



BANK OF ENGLAND



The Crypto Frontier

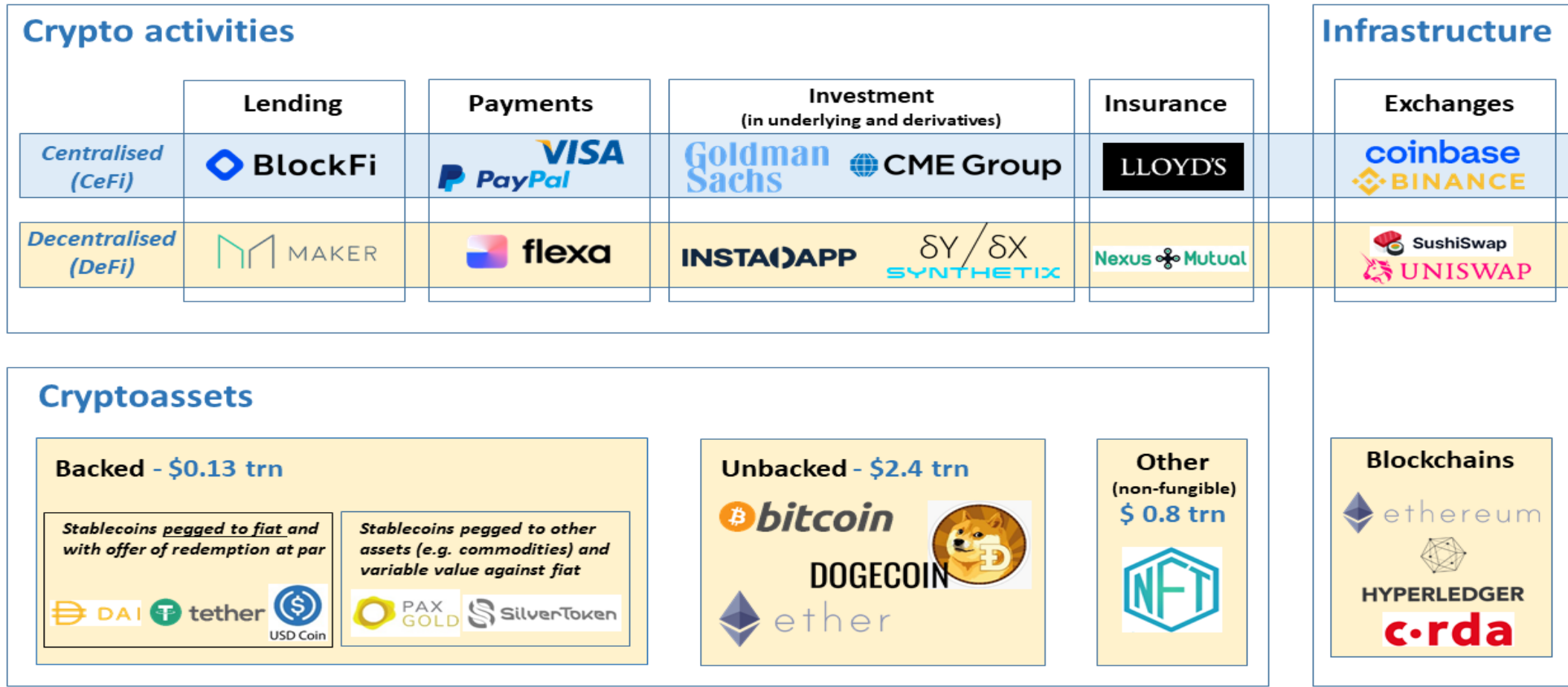
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Presentation for panel discussion “Digital and Crypto Currencies,” held virtually 19 November 2021, Princeton University

* Views expressed here are my own and do not necessarily reflect those of the Bank of England or any of its policy committees.



Stylised map of crypto assets, activities and infrastructure



Possibilities and Risks of DeFi



- Decentralisation reduces the reliance on intermediaries and their inefficient infrastructure.
- Smart contracts enable automated execution and creation of new financial instruments and digital assets.
- Data are easily shared, as opposed to traditional siloed platforms that do not talk to each other.
- DeFi protocols are open source, so the code is also visible and auditable, and every transaction is visible on the blockchain.



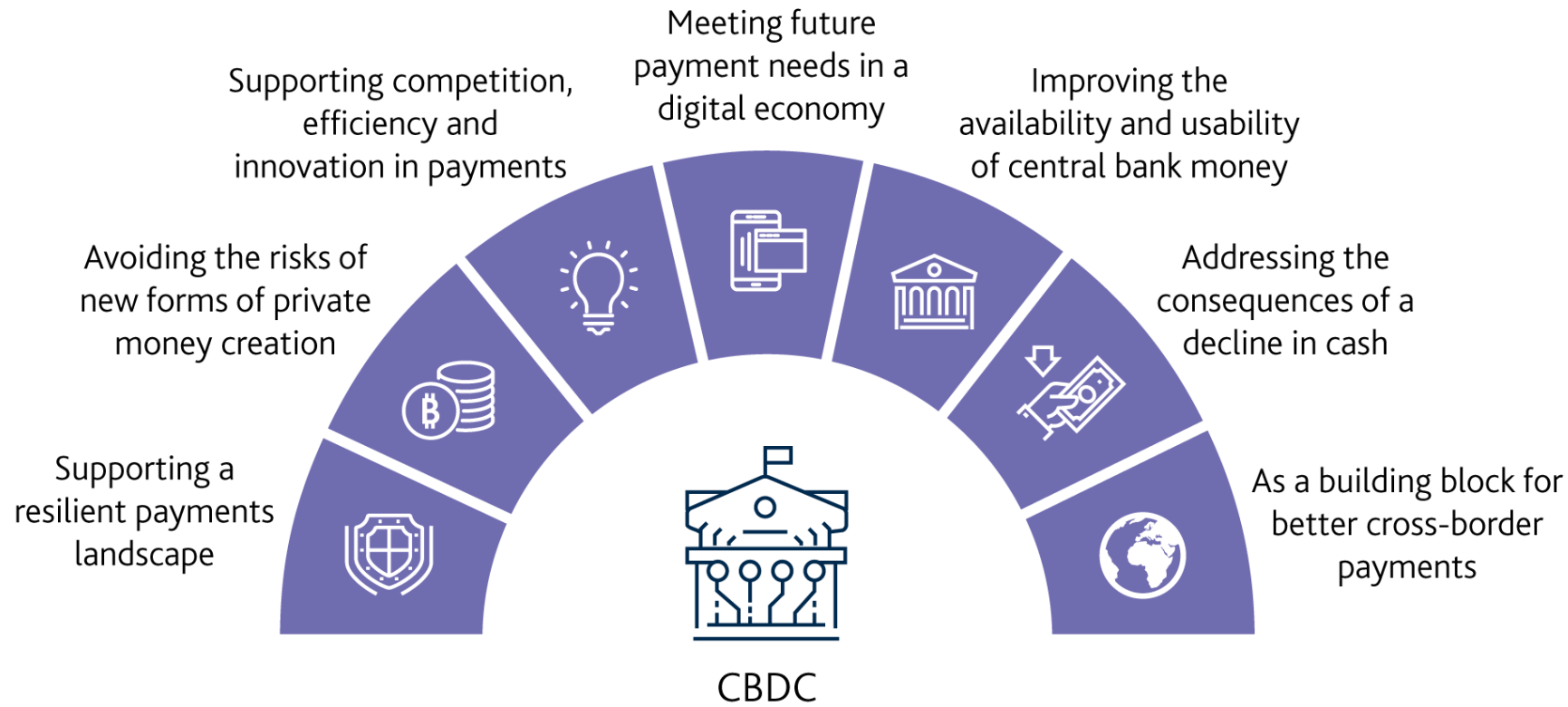
- Risk of fraud, misappropriation, and conflicts of interest.
- Opens door to money laundering and terrorist financing.
- Operations and activities within DeFi are sometimes governed or administered by a small group of developers and investors raising governance issues.
- Risks related to the underlying technology.

Pillars of safe modernisation of the financial system



- ❖ **Legal, policy and regulatory frameworks for the crypto ecosystem**
- ❖ **Modern payments landscape both domestically and cross border**
- ❖ **Up-to-date data governance**

CBDC could support this modernisation



Source: Bank of England (2020) *Discussion Paper on Central Bank Digital Currency*

Three concluding policy points

- 1. Crypto assets are the bedrock of the new financial ecosystem:** consumer protection and financial soundness is the first order of business for regulators. There's an important difference between crypto assets that are backed (stablecoins) and those that are not.
- 2. Opportunities and risks extend well past the crypto assets themselves:** they encompass a rapidly expanding range of financial services, increasingly enabled by DeFi. Risks to financial stability appear to be low now, but are rising.
- 3. The future of crypto depends critically on the regulatory response and how fast the traditional financial system modernises.** Need overhaul of traditional domestic and cross border payments, as well as digital governance. CBDC could be an enabler, and provide a public good.



End
