



Podcast Transcript

The Cloakroom with Peter Roskam – Congressman Bryan Steil, R-Wisconsin

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Rubenking: Welcome to The Cloakroom with Peter Roskam. Former Congressman Peter Roskam leads BakerHostetler's Federal Policy team. Through interviews with leading members of Congress, Peter provides an insightful, firsthand view into the latest policy and political debates on Capitol Hill.

In today's episode, Peter is joined at the 36th Annual Legislative Seminar in Washington, DC by his BakerHostetler colleague, former Congressman Heath Shuler, and Congressman Bryan Steil, a Republican from Wisconsin. First elected in 2018, Steil serves on the Financial Services Committee and is a policy leader on digital assets, financial technology and AI.

Peter, Heath and Steil discussed what Congress is doing on digital currencies and how to promote innovation in financial services.

Let's listen in to The Cloakroom with Peter Roskam.

Roskam: Hey Bryan. Delighted. Glad you're here.

Steil: Great to see you. Thanks for having me in.

Roskam: Well, Congressman, thank you for coming. We appreciate your time representing the Old Wisconsin One, Paul Ryan's old seat and lot of manufacturing, a lot of stuff going on in Southeast Wisconsin. You're also chairing an important subcommittee at the financial services committee. Can you give us your state of

play in terms of digital assets and what people should be thinking about and how you're looking at things?

Steil: So, let's jump up to 50,000 feet on Web3 because I think that sets the stage for people that aren't living and breathing this every day. And so, I'm of the belief that we are exiting Web2 and entering Web3 and that is the next evolution of the web. So, if you think of Web1, that was the ability for Harvard to send Stanford a document, over the Internet, you could read the document. Web2 is a lot of what we've been living in since somewhere in the mid to late 90's and that is your interaction, heavily corporate owned, but your ability to write in discourse across the Internet. What we're entering is Web3, which really provides individual ownership, will truly democratize the web.

And as we're talking about it today, the way that I can best describe this is if went back into the mid-90's and we're talking about Web2. And you and I would sit down, and we have a lot of people on the business side and investors, and they might have sat down and said let's make an investment. AOL will be like a utility, and we'll pay 30 to \$50 a month to access the Internet through AOL. Buy that if you want to buy a utility stock. Apple clearly is going to go bankrupt because everything is going to shift to the IBM platform and Apple stock was down and then you'd say pets.com is a really clever way to buy your pet food, put a bunch of money in pets.com.

And of course, with perspective, you look back and you'd say, okay, AOL is not how you access the Internet. You often do it through Verizon or your other provider on your phone. Apple actually turns into a multi trillion dollar company and pets.com is a total bust in the.com bubble. And so, as we enter Web3, it is predicated on blockchain technology and companies have been investing and building this space for now a little over a decade, but we're at the cusp where consumers are going to start interfacing with Web3. That then calls on Congress to set rules of the road to make sure that we get this right in the same way that I believe, actually Congress in many ways got Web2 correct. And so, in that is two key pieces of legislation that we're working on.

One is stable coin legislation. That is moving in both the Senate and the House. We can talk about that in detail if you want. The other is a market structure bill that really sets the ground rules about how we regulate the tokenization of this, which is one channel of the blockchain technology, but a really important piece because that is the broader economic structure that is needed inside of blockchain technology. So, if you turn on your TV, you'll get a lot of attention to the tokenization side to Bitcoin stable coin, essential components of the broader Web3 blockchain technology and then we are focused in on making sure that we get the regulatory environment correct in that very narrow linear that will really unlock I think a lot of the development and capital investment in Web3 technology.

Roskam: So, are these, how do these relate then? Stable coin and market structure? Is it chicken and egg? Do you need a market structure bill first literally to create this or how are we to understand that?

Steil: You could call it two sides of the same coin. You could call it peanut butter and jelly. You need both to make the sandwich. And so, I think you ultimately need both to truly unlock it. Market structure says how are we going to broadly regulate anything that enters into the digital asset space? And what we saw under the Biden administration, in particular under Gary Gensler, the Securities and Exchange Commission, was a really heavy-handed approach that pushed down and prevented development in this space. And what the end result was of his heavy-handed approach enforcement actions really creating the policy rather than a thoughtful, structured approach was not that he ended innovation and development in the space. What he really did is shifted it offshore and failed to protect consumers.

So, if you think about the FTX debacle, one of the things that should immediately jump out to you is, why was this located outside of the United States? It was an entity that wasn't regulated, did not have good structure. It did not have custodial accounts that you would at a financially regulated entity and then it had a fraudulent behavior on top of that. When you combine fraud with poor structure, you create a worst case scenario for American Consumers. And so, we have a huge opportunity to put in place a market record that says here is the role of the Securities and Exchange Commission. Here is the role of the CFTC on the commodities side. Here is the sandbox you're able to operate in with regulatory clarity. And when we do that, I think you'll unlock and unleash a lot of innovation and development in the space.

One component of that is stable coin, which is a tokenized value but directly tied back to the U.S. dollar. And so, it is audible, it is traceable, and it would be inside a U.S. regulatory framework. And that is the debate that is going on right now. The Senate has the Genius Bill. I carry the Stable Act in the House. If we combine them, we'd have a stable genius which was not planned but is the two names of the bill, but that really sets for de-structure in particular on the tokenization of the U.S. dollar. And if we do that right, what you will see in my belief is a strengthening of the need for the U.S. dollar across the globe and dollarization.

And so, we step back and say, it is easier maybe to see the need outside the United States than inside if you think about it initially. So, if you were a day laborer in Venezuela, if you're a day laborer in Argentina or in Zimbabwe, you might not feel comfortable on the currency. And so, if, at the end of the day you worked your tail off working in a farm field and you came and asked for payment, you could be paid in Argentinian pesos or you could be paid in stable coin backed by the U.S. dollar. You might be very interested in receiving payment backed by the U.S. dollar because it is a far better store of value in a country that doesn't have currencies.

In the U.S. you can think about this in the ability to transact money across borders in a far more efficient and seamless manner. And so, you think about this in the context if you are a global company and you are acquiring an asset in a foreign location. Currently you might be wiring money from your New York based bank account to your Dutch BV Holdco down to a Cypress entity to buy

something in India and that would take you about a week to get those funds through. If you do this in a stable coin structure, it is 24 hours a day, seven days a week and it is instantaneous, and so you could transfer those funds through those entities all the way into India to buy the asset. The seller, the asset could transfer it all the way back and you could do that instantaneously removing significant friction in payments in the United States and across the globe.

Roskam: So, if you had to do a jailbreak, if you had to, they're after you in Wisconsin and you're, they're coming for you, and you had to figure out how can I get money somewhere that I'm going to end up in Ecuador or something. What, which of these vehicles would you use?

Steil: I actually don't think cryptocurrency makes the risk of money laundering any higher than any other structure. And so yes, you could use a cryptocurrency. The, what is interesting about blockchain technology is that it is actually uniquely traceable. And so by using the word crypto, a lot of people think that you're not able to see it. It is actually the opposite. It is actually a distributed, distributed ledger that you can actually trace and follow.

And so, I often talk to my friends on this regard that we don't want any money laundering, we don't want any financing of terrorism, we don't want any payment for drugs globally across. Off the board, but as we think about new technology, I think it is really important to say what is the standard with which we will analyze and review this technology? And my, that I think the standard is the what is currently existing, not perfection. That doesn't mean we're not chasing perfection. It means we're measuring this against the steady state. So, an individual could clearly take a duffel bag of \$500 bills and exit the country reasonably easily, reasonably untraceably. They could put in bars of gold. That is a little bit heavier, but you could haul that out as well.

Roskam: To New Jersey, for example.

Steil: Yeah, we won't go too far down there, but bars of gold, and you could think through, right? You could transact packs of cigarettes in countries illicitly. And so, the standard that we need to be viewing new technology by is not perfection because it won't be perfect either. That doesn't mean you don't work against money loan and you don't work against terrorism financing all critical things that we need to be doing across the board, but I don't think that the cryptocurrency side is uniquely dangerous vis-à-vis all other forms of money or value transfer.

Roskam: Are there libertarian voices that are saying, hey, just don't touch it, it is fine. We don't need any of this? Or where are the tensions that you're trying to deal with?

Steil: So, I think there's two challenges on the spectrum. So, let's go to the far left first, which is I view as the nanny state which you can do nothing without explicit permission. I would almost put Gary Gensler in the former approach in this bucket. The fallacy of that argument is that this is occurring, you're simply able to push it offshore. And so, what we saw during the Biden Administration was a lot of innovation and development occurring in places like Singapore or Switzerland,

the Bahamas, the Cayman Islands, and many of those companies were saying, let me come into the United States. I want to be regulated. They were pushed offshore. Higher risk FTX debacle is a perfect example. That is a higher risk for American consumers.

My friends on the right that take the far extreme approach, the libertarian side that says, don't regulate anything in this space, because what you'll do is goof it up. The fallacy of that argument is there is regulation because there is enforcement actions through the SEC and the CFTC. There is also laws on the books today addressing fraud, addressing money laundering, addressing stocks, etcetera, that they're abiding by. They're just not a good fit in the digital asset space.

So, failure to act, to my friends on the libertarian right, failure to actually creates a worse regulatory environment for capital deployment. And if you're thinking about the capital deployment side, it is actually reasonably easy to model bad legislation, right? So, if you raise the tax rate, you can model that out and figure out how to invest around that. It is not a good idea, but you can figure out how to do it. Regulatory action and enforcement actions that are driven by the whims of politics is virtually impossible to model against. Are you going to be the target of the DOJ investigation of the SEC investigation and some of these companies became that and had 10s of millions of dollars in legal expenses to try to launch their Web3 technology in the United States. And so, to my libertarian friends, is pulling them back and saying don't take the fallacy that failure to legislate in the space creates a laissez-faire system. Failure to legislate in the state allows the current regulatory environment to continue in an incredibly inefficient manner.

Roskam: That is interesting. If you get this bill done, so and I wanted to come back and just probe into what some of the differences are in terms of the House and Senate approach, but let's assume the bill gets. You know, and implicitly in your conversation, in your observations, you didn't say it this way, but what you're really saying is technology outpaces legislation every time. And, I mean, even the cadence of your speech, I'm like, wow, man, I'm working to keep up with you. And there is an intensity of the flow of innovation that we're all experiencing.

Let's say the bill gets signed into law, what will be the next thing that you as one of the authors, one of the key people of this bill, people are going to be coming to you saying, Congressman, here is this thing that weren't able to get done. We need to contemplate this. What will be the next thing that stable coin, etcetera, is going to be wrestling with?

Steil: I have bought into theory that Web3 technology is going to be transformative, and I think many people who are in this space believe that.

Roskam: By Web3 you mean blockchain...?

Steil: Blockchain technology is the underpinning aspect of what makes it Web3. So, it is a blockchain Web3 transformative. And I think if we, what is challenging the human mind is really good at understanding incremental change. It is really not

good at understanding transformative change. And the way that I always think about this, if you ever go back and watch Back to the Future 2, and they travel to 2014, which should scare you just because it was 2014 that they travel to, they're in there and there are flying cars because that is incremental change. If you drive a car, wouldn't you rather fly a car? But they're taking phone calls in phone booths because they couldn't conceptualize in sci-fi, right? They couldn't conceptualize a cell phone that is not connected to a wire. And so, if we think about that, and then we shift that slightly, there is going to be transformative change in this space that today you and I aren't thinking about. And what that is hard to tell. It is the analogy of thinking about this in the Web2 context.

And so, Web2 unlocked, for example GPS on your phone. So, if you would have said, why would I ever need GPS on my flip phone? That makes no sense. Then you got to a spot where, of course, most people probably couldn't drive to visit a relative without GPS on their phone and navigating the car for them. But you couldn't see that when you still had a BlackBerry. You were upset that your keyboard was going away, right? I mean, so, so this is the transformative change that is coming and in Web3.

So, there will be roles for regulatory environment but today it is hard to I think for a lot of us to envision that. But if you step out, you think of it maybe in the legal context, you could easily say what really unlocked capital investment in the United States and across the globe goes probably all the way back into the 1600s when you created a limited liability corporation and you say you can actually deploy capital and that capital is what is at risk rather than the individual at full risk, right? So, you shift away from a partnership model. As we move into value being distributed, being uncontrolled and being digital, that value structure really gets interesting to start thinking about. Who is the, where do I go back to if there is a problem? And so, there'll be more legislation in this space. I think, finding out how to do that where it is needed is going to be an ongoing conversation and as you correctly noted, Congress is built to be reactive rather than proactive and the speed of change that is occurring in this technology, the reason billions and billions of U.S. dollars are being invested into this type of technology is because it is going to be transformative. Investors are seeing this and as these things come online, Congress is going to have to continually dialogue, review and analyze, but not over-regulate because we really dominated the Web2 era.

What sets the United States apart from the rest of the globe over the past, in particular, 10 to 15 years and compared to our European allies and Western Europe, Japan, Korea, Australia and others is really that the United States is the domicile of the most important Web2 companies, Google, Meta, Facebook, right, Amazon, go down the list, with really just the asterisk and exception being TikTok. We went to the Kremlin today and walked inside, I bet they're running either IBM platform material. They got Apple equipment in there. They're Googling for information. You can envision what would have happened if we had gotten Web2 wrong and you, Raja Krishnamoorthi was just here talking a little bit about what we need to do to compete with China. Envision if your ability to

Google Information was off of Communist Chinese party platform. If your technology and innovation, development is all dependent on that.

And so, getting this right in the United States so that these companies domicile here is going to be essential in not overregulating where we push them offshore every time we identify a potential risk rather than thinking about how we navigate and structure around that risk.

Roskam: As one of the leaders of this pack, how do you keep the donkeys and elephants at bay? Because you're onto something so big and so consequential. You're there at the founding. Generationally, you're right in sync. You know what I mean? You're like, you're about to ride a wave, man. I mean it is like whoosh. It can get completely messed up if this becomes just charred up with partisanship, etcetera. How do you as a thought leader in this space, make sure that there is room on both sides and that somebody doesn't come in and just big foot it by putting a neck tattoo on you that says hey, this is a big Trump thing, or this is a big this thing or a big that thing. You take my point? I think it is, you have, there is a lot at risk and a lot on you to make sure you're not the person that screws it up. How do you make sure that you're leading this on a pathway so that this actually lands well?

Steil: So, I in addition to chairing this subcommittee where I spend a massive amount of time, I chair the Committee on Administration...

Roskam: Yes, you do. We're going to ask you about that.

Steil: ...which oversees the operations of the House when you get into the details of it, but that gives me a platform to interact with almost all of my colleagues on an incredibly regular basis and then having those personal relationships, how I've gotten to know Raja Krishnamoorthi as well as I have. And as you think about those types of relationships, then you can go back and discuss it on the substantive policy side and if people see it in a context of the importance of a U.S. broader geopolitical aspect of the way that we interact with Web2 technology and the wealth that's been generated, the amount of people's retirement accounts or pension funds that are directly tied to the growth of these U.S. domiciled companies, I think then people can set aside some of their natural partisan instincts that want to come to the table.

And to push against the extremes on both sides, I referenced the nanny state and the ultimate libertarian, my heart is with the libertarian, right. But you have to then pull back and come in and at the end of the day, much of this is not inherently partisan. And so, I think of a gentleman like Ritchie Torres, a progressive from New York and he wears the label progressive with pride. So, I don't mean that in a negative way. He is a great thought leader in this space with us, right. We have other people, Warren Davidson, who is probably the true Republican Libertarian on the issue. But all of us sitting down and saying, let's get this right because many of us see this as transformative. In the air of the Biden administration, the air of Gary Gensler, I think, is becoming more clear, including to my colleagues on the left, they don't need to call it out by name but I

think through the policy actions that they're engaged in and their co-sponsorships and others show that there is a strong disagreement with what was occurring previously and that is what makes this such a unique moment in time to be as transformative as I think we will be when we move forward with market structure legislation and then a key component of that being the stable coin legislation, I think will actually pass in the not too distant future.

Roskam: Congress is an institution, is designed for incremental change and there is, it, there is a Jefferson quote that I'll share with you and I know if I'm laying Thomas Jefferson on you, I'm not playing fair, but Jefferson said the ground of liberty is to be gained by inches. We must be content with what we can get from time to time and eternally press forward with what is yet to get. It takes time to persuade men to do what is in their own good. There isn't really time for incrementalism here. You've got to get something done and get it in place and then be able to build on it.

I think there is going to be, I mean, there is a lot of interest in our firm among our partners, I know from people who are deeply, deeply interested in it. My question is are your constituents talking to you about this? Are you reflecting a constituency in Wisconsin's first district? Are you leading a constituency? You take my point? Where you're not smarter than your district, you are more informed than your district on this. How would you characterize that the kind of discussions you're having at home about this?

Steil: So, there are people that are engaged in this broader space. There is no doubt about that. But I think this is going to impact everyone. And so, it is a unique policy area because this is like sitting back and writing, in my opinion, it is like writing the 33 and 34 Act of Securities laws and explaining to people why you need a structure in securities law and it will unleash capital deployment in the United States of America and people would say we're just putting some money together for a widget maker in Kenosha, Wisconsin. I don't understand your idea of the 33 and 34 Act. Just get out of the way. We're good right now.

But then with perspective, you're looking to say the United States has the greatest capital markets in the globe and every individual saving for retirement across southeast Wisconsin is a beneficiary of the United States having the most robust capital markets. And so, I think what we're doing is really unlocking and democratizing the Internet.

So, what do I mean by that? Currently today you're going maybe posting family photos on Facebook and up they go or on Instagram and you walk away and you don't think about the value that is actually being generated by your action. But then if you step back and recognize that meta is a 1.5 trillion dollar market cap company, clearly your action is generating value. It is just being captured by someone other than yourself.

And so, inside blockchain technology, it really unlocks the ability for you to have digital ownership of what you are creating and that the family photo is a silly way to think about, but you could also think about this is someone who is producing

music. You're currently going through multiple intermediaries before that value actually comes back to you. In theory in blockchain, you could be doing that without the intermediaries. You could think about title insurance. Why do you need title insurance? And of course, when I bought my home I bought title insurance, right? But if you went back and step back and said if you're buying a quarter acre lot in Kenosha, Wisconsin, why are you paying \$1000 to be able to go down to the county courthouse and file a sheet of paper? You, in theory, could build that out where everything exists out on the blockchain, and those transactions become seamless and the efficiencies you're creating.

There is actually an individual I met in Japan, they have a great, they have a better regulatory framework than we do right now in the digital assets space, and there is an individual investing in this proof of concept to model out every square inch or centimeter census Japan of the entire country of Japan, commercial building property, in which case all transactions and property in Japan would occur on this blockchain. It is obviously not online. This guy is investing millions of dollars into that project to prove proof of concept and the country of Japan is engaged in them, but if you step back and think about the efficiencies that could be created in the real estate market, it'd be profound.

And so, many of these technologies, if you think about what will come, will be transformative to every single person, not only in the United States and only in Wisconsin, but across the globe. So, and I think getting this right is essential for that, for all individuals. But then if we think about it from a U.S. perspective, the U.S. policymaker in me wants to outcompete China, and China is investing in this space and making sure that we get the tech right really is as we did in Web2, these. U.S. domicile, I have my own problems with big tech that we could have a whole panel on that but. But we are beneficiaries at their U.S. domiciled companies and making sure that the Web3 side of this is still domiciled in the United States will have a massive benefit to every American. And I think that is a hugely important issue.

Roskam: Do you have, just shifting gears, you mentioned your chairman of the House Administration Committee, which is the ultimate inside baseball committee. I mean, you're making decisions about who, where people are getting, where they're parking and what their furniture is and people are interested in how your day is going. So, can, you also have jurisdiction over elections and there are many people in our country that are running above idle in terms of election integrity, and we hear it on both sides. We hear one group of people say, hey, these people are being disenfranchised, and votes are being suppressed. You hear another group of people saying, hey, these this election is, it is stolen, etcetera. How are we to understand where we are today as, as somebody who is literally overseeing the election integrity efforts in the House right now? How are we doing as a country?

Steil: I think we have an opportunity for improvement, and we have to remove a lot of the hyperbole in the space. And so, if went back and looked with empirical data, we could go back to Georgia's election law that was passed in 2021 in the state of Georgia. And if you recall, this was heavily criticized by the left. Joe Biden

called it Jim Crow 2.0. Major corporations spoke out against it. Major League Baseball moved the All Star game out of Atlanta, I think to Colorado in protest over this legislation. Of course, now we've had two major elections since then, so you can actually go back and study, how did this legislation perform? And if you actually go back and do the data, which is why we don't hear complaints about it, is because actually it worked really well, and the University of Georgia did a massive study to understand how did it work across all key demographic groups and what the data actually showed is that people participated at incredibly high levels and when they went into the survey statistically, it is interesting, statistically, 0% of blacks had a poor or negative voting experience in the state of Georgia. Doesn't mean you can't find some. I mean statistically after a massive study, 0% had a poor or negative experience on the voting structure, which means in my opinion, if you put in place good election integrity provisions you actually enhance people's confidence in the elections and then more people will participate.

And so, I think there is a lot of good, thoughtful reforms that we could implement that would actually improve people's confidence in the system in so doing, you'll actually improve participation. And one way that I think about this is there is not only the accountant that needs to be okay with how we do it. The psychologist also needs to be in the conversation. So, if we leave elections and went to a casino and sat down at a blackjack table, you would sit down and the dealer would play the cards. You, if I'm the dealer and you're playing cards with me. You decide when the game is over, you decide to be hit or not hit on your card. The game is now decided. We don't know the result, but the result is known.

Then the dealer flips their cards first. You flip your cards after there is a, that is purely psychological, that the game has been decided. When we go into elections, we have to also think about the psychological aspect of the timing of producing the results in others, not in the space aliens are coming and stuffing the ballot box aspect, but in the sense of how do people think about the trust and confidence in the process? And that gives an opportunity, I think for everybody to come to the table and say let's get this right psychologically, not just where the accounts and the actuaries say that is a correct way to play the game. And I think we could dramatically improve people's confidence in the elections.

Roskam: That is great insight. Senator or Congressman, hey, just saying. Thank you for your time. We've really generous and really insightful. So, thank you, Bryan. Appreciate it.

Steil: Thank you.

Roskam: Delighted. Thank you.

Rubenking: Thank you, Peter, Heath and Congressman Steil. If you have any questions for Peter, his full contact information is in the show notes. As always, thanks for listening to BakerHosts and "The Cloakroom with Peter Roskam."

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