

Minutes of the regular meeting of the
Innovation Advisory Council
10:30am – 12:30pm ET, Friday, July 15, 2022
Federal Reserve Bank of New York
33 Liberty Street, New York, NY
and via Teams

Present:

Michael Bodson, *President and CEO, DTCC*
Umar Farooq, *CEO, Onyx by J.P. Morgan*
Matt Harris, *Partner, Bain Capital Ventures*
Alex Holmes, *Chairman and CEO, MoneyGram*
Cathie Mahon, *President and CEO, Inclusiv*
Neha Narula, *Director, MIT Digital Currency Initiative*
Steve Streit, *Founder, SWS Venture Capital*

Federal Reserve attendees:

John C. Williams, *President and CEO, FRBNY*
Robert Bench, *Secure Payments*
Elizabeth Caviness, *Markets*
Jim Cunha, *Federal Reserve Board*
Chris Desch, *New York Innovation Center*
Dianne Dobbeck, *Supervision*
Jon Durfee, *New York Innovation Center*
Pamela Dyson, *Technology*
Mark Fischer, *Supervision*
Mark Gould, *Federal Reserve Financial Services*
Justine Hansen, *Legal*

Beverly Hirtle, *Research and Statistics*
Antoine Martin, *Research and Statistics*
Heidy Medina, *Supervision*
Sishush Maru, *Supervision*
David Mills, *Federal Reserve Board*
Michelle Neal, *Markets*
Julie Remache, *Markets*
Allison Riley, *Executive Office*
Sunayna Tuteja, *System Technology/Innovation*
Morgan White, *New York Innovation Center*
Per von Zelowitz, *New York Innovation Center*

Guests:

Paul Bancos, *Head of Global Market Development, PayPal*
Tony McLaughlin, *Managing Director, Citi & Regulated Liabilities Network*
Robert Palatnick, *Managing Director/Global Head of Technology, Research & Innovation, DTCC*
Michael Yu, *Data & Services, Global Practice Lead, Cryptocurrencies & Innovative Payments, Mastercard*

The videoconference was called to order at 10:30am ET.

1. Introductory remarks

Morgan White, Strategist with the New York Innovation Center, welcomed members and Federal Reserve attendees to the second Innovation Advisory Council (IAC) meeting of the year and introduced new members.

John Williams, New York Fed President, delivered welcome remarks.

Per von Zelowitz, Director of the New York Innovation Center introduced the agenda: “Stablecoin Applications and Policy Implications”.

2. Michelle Neal, Head of Markets, led the first facilitated topic titled “Are stablecoins needed”. The discussion focused on the current state and future implications of stablecoins.

IAC members and guests shared views on the potential use cases of stablecoins, which included domestic and cross-border payments. A few raised challenges such as KYC, volatility, and potential lack of consumer trust, among other factors, that may make it difficult to articulate the value proposition of stablecoins. It was noted that while the technology supporting stablecoin experiments may be advancing rapidly globally, the use cases may only follow over time as the industry and consumers learn. Legal and regulatory considerations were also discussed, including the importance of understanding the potential risks of stablecoins from both an issuer and consumer perspective. Members raised the need to define what makes for a stable stablecoin ecosystem, the need for transparency to create trust, and the importance of keeping an eye on the inequities that may develop if risks are not appropriately managed. Regarding regulation, some noted that while new regulation develops to address the novelties of the stablecoin market, it is important to enforce the rules and regulations that are currently in place to keep the system safe while additional measures are developed.

3. For the next discussion, two IAC members and a guest speaker outlined their views on specific stablecoin use cases and operational approaches.

Umar Farooq, IAC member and CEO of Onyx by J.P. Morgan, discussed private networks and interoperability as well some public initiatives by J.P. Morgan. Some points included costs due to lack of interoperability, the value of private networks, JPM Coin (which can be seen as a deposit account on a blockchain), and other tokenized assets.

Tony McLaughlin, guest speaker from Citi & the Regulated Liabilities Network, discussed walled gardens and open protocols. The conversation touched on the future of money across three dimensions – central bank money, commercial bank money, and digital money by non-banks – and the tokenization of such liabilities.

Alex Holmes, IAC member and CEO of MoneyGram, discussed crypto vs. stablecoins in the context of cross-border payments. The conversation raised the importance of the speed of settlement in cross-border payments both from the perspective of the customer and the provider and MoneyGram's recent partnership to offer a cash-to-digital currency (stablecoin) service.

4. The meeting concluded with a facilitated discussion, led by Sishush Maru from Supervision, on the role of central banks and the policy and regulation questions related to stablecoins. Members raised industry demand for central banks to provide 24/7 access to Real Time Gross Settlement systems to support innovation and competition while mitigating payment system risks, the need for increased focus on the financial stability implications of digital assets, consumer desire for clear and transparent information, and need for a robust legal framework around digital assets. Some raised the question as to how regulators should think about programmability while others expressed that programmability is not a unique feature of blockchain technology and the risks of publicly available smart contracts should be considered end-to-end.

The meeting adjourned at approximately 12:30pm ET.