



March 3, 2023

Ms. Rachel Wallace
Deputy General Counsel
Office of Science and Technology Policy
Executive Office of the President
Eisenhower Executive Office Building
1650 Pennsylvania Avenue
Washington, D.C. 20504

Re: FR Doc. 2023-01534, "Request for Information; Digital Assets Research and Development"

Dear Deputy General Counsel Wallace:

We welcome the opportunity to provide the Office of Science and Technology Policy with our feedback to the Request for Information titled Digital Assets Research and Development. We want to express our appreciation for your efforts to prioritize research and development related to digital assets and their underlying technologies. We agree that responsible innovation in these technologies and their applications will provide significant benefits for the American people, and we appreciate the Administration's approach to advancing innovation within this emerging technology with a whole-of-government approach that starts with collecting relevant details, often from industry participants such as ourselves, which we are more than happy to provide.

The Hedera Council ("Council")¹ is a coalition of twenty-eight (28) independent and unaffiliated organizations who collectively operate and govern a Distributed Ledger Technology ("DLT") network based on the hashgraph consensus algorithm (the "Hedera Network")². As with other DLT networks, the Hedera Network provides a network-native digital asset for application developers and users to utilize when making the micropayments required whenever they consume a Hedera Network service, i.e., whenever their application makes an API call to the network. In the case of the Hedera Network, that digital asset is called an "hbar." This is a fundamental requirement of any public implementation of digital asset technology because

¹ <https://hedera.com/council>

² <https://hedera.com/how-it-works>

anyone can use such APIs to build Web3 applications with high throughput, fair ordering, and low-latency consensus finality in seconds without relying on centralized infrastructure, but only if there is a cryptographically secure method of fairly compensating all of the decentralized infrastructure providers responsible for making these services available to the public. In the case of the Hedera Network, our coalition of independent network node operators provides these services in an environmentally and financially sustainable manner, as documented in a 2021 study from University College London that was updated earlier this year³. This is partially due to the fact that the Hedera Network uses a proof-of-stake security model, which is an increasingly popular and environmentally sustainable method of securing a distributed public ledger.

We have focused our response on Question 4, “R&D that should be prioritized for digital assets.” Below we highlight the importance of the development of digital identities, useful in helping a potential U.S. CBDC system align with policy objectives.

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Digital identity is a nascent yet critical component of digital asset infrastructure for a wide range of digital asset applications. While there are also significant privacy considerations that must be accounted for, the implementation of flexible and secure digital identity functionality will enable various applications to achieve regulatory compliance, manage risk, and adhere to public policy goals. Additional research and development on digital identity is likely a prerequisite to the implementation of a central bank digital currency aligned with the Biden-Harris Administration's *Policy Objectives for a U.S. CBDC System*.

Additional research, development, and testing of identity token⁴ functionality and other digital identity implementations is necessary to ensure a balance is achieved between protection of privacy rights and mitigation of illicit finance, and to ensure the tools are used to promote democracy, equity, and fairness as part of a future U.S. CBDC. Specific areas of research and development include appropriate standards for determining identity, appropriate cybersecurity standards for identity tokens and any vendors or contractors hired by the U.S. Government to implement a digital identity system, and ensure that updates of the digital identity infrastructure are efficient and secure to avoid breach of confidentiality, economic losses, or downtime of the digital identity system.

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³ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4324137

⁴ <https://hedera.com/blog/the-rise-of-the-identity-token>

We welcome additional dialogue on digital identity and its associated standards and privacy considerations, as well as other ways Hedera can support research and development efforts to achieve the Administration's *Policy Objectives for a U.S. CBDC System*.

Sincerely,

A handwritten signature in black ink, appearing to read "Brett McDowell". The signature is fluid and cursive, with the first name "Brett" being more prominent than the last name "McDowell".

Brett McDowell, Chair
Hedera Hashgraph, LLC