

Digital Asset Forum | Briefing Note

Key Enablers for the Future of Digital Assets

August 2023

The Digital Asset Forum is a senior-level global network of financial institutions that meets periodically to discuss developments in digital assets and perspectives on enterprise-level implications for technology, business, and strategy. The IIF convenes the Digital Asset Forum with our knowledge partner, the Oliver Wyman Forum. This briefing note summarizes the discussion held on August 31st, 2023, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.

A legal foundation for digital assets is a crucial missing enabler

Many technology solutions exist for current problems in global finance; yet they are not widely used because the legal foundation enabling their adoption is missing. A recent IMF working paper, “Digital Tokens: A Legal Perspective”, outlines the legal uncertainties surrounding digital money and tokenized assets, highlighting how the rights of digital tokens can prompt a reevaluation of the rights and legal constructs underlying money. The scope of legal uncertainties goes far beyond defining a security, presenting new constructs like the hybrid status of tokenized assets that exist both on- and off-chain. Standardizing the legal treatment of digital money across jurisdictions will both present additional complications and be critical.

Collective action is needed to build the digital financial infrastructure of the future

The need for collective action and aligned incentives is evident in the challenges facing private blockchain consortia, cross-border payment systems, and CBDC development to create robust systems of exchange for digital assets. To-date, private blockchains have been difficult to scale, possibly due to weak incentives or poor coordination mechanisms among stakeholders. International organizations like the IMF and BIS could take the lead in developing cross-border infrastructure, but there are significant challenges to aligning all regulatory authorities and central banks on a single standard, and the private sector must be tightly aligned. Domestic CBDCs alone require complex coordination that may be impossible absent external motivation.

CBDCs are policy choices as much as they are financial infrastructure

CBDCs are about more than just upgrading existing RTGS systems; they present the potential for implementing fiscal and monetary policy as programmable code. For countries that already have functioning infrastructure, successful implementation hinges on creating infrastructure that enhances economic management. Doing so requires answering difficult questions, such as the extent of programmability and how to manage various policy tradeoffs; for example, how to enforce holding limits without direct government supervision of accounts. Additionally, there are communication challenges, such as how to convey the safety of CBDCs without undermining trust in other forms of money, an issue that central banks are still navigating.

Technological neutrality means different things to different players

Tech neutrality is interpreted differently by builders, who see it as not limiting the development of technology, and policymakers, who see the principle as indifference between current options when it comes to the underlying technology. Both perspectives present challenges; builders cannot build towards an unknown future, and policymakers may insist new tech mimic old tech's limitations, akin to delaying an email to match a letter's delivery time. The disconnect between these understandings presents limitations when designing policies that both meet the present reality of digital assets and support future innovation. Financial professionals must now be versed in both finance and technology, meanwhile achieving a common understanding of tech neutrality should remain a priority.