Digital Asset Forum | Briefing Note

Taking Stock and Pressing Forward

December 2022

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 December 6, 2022, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.

Recent turbulence has created an apt moment for financial services firms to take stock of their approach to the digital space overall.

High-profile failures of crypto trading firms in recent weeks and the overall price declines for crypto-assets have created uncertainty about the future of crypto-assets and questions as to whether they may “go away”. Forum participants see this view as overly narrow. The innovations behind these assets—tokenization, instantaneous settlement, distributed ledgers, to name a few—are of significantly greater value to finance than any one specific asset. It is also worth noting that recent turbulence largely relates to unbacked and algorithmic assets, not all digital assets. Interest in tokenized assets has not abated.

The current crisis in parts of the digital asset market has opened an opportunity to establish operating principles for good conduct.

Responsible development in digital assets will rely on participants adhering to best practices regarding segregation of assets, client safety, corporate governance, and due diligence. Recent events highlight the importance of due diligence as much as they reveal bad behavior. Questions regarding digital asset custody may receive much attention in coming months. Many regulated entities with sound procedures in place around custody are effectively barred from providing services, increasing the risk to investors of services being provided outside the regulatory purview. Principles of good conduct regarding client assets and risk management are important across financial activities and must apply regardless of the technology they come wrapped in. Current events have opened an opportunity for agreement on these points.

The ‘Lehman moment’ for crypto is about interlinkages in the digital assets space.

Lehman comparisons to the current unraveling in crypto-assets may be appropriate in so far as they concern interlinkages in the space. The collapse of major participants has revealed linkages and made visible relationships that were not clear before. Understanding precisely how assets were treated by crypto firms and how money was moved around the crypto ecosystem will enable financial institutions to get a better sense of points of weakness in the system that could be addressed by internal controls.

Despite recent events, research and innovation will press ahead. The technology has potential and experimentation will continue.

Central banks are leading innovation in both settlement practices and utilization of digital assets. Experiments, such as the New York Federal Reserve’s Project Cedar, are pressing ahead in ways that strengthen the use cases for digital assets. Greater cross-border collaboration between authorities is a highly encouraging development, noting cooperation despite differences in local regulatory approaches. Financial institutions will press forward with their investments in technology to improve services and efficiency. The potential of punitive capital charges, however, is both problematic for industry and discouraging.