

Andy Browne ([00:00:02](#)):

Greetings, and welcome to Bloomberg New Economy Conversations. I'm Andy Browne.

Andy Browne ([00:00:07](#)):

A financial revolution is underway. Cryptocurrencies, once promoted by fringe libertarians and anarcho-capitalists have gone mainstream. Mass Mutual, the staid and fastidious American life insurer, has bought \$100 million worth of Bitcoin. Tesla cars can now be purchased with Bitcoin. Just last week, the crypto exchange Coinbase went public at a valuation higher than the owners of the New York Stock Exchange and NASDAQ combined. Meanwhile, China is about to launch a fully digital currency, part of a long-term strategic move to challenge the hegemony of the US dollar.

Andy Browne ([00:00:52](#)):

Could the virtual [inaudible 00:00:54] knock the dollar off its pedestal? Is blockchain going to rewire the financial world and put banks and clearing houses out of business? And in a world where a Japanese dog meme coin is now worth about \$50 billion, has the idea of value lost all meaning? To discuss this and other questions, I have with me an incredible panel of experts. So let's jump right into the conversation.

Andy Browne ([00:01:21](#)):

I'm joining you today from Bloomberg headquarters in New York, and I'd like to welcome our global New Economy community. We also welcome our viewers tuning in on social media and via the Bloomberg terminal. There will be opportunities throughout this conversation for real-time input from you, our audience. I encourage you to submit questions in the text box in the bottom right of your screen, and I'll invite you to vote in live polling in the top right of your screen. If at any point you encounter technical difficulties, a simple refresh of your browser should help get things back on track.

Andy Browne ([00:01:57](#)):

So now I'd like to introduce our first guest. Gita Gopinath is the economic counselor and director of the research department at the International Monetary Fund. She's on leave of public service from Harvard University's Economics Department, where she is the John Zwaanstra Professor of International Studies and of Economics. She's also a member of the Bloomberg New Economy Forum advisory board. It's great to have you here with us today, Gita.

Gita Gopinath ([00:02:28](#)):

Hi, Andy. Really a pleasure to join you.

Andy Browne ([00:02:31](#)):

So first question, central banks all over the world are losing their monopoly on currencies to private crypto networks like Bitcoin, like Ethereum. How worried should they be?

Gita Gopinath ([00:02:49](#)):

So Andy, firstly, I would dispute that claim, that they are losing their monopoly power. Private money has lived alongside public money, which is cash, for the longest possible time. The question is whether these new technologies, the new cryptocurrencies, can move us to a world where people move out of public money and move purely into private money, and I don't believe that's the case at all. To be a legitimate currency, you need to have stable value, you need to be able to transact easily with it. There

has to be a storage value for it, and all of that comes from the trust that you have in public institutions. And so I would say that many of the cryptocurrencies out there don't even meet the definition of money. They are very speculative investment assets, and that's fine. But again, I would not describe that we're anywhere near the point of central banks losing their monopoly power or money.

Andy Browne ([00:04:02](#)):

Questions coming in from our audience for you. Here's one from Daniele Antonucci. He is the chief economist and macro strategist for Quintet Private Bank in London. He asks, "Are private cryptocurrencies compliments or substitutes of central bank digital currencies? Will the latter displace the former, or is the reason to hold them entirely different?"

Gita Gopinath ([00:04:30](#)):

So the answer depends on the design of central bank digital currencies, and we are still in very early days here. So we do have The Bahamas Sand Dollar, we have the Chinese digital renminbi that's in pilot stage. And at this point, they are very restricted in how they can be used in terms of what kinds of compensation they pay when you hold it. So whether these multiple currencies turn out to be [inaudible 00:05:01] depend on the design. Now what I will say is that given that most central banks in the world do not want to get into banking activities and have no desire to displace banking systems around the world. I believe that [inaudible 00:05:16] where there will be significant complementarity.

Gita Gopinath ([00:05:21](#)):

Now, of course, there are the separate questions of certain kinds of cryptocurrencies, which, again, are not exactly money, very speculative asset classes. There can be concern about those currencies being used for money laundering, for terrorism financing, and in that particular cases, I suspect the regulatory apparatus will come in there to ensure that that doesn't happen

Andy Browne ([00:05:49](#)):

As you say, central bank digital currencies all over the world are in various stages now of development. We have a graphic, I wonder if we could pull that up, showing this phenomenon. Gita, you talked about The Bahamas and the Sand Dollar. You also mentioned the fact that the People's Bank of China is moving full speed ahead with a digital currency, as opposed to the trial that the Winter Olympics in February. The Chinese insist this is largely at domestic effort to improve financial inclusion, to combat fraud and so on, but it's pretty clear that one of the primary goals is to escape the hegemony of the US dollar. In other words, China wants an alternative to a dollar based global order. Is the dollar, do you think, under threat?

Gita Gopinath ([00:06:43](#)):

So indeed, in the case of China, they have said that their focus right now is for domestic use and that whenever they do go into cross border use, they will work with the international community to make sure that things go smoothly for the recipient country also. So their plan is to be engaged with the international community on this, whenever the cross border use happens. But to your question of whether a Chinese renminbi, which is now in digital form, can replace the dollar, I'm quite skeptical about that. Because if you look at the dollar's dominance, it shows up in payment systems, it shows up in trade invoicing, it shows up in international finances, in borrowing and lending contracts, and so you actually have to be very strong in multiple institutions to be able to take over that role.

Gita Gopinath ([00:07:42](#)):

What does that mean? That means that you need a strong rule of law, you need trusted public institutions, you need protection for investors, and you need deep financial markets, you need a fully convertible currency. So there are many boxes that you have to check, and I would say that China is still in early stages on several of those infrastructure pieces that are still required to become a dominant currency in the world.

Andy Browne ([00:08:13](#)):

So as you say, Gita, one of those boxes to tick is in fact trading, and China right now, as you know, is working with several of its trading partners to set up a cross border payment system based on a digital renminbi. Some of its partners are very keen to break free from the dollar system, like Iran. Do you think we could see a Chinese renminbi trading block emerge? And if so, wouldn't that, by definition, be a threat to the dollar primacy?

Gita Gopinath ([00:08:47](#)):

So again, I think China has made clear that they do intend to work with the international community to ensure that any kind of cross border use is not disruptive to the global economy and certainly doesn't support any kind of nefarious activities. And so again, this will happen in stages, and so we can see how that builds up.

Gita Gopinath ([00:09:14](#)):

Now, I just want to say, since I'm coming across as a bit negative, I think I should mention that of course there are benefits to having these kinds of digital currencies, in the sense, especially for cross border payments, because those are costly. So there is a need for these kinds of technologies, for when you're remitting money to other countries, you're paying too much in terms of fees. If you're a small exporter or importer, you're paying too much for your transactions. And so again, there is a need for these kinds of currencies, but these are all niche areas.

Gita Gopinath ([00:09:51](#)):

And again, it is the responsibility of the international community to ensure that the rules and regulations are put in place, that these currencies serve a purpose, they have benefits, but they certainly don't go into supporting the kinds of activities you do not want to have. And also, I would say individual countries have to be careful about currency substitution, which is that, if it so happens that it's very easy to now move these digital currencies around, then you would end up with a currency substitution, especially in countries where, for instance, inflation is extremely high. So countries have to be cautious. There are benefits to having these currencies, but there are certainly risks associated with it too.

Andy Browne ([00:10:33](#)):

Well, [Sharon Powell 00:10:35] doesn't seem to be in much of a hurry to launch a digital dollar. His mantra apparently is that it's better to get it right than to be first. Do you think that he may be a bit too complacent, including about the challenge coming potentially from the renminbi?

Gita Gopinath ([00:10:57](#)):

I'd say that what we've seen over the last year, and especially after this pandemic, is that the momentum is very much in the direction of digital payments, digital currencies. And I really don't see

how any major central bank can distance itself from this. So I do expect that all central banks including major central banks will have to seriously consider central bank digital currencies, and that includes the US.

Gita Gopinath ([00:11:28](#)):

Now of course, again, I think the reason you want to move a bit cautiously is because you certainly don't want to upset the financial system. You don't want central bank digital currencies to make private banking become very difficult. You don't want currency substitution to happen across borders. So there are clearly risks involved here. You don't want to have to worry about cybersecurity risks on daily basis. So there are of course many risks to be considered, but I just don't see how you can sit back. I think the momentum is all in one direction.

Andy Browne ([00:11:59](#)):

Peter Thiel, the cofounder of PayPal, made waves a few days ago, and he warned that Bitcoin could undermine the dollar's position as a global reserve currency. In that sense, he calls it a Chinese financial weapon. What do you make of that claim?

Gita Gopinath ([00:12:21](#)):

Oh, I strongly disagree. I just don't see how that is the case. No, Bitcoin is an example of a cryptocurrency that doesn't serve the role of money at all. It's a very speculative investment class, and then people are betting on the value going up all the time, you're gambling, you're taking risks, and that's fine as you do this, but in terms of substituting for what money is, I don't think it comes close.

Andy Browne ([00:12:50](#)):

So the crypto craze has introduced a huge amount of volatility and quite a bit of uncertainty into financial markets. Is there a risk, do you think, Gita, that this could destabilize emerging market economies that are already under massive stress as a result of COVID? Last week, for instance, Turkey banned Bitcoin trading amid pressure on the Lira. Is that, do you think, a symptom of a bigger problem, or is it just a particular issue with Turkey?

Gita Gopinath ([00:13:27](#)):

I think given the much greater ease with which you can move money around in the digital form. The greater ease with which you can evade, maybe, some rules that the country has put in place in terms of foreign currency use. I think to give countries suddenly pause about what kinds of cryptocurrency activity they allow. Things are moving very rapidly. The legal frameworks haven't yet been developed to deal with these kinds of capital flows. So I can see why countries, especially developing countries' emerging markets might be more cautious about the use of these kinds of cryptocurrencies, because you certainly don't want to have now a new form of money that's basically evading all the rules and regulations of your country. You want to move cautiously on that front so I can see why you would want to pause and make sure that these kinds of cryptocurrencies are not disruptive for your economy, for your [inaudible 00:14:36] monetary policy, and so on.

Andy Browne ([00:14:39](#)):

Last question, Gita, you mentioned the benefits of frictionless cross border payments that potentially crypto offers. The downside of course is that that too could lead to greater volatility and threaten emerging economies in particular.

Gita Gopinath ([00:15:00](#)):

Indeed. That is a risk that comes with this technology. It has its benefits. It can ease cross border payments, but on the other hand, it can also lead to much greater volatility as you have less control on the amount of capital coming in and out of your economies. There are risks associated with it. I think there are volatility risks associated even with your domestic financial system. Again, depending on the design of central bank digital currencies, you could have a lot more quicker moving out of private money into public money that has happened in the past. So again, these design issues are going to be very, very important in making sure that the world benefits from the technology, but at the same time, safe guards itself against the risks.

Andy Browne ([00:15:52](#)):

Gita Gopinath, economic counselor and director of the research department at the IMF. Thank you for joining us.

Gita Gopinath ([00:16:01](#)):

Thanks-

PART 1 OF 4 ENDS [00:16:04]

Andy Browne ([00:16:05](#)):

Okay, let's go now to a panel of experts. I'd like to welcome Raj Dhamodharan. He is MasterCard's Executive Vice President for Digital Asset and Blockchain Products and Partnerships, responsible for managing global strategy in the blockchain and digital assets space. Welcome to the program, Raj,

Gita Gopinath ([00:16:28](#)):

Glad to be here. Thanks for having me.

Andy Browne ([00:16:32](#)):

Hester Peirce is serving as a commissioner on the US Securities and Exchange Commission. Prior to joining the SEC, she conducted research on the regulation of financial markets at the Mercatus Center at George Mason University, and previously served as a senior counsel on the US Senate Committee on Banking, Housing and Urban Affairs. Thanks for being here today, Hester.

Hester M. Peirce ([00:16:59](#)):

Thanks Andy, for having me.

Andy Browne ([00:17:02](#)):

Michael Sonnenschein is the Chief Executive Officer of Grayscale Investments, the world's largest digital currency asset manager. Prior to joining Grayscale, Michael was a financial advisor at JP Morgan Securities. Thanks for joining us, Michael.

Michael Sonnenschein ([00:17:22](#)):

Great to be here.

Andy Browne ([00:17:28](#)):

We're getting, as I mentioned, a lot of audience questions. I'd like to encourage everyone in the audience to keep them coming. We will use them. In fact, I want to kick off our conversation by putting an audience question to the panel. DeFi, or decentralized finance, the idea of eliminating financial intermediaries that really underpins block-based finance. This question comes from [Abu Adiga 00:17:57] India who asks, "Will DeFi lead to disintermediation of banking as we know it today?"

Andy Browne (00:18:05):

Raj, maybe you could address that question from the perspective of credit card companies. In China, as you know, digital payment systems have pretty much replaced credit and debit cards. What's to prevent that outcome elsewhere in the world?

Gita Gopinath (00:18:17):

MasterCard, for decades, have been moving digital currency and helping consumers [inaudible 00:18:29] and safely spend around the world, move the value. And a lot of it comes from making sure that the currencies are first of all, stable, to Gita's point, making sure that the currencies are the right currencies for people to transact on. And what we take pride ourselves is providing a safe ecosystem for our customers to backstage as well as to move value.

Gita Gopinath (00:18:55):

Now I think that's continued to be needed in all of these environments, including DeFi. For example, we have a FinTech axillary program where we partner with all of our partners to bring them on board so that they can take advantage of our network scale and safety and security.

Gita Gopinath (00:19:16):

So the way that we look at these things is, we provide consumer choice, merchants the choice to be able to innovate on our platform. And I think that will continue to happen.

Andy Browne (00:19:30):

Hester, from where you sit as a regulator, are we looking, do you think, at an evolution of the existing financial system? Are we in a transition to something fully digital or are we going to see a complete break with the past? Is the consumer and the financial industry prepared for this kind of shift?

Hester M. Peirce (00:19:55):

Well, I should start by saying that the views that I represent are my own views and not necessarily of the SEC or any other financial regulator. I do think that the financial system is in the process of the transition. And I think that that is partly being driven by crypto and partly being driven by the realization that more of our lives are being lived digitally, and that is going to happen in the financial sector as well.

Hester M. Peirce (00:20:22):

And so I think we, as regulators, need to adjust our expectations. We tend to be pretty slow in adjusting our regulatory frameworks for the new economy. And so I think we better get to work on that.

Andy Browne (00:20:41):

Michael, another audience question on DeFi. This one comes from Paul Miller, who was the founder of Miller Capital Investments in Fort Collins, Colorado. He asks, "Some of the conventional wisdom is that

large financial institutions will seek to slow DeFi. How might they adopt it though, as a competitive advantage for themselves?"

Michael Sonnenshein ([00:21:07](#)):

Well, I think that the entire decentralized finance movement is still very, very, very new. I would say from our perspective on the industry, it's something that's only really started to get meaningful traction over the last 12 to 18 months. And I think there are certainly opportunities for legacy financial institutions to either plug into the DeFi ecosystem or potentially figure out other ways to compete with it.

Michael Sonnenshein ([00:21:35](#)):

But I think the most important thing for folks to ask themselves as an investor today, is when they do look at protocols within DeFi, are they actually solutions that are actually solving real world problems that we're experiencing in the financial system? Or in some instances, are they just solutions in search of a problem that may not even exist?

Michael Sonnenshein ([00:21:57](#)):

And I think a lot of investors are tasking themselves, or should be tasked with themselves, with that question, because it really can help to streamline some of the areas where you may think about getting exposure in your portfolio.

Andy Browne ([00:22:12](#)):

This idea of decentralized finance, DeFi, is really appealing to a lot of folks out there. Nicholas Sherman, the President of Williams Valve Corp in New York asks, "Will DeFi gain mass retail adoption in the next 10 years?" Raj, what do you think?

Gita Gopinath ([00:22:34](#)):

I have to go with Gary on this. I think it's really about solving consumer problems, as much problems. And I think we have to stop there before we try to project out into the future. Right? I think most of the solutions right now, the activity that is happening, is within the crypto world. I'd love to see a use case that applies to the everyday consumer or a merchant. And we are open to working with all of those people who are innovate in the space.

Gita Gopinath ([00:23:09](#)):

And that's why we have a very friendly FinTech partnership program, so that we can identify those use cases together. But I think it has to start with the consumer problem. We have to keep consumer safety and security in mind, and compliance in mind while we continue to innovate.

Andy Browne ([00:23:32](#)):

Hester, last Friday, the price of the internet meme token, Dogecoin, literally a joke, a joke coin named after a Japanese dog breed, more than doubled and reached a market value... It's now at about \$50 billion, up 400% from a week ago. We have a chart showing the total cryptocurrency market cap has soared this year to \$2 trillion. Look, this is now becoming the wild, wild west of finance. Why has regulation taken so long to catch up?

Hester M. Peirce ([00:24:15](#)):

Well as an initial matter, I'm not sure that that particular asset is one that we would have any regulatory authority over, so that that may or may not fall within our purview. And that's true of crypto more generally. We have purview over things that are securities transactions, and that's where we've focused our attention.

Hester M. Peirce ([00:24:39](#)):

I mean, there's been a lot of really rapid growth in this area. So regulators tend to move slowly and the crypto markets do not. And so we're always going to be playing a little game of catch up, which is why we really need to work on rules that are as technologically neutral as possible, so that they can accommodate changes. I will say that it's not surprising, when something as new as... Crypto isn't new, but there's a lot of activity going on now. And I think that's what you expect. There's experimentation. There's going to be failure. There are going to be projects that look like they're solutions in search of a problem, but it's from that that some projects will emerge, and I think will have quite dramatic changes on the way the financial system works, and also on the way that people interact with the financial system.

Hester M. Peirce ([00:25:36](#)):

It will enable people to engage in more peer to peer transactions. I think there's still going to be a lot of room for financial intermediaries, but these kinds of transitions take time. And there is a lot of fluff and failure at the beginning, but from that you get the true solutions.

Andy Browne ([00:25:58](#)):

You made a speech last month, outlining the way you look at crypto regulation. I would recommend everybody reads that speech. It's beautifully written. It's erudite, it's sympathetic, it cites legal precedent. And it also quotes Bruce Springsteen. How does The Boss inspire your thinking about crypto regulation?

Hester M. Peirce ([00:26:28](#)):

Well, pretty much everything inspires me to think about securities regulation in general, so it can be music or many other things. But look, I think that the notion of allowing people to transact with one another in their medium of choice, and allowing people to store value in their medium of choice, and allowing this new layer on the internet to develop so that people can exchange value with one another across the world, is a very powerful concept.

Hester M. Peirce ([00:27:01](#)):

Now you probably shouldn't look to me, a regulator, to predict the future value of this to society. I think regulators are not known for being innovators, but I think that there's really some exciting work being done here. And there is exciting potential for bringing more people into the financial system and enabling people to participate with one another in a way that benefits both people, both parties to the transaction. And we as regulators just need to figure out how to protect the things that we're charged with protecting, but also protect the freedom of people to engage in these kinds of transactions.

Andy Browne ([00:27:46](#)):

So one of the big questions you're confronting at the SEC is this. Are crypto networks commodities, essentially a speculative asset, or a security representing an investment, I guess, in a venture? Two questions. First of all, how do you tell the difference, and what are the implications of that categorization for how the industry will develop?

Hester M. Peirce ([00:28:16](#)):

Well, it can be a difficult question, especially in the United States, where we have a pretty broad definition of security and that's on purpose. We want to capture, of course, stocks and bonds, but we also capture a category called investment contracts, which is intentionally broad. It's to say, if you give me money so that I can build an enterprise and you trust me to do the building and you're expecting profits based upon my work as a builder of that enterprise, then that thing that I sold to you is going to be considered to be a security.

Hester M. Peirce ([00:28:50](#)):

Now, this has been a framework that's worked fairly well over time, although even with non-crypto based things, it can sometimes be quite difficult to figure out whether something should be deemed to be a security or whether it's just another kind of asset. And so the implication is that if something falls within the security category, if we treat the transaction as a securities transaction, those transactions all have to abide by all of the rules in our securities markets, which can be quite... It can add quite a bit of friction to a network, and so it does matter.

Hester M. Peirce ([00:29:33](#)):

By contrast, if something is a commodity, there's another regulatory structure and another regulator that comes into play. And so these kinds of fundamental, base questions, by not providing guidance around those kinds of things, we've really slowed the development, I think, in this space and made it much more difficult for people to concentrate on the technology, because they're spending too much time thinking about which regulatory box things fit in.

Andy Browne ([00:30:03](#)):

One more question for you before we turn to Michael. You're obviously committed to bring in crypto networks into the mainstream. Reading your speech, you clearly think that they're a creative, progressive, innovative force that need to be encourage. Not all government officials share your enthusiasm.

Andy Browne ([00:30:27](#)):

Janet Yellen, Treasury Secretary, seems to think that Bitcoin creates more problems than it solved. She said a few weeks ago, Bitcoin is a highly speculative asset. She's worried about investor losses. She doesn't think Bitcoin is much used in facilitating transactions. She highlights Bitcoin's use in illicit finance, and finally she notes that it is incredibly polluting.

Andy Browne ([00:30:56](#)):

Is there any prospect you think that financial regulators, aligned perhaps with skeptical politicians, could come down really hard on this industry, or even outlaw parts of it? Or is it too late?

Hester M. Peirce ([00:31:11](#)):

Well, I certainly think that there are answers to each of those critiques of crypto, but we probably don't have time to go through all of those right now. And yes, I think that regulators in some jurisdictions will try to curtail activity in this space, but because of its nature as a peer to peer technology, that's a very difficult thing to do.

Hester M. Peirce ([00:31:35](#)):

And I think it's far wiser for regulators to spend their time thinking about allowing crypto to interact with our traditional legacy financial system, which is something that I've been calling for so, that people can engage in crypto the same way they engage with other kinds of assets. And that's a much better way for regulators, then, to get to know the technology and to get to know this asset.

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Hester M. Peirce ([00:32:03](#)):

... Get to know the technology, and to get to know this asset class, and to have an eye on the asset class. So, it seems to me that a better approach would be to acknowledge people's freedom to engage in the kinds of transactions they want to engage in, to work on building the infrastructure so that that sector can marry up with the traditional legacy financial sector.

Andy Browne ([00:32:29](#)):

Michael, you were saying earlier it's important to analyze the uses of crypto currencies. What are they good for? Let me ask that question to you on Bitcoin. Beyond acting as an inflation hedge, an alternative to gold, what problem does it solve?

Michael Sonnenshein ([00:32:49](#)):

I think that, for many investors looking at Bitcoin, they certainly today do look at it as that store of value or gold 2.0. But I think that it's also important to recognize that there's nothing wrong with the fact that, at the moment, that is probably the most prevalent use case for Bitcoin. It is only something... Commissioner Peirce talked about this concept of time and regulators having to play catch up or not moving as fast as we sometimes want them to. We have to remember that Bitcoin has only existed for the last ten or 12 years or so. And so, the use cases that can be unlocked out of Bitcoin and out of other digital currencies, many of them have not come to fruition.

Michael Sonnenshein ([00:33:33](#)):

We look at things like financial inclusion. We look at things like micro payments, microfinancing, micro lending, all kinds of dynamics around payments and financial infrastructure that, unfortunately, the existing legacy infrastructure just doesn't lend itself to. And so, for many of us within the community, we don't take issue with the fact that Bitcoin today is very, very, accomplished, gotten to about 10% of the market cap of gold and is continuing to take even further share of that market. But certainly, over time, we would expect that additional use cases will be unlocked. Which of them comes first, obviously, remains to be seen. But that's why it's important we continue to remind ourselves of really just how early days it is for Bitcoin.

Andy Browne ([00:34:25](#)):

So, a lot of people are saying, because large institutions like Mass Mutual, Morgan Stanley are buying cryptocurrencies, along with legendary investors like Paul Tudor Jones, that this proves that crypto has

now entered the mainstream. And the implication is that, because these huge, savvy investors are buying Bitcoin, it's safe and so should you. And is that the case? I mean, is it right? Is it right for me? Is it right for my mother?

Michael Sonnenshein ([00:35:00](#)):

We would be the first to say, as we always have been, that investing in Crypto is not something that is for every investor. Certainly there is a compelling argument to be made that investors who have longer term time horizons, can stomach a fair bit of volatility, and can afford to pretty much lose everything they put into this is certainly the right type of investor to think about cryptocurrency. It is something that many investors analogize to investing into early stage technology, but it is again a mason asset. And so, you have dynamics in this market, which while they are continuing to mature every day, is still a market that has at times tremendous volatility. But every day that passes, we're seeing the advent of additional avenues for investors to participate.

Michael Sonnenshein ([00:35:58](#)):

And certainly over the last eight years that I've been involved in the industry, I have never seen crypto be at a point where it is now gaining the support, the adoption, and the usage of not only legacy financial players, but also from some very notable, very storied investors, very notable people coming out in support of it on the regulatory front. And we're now even seeing adoption on company's balance sheets, which is something that we've never experienced before. All of which definitely does lend some validity to the ecosystem and certainly can give investors greater comfort in cryptos staying a power in their portfolios

Andy Browne ([00:36:39](#)):

Question here for you, Michael, from Saar Ben-Attar, who is the managing partner at Ascent Growth Partners in Johannesburg. Saar asks, "What moves by banks could help bring digital currencies into the international financial system?"

Michael Sonnenshein ([00:36:58](#)):

The biggest thing that banks can do, which they are doing, but it is happening slowly, is all about infrastructure. So, today the crypto ecosystem has very robust infrastructure in and of itself. We are developing trading tools, order management systems, tax lot reporting, forensic tools that can analyze transactions on the blockchain. The list goes on and on.

Michael Sonnenshein ([00:37:25](#)):

But the legacy financial system, the big banks, the global banks have their own set of infrastructure and their own set of pipes that govern the way that assets move around, the way that value moves around. And, while they're continuing to innovate, it is happening quite slowly. And I'd argue today that the innovation within the legacy system and the innovation that's taking place in the crypto ecosystem are certainly happening on very, very different timelines. But, unfortunately, there has not been a major push yet to connect the legacy infrastructure with this new crypto ecosystem. And so, over time, as we do see those bridges getting built, you're going to see the potential for a lot more capital to flow into the asset class and also open up the opportunity for a much, much, much broader group of investors to be able to participate in the crypto ecosystem.

Andy Browne ([00:38:18](#)):

So, let me ask you this. Today is April 20th, 4/20, and as such and for incredibly arcane reasons, today is celebrated by certain millennials in this country as Weed Day, Pot Smoking Day. In any case, the Dogecoin tribe of millennials have bid up the price I think another 10% today. What do you make of DogeCoin? I mean, is it the equivalent of pet.com during the internet boom?

Michael Sonnenshein ([00:38:51](#)):

So, Dogecoin is not an area of the market that I personally or Grayscale has spent a lot of time on. I think what it importantly does highlight though, is it creates potentially problems for the regulatory community as they look at the ways in which dynamics in the market have changed. Certainly during the pandemic, there's been a lot of people that have been at home that have been turning to the financial markets, whether it's purely for investment or in some cases for entertainment, or now seeing the advent of really the power of social media really being able to move investments. And so, whether that's Dogecoin, or GameStop, or other areas of the market, it certainly is going to, and is already creating a challenge for regulators to look at those dynamics in the market and potentially how disruptive they may be. But certainly, Dogecoin, I think, highlights yet another example of kind of the power of these social media networks and when a group of investors can rally around a particular investment opportunity.

Andy Browne ([00:40:01](#)):

Okay. But I mean, Bitcoin trading is a bit crazy too. Is it not? I mean, five days ago it was trading at 64,000. Today I think it's gone down for five straight days. It's now around about 55,000. Before COVID presented itself, I think it was trading at below something like 4,000. How are investors supposed to differentiate between Dogecoin, and Bitcoin, and the myriad other coins that are out there?

Michael Sonnenshein ([00:40:36](#)):

So, there's a lot of tools available to investors that I think are new and sometimes difficult to sometimes wrap their heads around. So, unlike looking at a traditional stock where you might be able to do a discounted cashflow or do some more traditional investment framework to determine whether it's a compelling buy or not, or whether something is overvalued or undervalued, there's actually quite a bit of analysis that's available by looking at the underlying blockchain. And so, a lot of investors who look at Bitcoin are looking at, for example, the time since coins have previously been moved. Is the asset as a whole being tighter held? Or is more of it moving over to exchanges where presumably investors are looking to sell their holdings? And those types of analysis are not available necessarily with traditional stocks or bonds.

Michael Sonnenshein ([00:41:30](#)):

And so, I think one of our goals, certainly at Grayscale, is to develop those kinds of tools that investors can make informed investing decisions. But again, to the earlier point, I can't underscore enough, Crypto does have a lot of volatility. And what we see is that, each time there is potentially a draft down in price like we've experienced recently, we do see a lot of leverage get pulled from the ecosystem and often see that the ecosystem does emerge even stronger on the other side of those types of moves.

Andy Browne ([00:42:02](#)):

Finally, Michael, your company, Grayscale, it runs the world's biggest cryptocurrency trust. You've got more than 40 billion dollars in assets. Now, you want to transform yourself into an exchange traded

fund, but you're waiting for SEC approval. When do you expect that to happen? Perhaps we should ask Hester that question too.

Michael Sonnenshein ([00:42:24](#)):

So, yeah. So, our flagship product is the Grayscale Bitcoin trust. It's the world's largest Bitcoin vehicle, owning over three and a half percent of the outstanding Bitcoin supply. I think, from our seat, to commissioner Peirce's earlier point, regulators are very engaged. She has actually put forward a proposal that actually would allow for tokens to come into the market and have a safe harbor for a number of years before they would experience any kind of regulatory scrutiny. And so, I think from our standpoint, it's all about continuing to engage with the regulatory community, which we long have and long will continue to do. And ultimately, we do believe that Bitcoin ETF will come to the market here in the U.S. It's really a matter of when, not so much a matter of if. And I think some of the things that regulators are looking for are to see an increasingly mature market and dynamics within the market that are surveillable and maybe are a little bit more akin to what they may see in traditional markets like you see for stocks and bonds.

Andy Browne ([00:43:32](#)):

Raj, philosophically peer to peer crypto networks were created as a libertarian alternative to financial institutions like credit card companies, and commercial banks, and monetary authorities. Yet, MasterCard now actually facilitates cryptocurrency based transactions. Fundamentally, what is the relationship between credit card companies and crypto networks? Do you compete or do you collaborate?

Gita Gopinath ([00:44:06](#)):

Yeah. Look, it is all about choice, right? So, what we said in the past and recently was that we will support central bank digital currencies, and some select digital currencies, private digital currencies in our network. That's what we said. And that, if you look at what that is about, like I said before, we've always been facilitating movement of value between consumers, businesses, peer to peer, and so on for a number of decades. So, this just builds on that. If the currency follows a certain principle that we laid out, which is really about stability, number one is stability. A number of people here talked about it. It needs to be a credible payment [inaudible 00:44:52], and allow the stable value to be there for people to use it as a payment rate. That's number one.

Gita Gopinath ([00:44:59](#)):

The second is really about compliance and making sure that the currency and what we are talking about in a given jurisdiction is a valid medium of exchange for that purpose. And the last one, and it's very important as well, is the consumer protections. And the consumer protections is about providing safety and security as people transact. When you go and send money to someone, you need to know who the other party is. If it goes through another merchant, they need to know what that merchant is. So, that kind of level of protection, as well as the privacy, actually is what our network is built on.

Gita Gopinath ([00:45:37](#)):

So, we simply look at those principles and see which currencies that would fit into that mold. And then, we'll be very thoughtful in picking the right markets and the right currencies. I look for that. So, that's how we look at it. And we look at it as a collaboration and a partnership. It is about the choice. If

consumer wants to use a certain currency for a payment for goods and services, we'll facilitate that. But then, those principles have been laid out. So, that's how we approach this problem.

Andy Browne ([00:46:09](#)):

So, right now, if I'm hearing you correctly, MasterCard is acting as a kind of a bridge or an interface between legacy [inaudible 00:46:20] currencies, like the dollar, and the new class of digital token currencies. Is this a transitional arrangement, do you think? Or do you think these two financial architectures, old and new, will sort of permanently co-exist?

Gita Gopinath ([00:46:39](#)):

Like we always had evolution of technology in many of these places. There are multiple networks that we help run. Cognitive focus is the most visible one. We helped run ACH networks in many parts of the world. So, working with partners around the world to run different types of networks to facilitate moments of value is not new to us.

Gita Gopinath ([00:47:01](#)):

So, I'll give you an example. Somebody talked about Sand Dollar, which is in Bahamas, today that was launched as a pilot program. So, we worked with Island Pay, which was one of the partners there, to launch the card as associated with the CBDC. So, as central banks look to launch digital currencies around the world, whatever their motivations are, objectives are, can't be met if the currency is not used. We have one of the largest acceptance networks in the world. And, by providing a card product to sit on top of that central bank digital currency, we are providing everyday utility with the safety and security that comes with it.

Gita Gopinath ([00:47:43](#)):

So, to answer your question, there is bridging that is needed. And we are prepared to look at core use cases as well. But it's totally blockchain based. In fact, we have solutions out there that are purely blockchain based that is commercial in our world. So, we are open to the evolution on it and we partner with them.

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Gita Gopinath ([00:48:03](#)):

... so we are open to the evolution on it and we partner with industry to make it happen.

Andy Browne ([00:48:07](#)):

You haven't mentioned Bitcoin as one of the select cryptocurrencies that MasterCard will support. What would it take for MasterCard to begin supporting Bitcoin, and are there any plans to do so?

Gita Gopinath ([00:48:24](#)):

Look, what we've said is, I think this has been talked about quite a bit here today, it's about stability, whether it is a very good payment vehicle for people to use. Right now, we look at that and we haven't publicly said what currencies we support and what currencies we won't, but we look at its stability, we look at its compliance and safety and security.

Gita Gopinath ([00:48:45](#)):

Today, it doesn't fit the stability side and you just talked about the volatility of Bitcoin just now. I just don't see that as a payment vehicle. What we see it as is, I think, as others, Michael and others talked about, it is an investment asset and it's not a payment vehicle at the moment.

Andy Browne ([00:49:07](#)):

This is from Fernando Quintana who is a business developer in Montevideo, Uruguay. Fernando asks, "What does MasterCard have to lose, if anything, with the adoption of cryptocurrency payments to your systems, leaving aside inherent costs of putting everything into motion?"

Gita Gopinath ([00:49:33](#)):

Look, we are about providing choice. We don't pick winners and which currency should work, which currencies that people should pick favorite. We are about facilitating anything that people want to use to pay and get paid. But we also have a responsibility to the ecosystem to provide a safe and secure environment for people to transact on. People come to expect that if you go spend at a merchant and if merchant doesn't deliver the goods and services, you can actually call your bank and get your money back. That kind of protection is there end to end. That's what we look to provide. So we're not here to pick whether this currency should win, that currency should win. It's about really choice. It is about where consumer use cases are, business use cases are, and we want to do that in a safe and secure manner.

Andy Browne ([00:50:29](#)):

Okay. One more question, Raj, and then we're going to go to an audience poll. This one is from MasterCard's own Heather [Shans 00:50:42] who's the VP of Global Public Policy in Washington. Heather asks, "What is the impact of digital currency on the position or the dominance of the dollar globally?"

Gita Gopinath ([00:50:56](#)):

I think people ask... I'm not an economist so I'm not going to go into the economic angles of this, but I think there are multiple motivations of digital currencies for various governments coming out. One is, for example, Sweden publicly said that displacement of cash in the ecosystem, they're looking to find if it's [inaudible 00:51:19] There are people looking at it from a financial inclusion perspective in terms of [inaudible 00:51:23] distribution. People are looking at it from a potential alternative to private digital currencies. So whatever the motivations are, end of the day this is about really providing everyday utility and we think we have a great role to play and we continued to partner with the central banks to do this.

Gita Gopinath ([00:51:42](#)):

In fact, we have a virtual test platform that we've been public about that central banks are looking at. It allows them to experiment the various forms of digital currency and how they can configure it in a way that works with industry, how they can make it work with everyday use cases and so forth. So we take a very partnership-centric approach on this.

Andy Browne ([00:52:05](#)):

We'll get to the poll in just one second. We're getting a lot of questions coming in about risk and safety. This one from Grant Whittal, the Risk Director at the BDO in Ireland, asks, "How far should crypto sellers

track post-sale for dark web usage, and what do you do when this is the case?" Hester, can you answer this question about the dark web?

Hester M. Peirce ([00:52:34](#)):

Sure. I mean, I think it's the same as with cash, the same rules apply as with cash, and so trying to treat crypto differently, I think, is where we get into problems. You can't try to track who... If it's a centralized entity which is subject to AML, KYC, it is responsible for knowing its customer, but it's not responsible for knowing the counterparties of its customer. And so in many ways, crypto allows for easier tracking by government authorities than does cash, for example. And so I think some of that focus on the use for illicit purposes, it's overblown in this area. There are ways to track this stuff.

Michael Sonnenshein ([00:53:28](#)):

Yeah. Andy, I would just add to that. Commissioner Peirce is a hundred percent right. There are now several companies that have blockchain forensic tools where you can track transactions and so people have very much over-indexed using crypto for illicit activity. Every transaction leaves a proverbial kind of digital breadcrumb, if you will, and as a result of that it is far more traceable than cash. And it's probably the worst means out there for doing anything the least bit nefarious.

Andy Browne ([00:54:03](#)):

Okay, let's get to an audience poll, if we can bring this up. What will Bitcoin's price be one year from now?

Michael Sonnenshein ([00:54:14](#)):

Wow.

Andy Browne ([00:54:15](#)):

\$400,000. Some chartists, believe it or not, think that's where we're headed. \$60,000, which is where it was a couple of days ago. Zero, which is where Nouriel Roubini thinks it might go. It won't exist. Those are your options and while our audience contemplates the future of Bitcoin price, Michael, would you hazard a guess? You said, "Wow." You don't think \$400,000?

Michael Sonnenshein ([00:54:50](#)):

I was just saying, "Wow," at the options available here. We're never ones to speculate on the price of Bitcoin, where it will be, where it won't be, but what I certainly can share from my perspective and kind of heard you in the industry, again, is really who is getting involved in the ecosystem, both from an investment standpoint, a human capital standpoint, infrastructure that's being built. I've never been in crypto at a time that has felt this exciting or has really demonstrated what I think is the staying power that it now has.

Andy Browne ([00:55:28](#)):

Well, look, this is pretty interesting. One-third of our audience think it's going to hit 400,000 bucks. 57%, \$60,000. Hester, does that surprise you?

Hester M. Peirce ([00:55:49](#)):

I think that Michael earlier in the conversation highlighted the fact that you have to be willing to risk your money when you invest it and make decisions about what level of risk you're willing to take. And so whatever you're investing in, whether it's crypto or it's equities or it's commodities, you need to do your homework. You need to figure out what you're comfortable with and you need to make sure you understand, or you've hired someone to help you understand, what you're investing in. And so I just think getting caught up in what the numbers might be next year, I mean, it's an interesting poll but that's not really my focus at all.

Andy Browne ([00:56:32](#)):

Coinbase CEO Brian Armstrong said his company's listing marks quote, "A shift in legitimacy for crypto." Raj, do you agree with that?

Gita Gopinath ([00:56:46](#)):

Yeah. So Coinbase has brought a simple everyday access tool people to buy, hold, sell crypto and transact so they're a huge part of making that happen, so kudos to them. We also see the sector maturing quite well so there are a number of players out there offering products, wallet products for consumers to buy and hold, and we happen to work with a number of them including Uphold in the US and few others around the world. Yeah, it's a very important emerging sector and you may have seen some of them are also getting into basically banking licenses to start to offer the service to consumers as a bank as well. So I think this is a big deal and it offers a level of access to consumers.

Andy Browne ([00:57:48](#)):

We are getting a lot of questions in about pollution. Hester, I know you sounded a little skeptical about some of the critique that Janet Yellen offered on Bitcoin. I was reading a study recently that said during peak Bitcoin, the mining of these coins is going to equal roughly the electricity consumption of Italy. It's going to be something like 5% of all China's carbon emissions. 75% of all Bitcoin apparently is mined in China. What are we missing here? What's what's the counterargument, if there is one?

Gita Gopinath ([00:58:30](#)):

Well, I mean, I think one counterargument is that we can all pick things that other people do that we don't think that they should spend their time, money, energy doing. But a second thing is that the mining can easily move to places where there's redundant energy, being energy that would otherwise be wasted, being produced. But I think the real key is that I can say to you, "Hey, don't use a dryer. Hang your stuff on a clothesline and think about how much energy everyone would save if we did that." We all make choices about how we spend our time and money and energy and I think we'd be better off focusing on how can we transition to energy production that generates less carbon. And so we're all working on that together but, again, that's a little outside my purview [inaudible 00:59:24]

Andy Browne ([00:59:24](#)):

Thank you, anyway. A lot of questions also about privacy and we're almost out of time so I'm going to ask a privacy question, I hope summing up what people are putting in here. Do you think that privacy issues could make central bank currencies unattractive? Could this be, for instance, a real obstacle to global adoption of the RNB? I mean, who wants the Chinese government in their wallets? What do you think, Raj, around the privacy issue?

Gita Gopinath ([00:59:56](#)):

Yeah, privacy is a very important factor in the design of central bank digital currencies and there's always a balance between how much privacy you want to design in the system versus how much visibility you need to make sure that the right set of activities, no illicit activities, happen in the system. So it's a balance. It needs to be designed carefully. Look, if you look at the digital currency today, digital money today, which is the bank accounts so the transactions happen in the bank account, people have privacy but government is able to investigate or look at it for illicit activity. So there is a balance there in the banking system today. So we just need to look at this factor carefully. It is one of the things that our virtual test platform allows people to do, to design those features and test it out to pick the right level of privacy that you should have in your design of central bank digital currency. Each government has to make a decision on this, but there is a lot of factors to consider.

Andy Browne ([01:01:03](#)):

This has been a fascinating conversation. We could go on, I'm sure, for another hour but I'm afraid we're going to have to leave it there. Unfortunately, we've run out of time. Raj Dhamodharan, Hester Peirce and Michael Sonnenschein, thank you again for joining us today. We're grateful for your participation, for your perspectives. Special thanks to Gita Gopinath for joining us at the top of the show as our fire starter, and to our audience, both within and beyond the Bloomberg New Economy community, thanks for joining us. You can follow the conversation with [@neweconforum](#) on Twitter or like us on Facebook. Until then, stay well.

Hester M. Peirce ([01:01:42](#)):

Thanks.

Michael Sonnenschein ([01:01:42](#)):

Thank you.

Gita Gopinath ([01:01:42](#)):

Thank you.

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