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**FINANCIAL REGULATION**

# Treasury to Warn of Crypto Risks

Reports will feature analysis of crypto markets without offering many specific policy prescriptions



The Treasury Department will make clear that it believes cryptocurrencies present stark risks to consumers if they aren't subject to appropriate regulation.

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WASHINGTON—The Treasury Department will lay out the risks it perceives cryptocurrencies pose to consumers and the financial system in a series of reports that are set to become public this month, according to people familiar with them.

The reports, which the Treasury is completing and sending to the White House, will feature Treasury's analysis of crypto markets—without offering many specific policy prescriptions—the people said. Each will focus on one of four topics: the payment

system, consumer protections, illicit finance and financial stability. President Biden's executive order on digital assets earlier this year commissioned the reports, asking other agencies to also produce analysis.

The reports come as Washington wrestles with how to regulate the cryptocurrency industry and federal agencies battle over who will be responsible for them. Cryptocurrencies remain largely unregulated by the federal government, leaving investors without protections from fraud and market manipulation that come with many other types of investments. The competition for jurisdiction heated up in recent months as a meltdown in crypto markets underscored the need for guardrails in the eyes of many policy makers.

The Treasury will make clear that cryptocurrencies present stark risks to consumers if they aren't subject to appropriate regulation, noting the prevalence of fraud in the market, according to the people. The Washington Post earlier reported on the coming reports.

The effort will examine stablecoins in particular, digital assets whose value is typically tied to the dollar. While the Biden administration has laid out the risks it sees in stablecoins, a report will look at algorithmic stablecoins, according to the people. One major algorithmic stablecoin, terraUSD, lost its peg to the dollar earlier this year and crashed along with its sister coin, both losing a combined \$40 billion in value.

On illicit finance, the Treasury will home in on how decentralized finance can be a hub for laundering money and other criminal activities, according to one of the people.

Another Treasury-led report will recommend that the federal government continue to explore the creation of a digital dollar backed by the Federal Reserve, according to the people. A separate report from the Justice Department is set to study whether Congress would need to approve the creation of a digital dollar.

"They're going to talk about how it is going to be important for the U.S. to be prepared to move forward with a [central bank digital currency] if there is broad support for it," said Eswar Prasad, a Cornell professor who has spoken with Treasury officials about the reports.

The report will describe possible blueprints for designing a digital dollar without endorsing any particular approach. It will discuss other efforts to improve the payment system, including FedNow, an instant-payments system the central bank plans to launch around next summer.

Fed officials have been divided over the creation of a digital dollar, making it unlikely they will soon move forward with one.

Lawmakers have also moved to begin regulating crypto. In the House, a bipartisan pair of lawmakers is negotiating over legislation that would subject the issuers of

stablecoins to federal scrutiny. Several other lawmakers have offered separate proposals for how to regulate digital assets.

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