



# The Future of Digital Currencies

**Highlights from the Tiedemann Advisors Speaker Series  
with Josh Lipsky and JP Schnapper-Casteras | April 2021**

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On April 8, 2021, Tiedemann hosted a webinar exploring the opportunities, risks, and future geo-economic implications of central bank backed digital currencies and digital currencies like Bitcoin operating outside of central banks. Speakers included two experts from the Atlantic Council, a Washington, D.C.-based think tank focused on economics, politics and international relations.

Josh Lipsky is a director at the Atlantic Council's GeoEconomics Center and a former advisor to the International Monetary Fund, the State Department and the White House. JP Schnapper-Casteras is a nonresident senior fellow at the Atlantic Council and the founder and managing partner of Schnapper-Casteras PLLC, a boutique law firm that advises technology companies, non-profits, and individuals about cutting-edge regulatory issues, litigation, and compliance. Both have been extensively involved in analysis and advocacy related to financial technology, central bank digital currency, and cryptocurrency. The webinar was moderated by Michael Greenwald, a director at Tiedemann Advisors and former U.S. diplomat. Here are some of the highlights.

## Defining the digital currency landscape

Digital currencies have been in the news lately, as usage of established currencies like Bitcoin and Ethereum grows. It is now possible to buy a Tesla for Bitcoin, for instance, and some states, including Ohio, allow people to pay their taxes in Bitcoin. "We now see a variety of other financial institutions that make it easier for everyday folks who aren't necessarily deep in the weeds on encryption or digital assets to just buy Bitcoin," says Schnapper-Casteras.

Not all digital currencies are alike, however. There are four main types of digital currencies, including:

- + Established digital currencies, like Bitcoin and Ethereum. These have been around for more than a decade and have the clearest regulatory environment. Pricing is determined by supply and

demand alone. These currencies can be volatile, but they've had very strong appreciation lately.

- + Private stable coins or crypto-dollars, including Tether, USDC and DAI stable coin. Their values are pegged to the dollar, so they don't fluctuate in value like Bitcoin does.
- + Alt-coins, including privacy coins, utility tokens, government tokens, algorithmic stable coins. These are private digital currencies that serve different purposes. They can be more volatile in price and they have a different regulatory posture and risk levels from other digital currencies.
- + Central bank digital currencies, which are issued and overseen by a sovereign nation like a traditional currency but are digital. This has been an area of tremendous growth over the last four or five years and was the main focus of the webinar.

## The emergence of central bank digital currencies

Josh Lipsky explains that there has been an explosion of interest in central bank digital currencies recently. Four years ago, at the IMF, he knew of only two countries exploring this technology. Today, close to 70 countries representing 80% of world GDP are in at least the early stages of developing a central bank digital currency.

A central bank digital currency eliminates private banks as intermediaries between central banks and end users. For instance, stimulus payments like the \$1400 payments sent out in March by the U.S. Government could be sent directly to citizens within hours of the bill's signing.

Central bank digital currencies may use technology similar to other cryptocurrencies like Bitcoin, and all digital currencies offer fast, secure and safe transfer of value. However, Lipsky says that users should be aware that these two types of currency are entirely different in design, intent and usage.

"Bitcoin is decentralized and not tied to a fiat currency, the exact opposite of what a central bank digital currency is," says Lipsky. "It's just so important when people say digital currencies to understand these are not just little differences, but a fundamental distinction. The only similarity is that they're digital."

## China is ahead in the race for the future of money

No country is further along in creating a digital currency than China, a development that many believe may ultimately threaten the dollar's status as a global reserve currency. Lipsky says that the dollar has remained strong through the COVID crisis, but long-term faces some headwinds from China's digital yuan.

Currently China is the world's largest holder of bilateral debt, and nearly 90% of that debt is denominated in dollars. Over time, China aims to convert some of that debt into digital Yuan-based bonds.

Lipsky adds that China is building extensive surveillance functions into its digital yuan so that it can monitor where and what users are buying in real time. These capabilities may undercut the digital yuan's usefulness as a global reserve currency since other digital currencies may offer a greater degree of privacy and security to global users.

### **U.S. and its allies are gaining momentum**

The U.S. and its allies—Europe, the U.K. and Japan—can compete with China's digital yuan by offering their own digital currencies. So far Europe has made the most progress towards a digital Euro, followed by Japan, the U.K. and lastly the U.S.

The U.S. has been slow to explore digital currencies because the dollar is already a global reserve currency, and the Fed is reluctant to undermine that advantage. However, recent statements by Treasury Secretary Yellen and Fed Chair Jerome Powell indicate that the U.S. is beginning to work seriously on this problem. Lipsky thinks they will have a prototype and pilot programs within 18 months and a workable digital dollar within three to four years.

### **Not all digital currencies will be sovereign**

Non-state actors have also been developing digital currencies, most prominently Facebook had a disastrous rollout of its Libra coins in 2019 and has since pulled back and refocused its efforts on a new Diem currency. Facebook's launch brought intensive criticism and controversy and seems likely to have accelerated China's push towards its own digital currency. "While Facebook has been regrouping, central bank digital currencies and other private currencies have raced far ahead. So, they have a lot of catching up to do, while they could have been an industry leader," says Lipsky.

### **Tax and regulatory issues are complex**

In the U.S., digital currencies are taxed as property and subject to capital gains taxes. Schnapper-Casteras points out that there is no de minimis exception, so theoretically users realize gains or losses every time they buy an item with the currencies—even a cup of coffee. He notes too that the current 1040 form issued by the IRS includes a question about whether the taxpayer received, sold, sent, exchanged or otherwise acquired virtual currency, a clear sign that the IRS is focused on these issues.

The tax and regulatory issues surrounding digital currencies are complex because they are subject to multiple different agencies at the same time. "A digital currency can simultaneously be a security for SEC purposes, a commodity for CFTC [Commodity Futures Trading Commission] purposes, money or value for treasury purposes and property for IRS purposes, all at the same time," he explains.

### **Managing the carbon footprint**

As global economies wrestle with climate change, debate about Bitcoin's massive energy use has grown heated. Schnapper-Casteras notes that Bitcoin mining currently requires about as much electricity as a small country. But, he adds that other forms of currency use energy too—think of the cost of maintaining tens of thousands of ATMs

or of heating and cooling thousands of retail banks—and that the real question may be more about how we modernize the grid to deliver clean power, rather than limiting the amount of power available to digital currency miners.

## Equity and inclusion

Digital currencies such as Bitcoin and Ethereum have, so far, appealed mostly to wealthy people, but both Lipsky and Schnapper-Casteras caution that central bank digital currencies will have to change that, reaching individuals at all income levels and promoting equity and inclusion. This becomes particularly important if a government-run currency is used to deliver fiscal stimulus or unemployment and SNAP (Supplemental Nutrition Assistance Program) benefits, as many observers expect. “You have to make sure that you don’t have a two-tiered system with a stigma around the government-run money,” Lipsky explains. “Because you cannot have a bifurcated financial system in that way. It will basically undercut the trust in both.”

If these problems can be solved, however, digital currencies have great potential for bringing low-income and underserved people into the economy and banking system, says Schnapper-Casteras. “When one in 14 Americans is unbanked or underbanked, having central bank digital currencies helps all types of digital currencies,” he concludes.

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## Additional Insights on Digital Currencies:

### The Future of Digital Currencies

Webinar recording | April 8, 2021

### What Happens to the Dollar If the Chinese Digital Yuan Goes Global?

By Michael Greenwald | April 13, 2021

### The Rise of Central Bank Digital Currencies

EconoGraphics by GeoEconomics Program and  
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### Virtual Currency Terminology

A glossary of key blockchain terminology

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