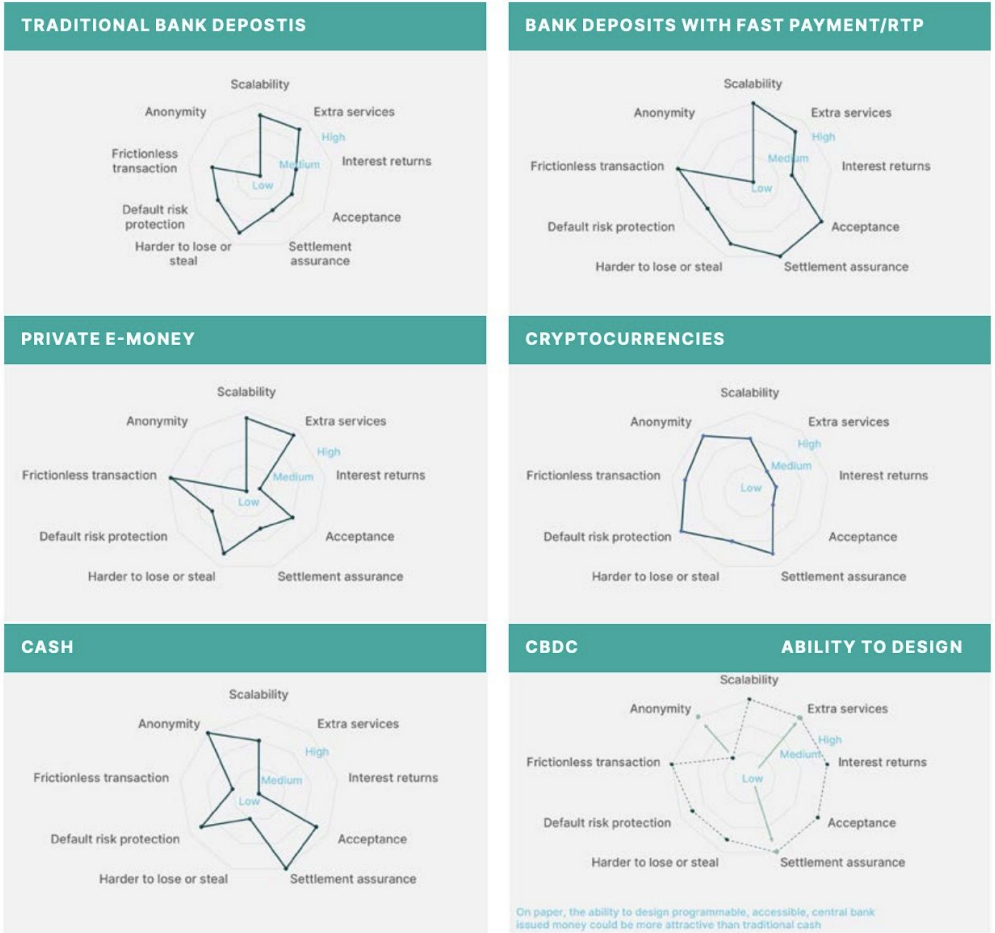


Figure 7: Radar charts depicting the attractiveness of different forms of money and payment systems
Source: The Block, IMF

Geoeconomics and geopolitics

Dollar hegemony and an instrument of soft power along vulnerable legacy systems.

Circumvention of rules, sanctions and compliance requirements.

Perceived crypto and linkages to cybercrime and ransomware.

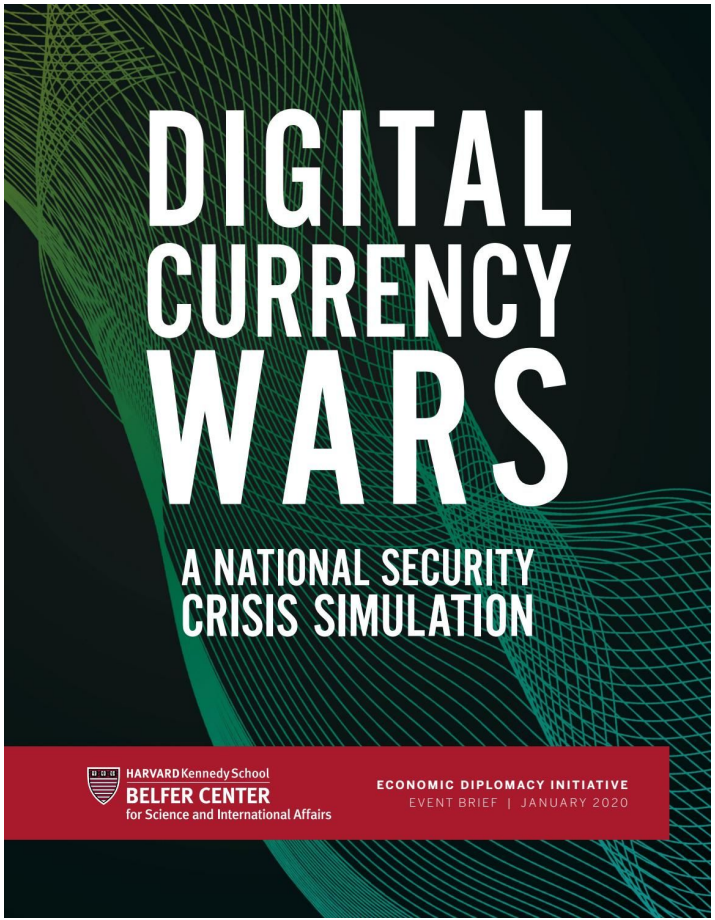
Spillover effects, systemic risk, prudential backing and “digital dollarization.”

“Weaponization” of currencies, payment systems and financial markets infrastructure.

The post-9/11 financial crime compliance system has not had an upgrade in 20 years.

Privacy-erosion as a precondition of financial access leading to Orwellian outcomes.

3 billion people on the margins of the formal financial system.



Competition or completion

Digital currencies and public interest.

The future of money...

...and the internet of value.

Open and universally accessible.

Privacy preserving, yet compliant.

Affords legal certainty akin to “digital legal tender.”

Who do we trust?

Competition or Completion.

Future-proof

- Trusted dollar digital currencies (USDC) preserve the two-tier banking system.
- Designed inside the regulatory perimeter preserving financial integrity, payments optionality and public authority oversight over money.
- Multi-chain and open-source principles promote competition (versus closed-loop systems) and is in line with ***“same risk, same rules, technology-neutral regulation.”***
- Compliant, privacy preserving means of digital payments with low switching costs - avoids the “Orwellian state.”
- Public blockchain rails represent step change improvements in financial crime compliance switching the presumption of trust.
- Keeps substantial technology and operational risk in the free market, rather than on the shoulders of taxpayers.
- Prompts economic competitiveness, prosperity and global security.

Additional Resources

- Article on whether the U.S. is winning or losing the digital currency space race.
- Article outlining 10 key risks with cryptocurrencies.
- Article reviewing crypto and ransomware.
- Article outlining 10 key risks with CBDCs.
- Article reviewing the QuadrigaCX risk management failure.
- Article reviewing financial inclusion opportunities.
- Article reviewing financial integrity considerations.
- Article outlining the case for privacy-preserving identity.
- Book chapter on privately issued digital currencies.
- Paper outlining considerations on improving cyber resilience.

Thank you!