ACROSS THE POND

Recent Policy Developments in Financial Services

Please get in touch with us if you would like to discuss these and other developments.

Key Policy Developments

US

Spotlight on US CBDC

Digital currency – including Central Bank Digital Currencies (CBDC) – continues to remain top of mind for U.S. policymakers. Recently, a series of reports have been issued pursuant to a White House Executive Order on "Ensuring Responsible Development of Digital Assets." The Department of the Treasury issued multiple studies, one of which focused on the future of money and payments. The report outlined, among other topics, US CBDC design choices and policy considerations. Members of Congress are also focused on CBDCs, as they explore possible benefits and challenges if the US were to issue a CBDC. From an industry perspective, steps are underway to lay the groundwork for the financial community to better evaluate the implications of a wholesale U.S. CBDC across the trade lifecycle. Specifically, DTCC's Project Lithium – in partnership with The Digital Dollar Project and Accenture – is a prototype to explore how a CBDC might operate in the U.S clearing and settlement infrastructure leveraging distributed ledger technology. As the markets evolve and become more digitalized, policymakers and the broader industry will continue to analyze the future of money. Findings from Project Lithium are expected to be shared with a range of audiences as part of ongoing efforts to explore potential impacts of a U.S. CBDC.

Post Quantum Security Considerations for the Financial Services Industry

Financial institutions have historically used encryption to maintain the security and privacy of computer-based information. Most of today's encryption methods use algorithms that might break only after thousands of years of nonstop processing by the world's largest conventional computers. Now experts realize that quantum-based computers will have the power to break those codes in seconds. Some estimate that the majority of data protected with conventional encryption techniques could be vulnerable within the next decade.

While the broad adoption of quantum computing is still in the distant future, organizations and governments should begin assessing their current state and consider the development of their post-quantum risk strategy. The two main components of the strategy should include quantum awareness (build familiarity with quantum computing) and crypto readiness (understanding current data, use of cryptography, and assessing existing algorithms and protocols). In a recent paper, DTCC encourages financial industry leaders to begin the dialogue and prepare for the emergence of post-quantum cryptography standards to ensure the security, privacy, and integrity of the finance industry is sustained.

EU/UK

Enhanced powers and an increased responsibility in the current environment have recently put market regulators in the spotlight.

The UK government published its much-expected Financial Services and Markets Bill in which it repeals the financial services framework inherited from the European Union (EU) to replace it "with legislation designed specifically for UK markets". The Bill offers regulators vast new powers such as the ability to devise new regimes on issues including stablecoins and critical third parties, while establishing a new secondary objective for regulators to promote "economic growth and international competitiveness".
In the area of Financial Markets Infrastructures (FMI) specifically, this translates into powers for HMT to set up sandboxes to allow FMIs to test new technologies; additional regulatory powers for the Bank of England (BoE) over CCPs and CSD, including on resolution and stabilization of CCPs; and rule-making powers for the Financial Conduct Authority (FCA) in the area of Data Reporting Services Providers and Recognized Investment Exchanges.

In the EU, as in other parts of the world, the focus of markets regulators has been on the current energy crisis and the resulting volatility in energy markets. The European Commission has been tasked by the EU's member states to propose emergency measures and is currently looking to address the excessive pricing of gas imports, increased intra-day volatility and energy companies' liquidity stress, among concerns of possible defaults. In coordination with the European Securities and Markets Authority's (ESMA) margin and collateral requirements could be amended to expand the range of eligible instruments to be posted by energy suppliers when hedging commercial activity on financial markets. ESMA has warned, however, about a potential shifting of risks if these rule changes are not "carefully considered, strictly limited in time, and subject to rigorous conditions".

Known Unknowns

US

Midterm Elections

Looking for a refresher on the U.S. legislative system given the current focus on the upcoming November election? For those who aren't on Capitol Hill, here it goes: the United States Congress is comprised of 535 Members and is divided into two chambers—the Senate (100 Members) and the House of Representatives (435 Members). Each Representative is elected to a two-year term serving their specific congressional district. Each Senator is elected to a six-year term and elections are staggered so approximately one-third of the total membership of the Senate is elected every two years. On the presidential front—as you likely already know due to its often global audience—the U.S. holds a presidential election every four years.

This year, 34 Senators and each of the 435 Representatives are running for reelection. In 2022, there is no presidential election – we are halfway through President Biden's current term in office, hence the phase "midterm election cycle". With so many Members of Congress up for re-election, the midterms will have significant impact to the Congressional make-up and could potentially change the power dynamic amongst the two political parties.

EU

'*European Council vs Council of the European Union (EU)*'

Although arguably sounding very similar, these two bodies are not to be confused with each other. The European Council refers to the group comprising the heads of state or government of the EU's member states that meets regularly to define general political direction and priorities of the EU. The Council of the EU represents the member states' governments during the lawmaking process. National ministers from each EU country meet in different 'configurations', depending on the subject being discussed, to adopt laws and coordinate policies (e.g. ECOFIN is the meeting of economy and finance ministers).

With any questions, please do not hesitate to reach out DTCC Government Relations at DTCCGovRelations@dtcc.com.

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