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Welcome to another episode of Bitcoin Fiat and Rock and Roll. I'm Stefan Graßmann. Today's guest is Chuck Mounts. Chuck and I met in early September in Brooklyn at the RWA Summit. We got on the same page quite quickly. It was clear fast. Chuck has to come on our show. I'm really glad it worked out. He has seen finance from many chairs, from bank examiner at the New York Fed to the first

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Chief DeFi Officer of S &P Global. What a cool title. He speaks for himself today. Chuck, welcome to the show. Thank you, Stefan. I'm really thrilled to be here. And it does seem like quite a while ago, we were at the RWA Summit. And as you said, we aligned quickly on an understanding of the marketplace and the path forward. So I'm really thrilled to be here today. By the way, I've also just, you mentioned my role as a Chief DeFi Officer at S &P Global, which was my most recent corporate role.

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Today though, I am representing my own views and not those of any company. Understood, clearly understood. Chuck, most of our listeners in Europe might not know you yet. We will change that obviously today. You have seen finance from many different chairs. Could you take us through your career in your own words for a few minutes to get to know you better? Yeah. So I started my career at the New York Fed where I was an international bank examiner.

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And what that means is I was responsible for doing exams for international banks in the second district of the US. And I did that for several years and then got brought in-house into a special unit to develop and create bank recovery programs for banks that were being capital stressed. You remember that was the early 90s. So there's a lot of banking crises around the world. And so I had primary coverage of Japanese and Dutch banks.

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and worked with banks in the second district to build a recapitalization plan for the New York Fed. From there, I went to Wall Street. My first job on Wall Street was at Merrill Lynch, where I was a foreign bank analyst covering Japanese and UK banks. And that quickly spread to covering global banks on the sell side. And in that regard, I was giving investment advice to institutional investors of which banks to buy, and hold in credit markets based on my

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analysis. I spent the next, I don't know, almost 20 years on the sell side doing that, primarily at Merrill Lynch, UBS, and Goldman Sachs. During that timeframe, I spent 10 years working and living in London. So I moved over with Goldman Sachs at the introduction of the European, the Euro credit markets to help them build that business and then left as the global co-head of thick research for the investment bank at UBS. So that's fixed income currency and commodities. I

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oversaw the combination of 17 research silos into one integrated FIC research platform. And at the same time, I was one of the three people who represented UBS with the UK

regulatory authorities as the FSA. So I've had like a lot of kind of regulatory experience and policy experience.

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navigating, covering global banks, you had to understand not only the industry itself and how banking works, but you also had to be able to overlay the policy framework and the political framework as it's connected to navigate what names investors should be buying, selling or holding. Then leaving Wall Street, I launched a hedge fund.

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a discretionary global macro fund for a few years and we didn't raise the institutional capital we wanted, so we ended up winding that down. And that's when I went to S & P first as the global head of research and design in the index business. And then I became the chief index officer in the index business that had responsibility for most of the front office, including product management, research and design and strategy. And then from there, I moved into being the chief DeFi officer.

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which was kind of a new role that was created when in my discussions with the CDO around building a platform and capability in the digital asset market and really taking the data analytics and benchmarks that S & P was famous for in traditional markets and bringing those on chain, making them relevant and functional in on chain markets. And so I started that role, that mandate in about 2020.

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And then so for the last six years, that's what I've been wholly focused on is the digital asset markets and really helping organizations and stakeholders navigate from a fully off-chain market to what I believe will be a fully on-chain market. Cool, cool, cool, cool. So that's the pathway. But Chuck, hold the horses before we dive into that cool role. I really envy you for that title actually, because I did a lot of DeFi back in 2020 on my private side. But before we dive into that...

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When we prepared the call, you said you had some time over here in Germany too. So the German listeners might be interested into, into that little fact. Yes. So, um, as I said, I lived in London for 10 years. Uh, but in, in addition to that, I studied that and went to the university of Weiber for a semester and my program was in German. Uh, so it's been a long time since I've spoke that amount of German. Uh, but I have learned that...

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You know, that is different than each been I'm Berliner. So I learned, you know, like becoming fluent in German at that time and really loved my study abroad experience both in Germany and in Denmark actually. So I've had many different touch points living in Europe, but also working in Europe where I was based in London and on the South side, I had the great

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opportunity to work with all the leading largest investors across the continental European land state and have done a lot of work on the German banking system, the German financial system, the products in that system, the in working with investors in that system. So, you

know, I feel like that's been a very interesting part of my career and has helped form my baseline set of views and understanding of how markets function.

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because of that diversity of experience across different financial systems. That's very cool. And actually, I think these days we would need more Americans with something more exposure to Europe and its values. When we discussed the podcast, thought, okay, maybe we can bring the people together a bit closer with that one. Let's see. It's a high goal, but really glad to see someone who has seen so many countries and different financial systems. think this global perspective really helps to bring

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systems and people together? Because there are some very common themes that run across global financial systems and then there are very specific and idiosyncratic perspectives that influence kind of an operating system in a country or a region. But some of the basics that span across are the role of trust, the role of leverage in the financial system, the navigation between idiosyncratic risk and systemic risks.

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Those are things that are common across all financial systems. And I've seen it firsthand. Absolutely. We'll dive into that. But one last personal thing I wanted to stress is you also told me that you were a top ranked analyst in the US and across Europe for some years. That's also an achievement. Tell us about that and how did that come to be? Yeah. So, you know, I got my first II ranking.

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early in my career after being on Wall Street for two or three years, an institutional investor introduced the global banking category and I was the first analyst to get a number one ranking in that space. And that I held that number one ranking for many years. I ended up accumulating a total of eight number one rankings from institutional investors. And I was ranked top three 15 times over my career in both North America and in Europe.

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So that's an unusual position to be in. that's, think by virtue of the fact that my coverage was global banks. And so there's a lot of demand for that coverage of what's happening kind of globally in the banking system. In fact, when I moved to Europe with Goldman in 98, I was their first number one ranked analyst in Europe. got number one ranked in Euro money that first year or year and half that I was there.

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No, and what I really attribute that to is that my policy background, I went to the Kennedy School of Government at Harvard, so I've always really been interested in policy. And so the intersection between understanding banking from my time at the Fed with my innate interest in policy and diving into how policy gets formed and what are the impacts of that. I think that really separated me or positioned me well as a banking analyst because there's so many different

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pieces that come together to understand how a financial system is going to evolve. And that background and my interests kind of aligned with that. And I think allowed me to kind of shed

a light on catalysts in the financial system and risks in the financial system that were maybe a little different from a lot of my peers. Cool, cool, cool. And then you read the Bitcoin white paper and then you brought that whole stuff to S &P and that brought you into that cool role.

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And I wondered when I prepared this talk, what this mandate was actually about. So could you take us through that journey into your own words? How did you look on that DeFi scene from that specific perspective actually? What was interesting for you? Was it the governance in these DAOs or was it, I don't know, what were the...

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Let's say that the critical dimensions you were looking at, what do you think was extremely different from the traditional world you came from? Okay. So I guess I'd start off by saying it was the most unexpected journey on my part. I, like most, tried five people, maybe all tried five people, I don't know, but certainly like most, I was a complete skeptic and thought nothing of it, thought it was a scam, thought Bitcoin was a scam.

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and gated no credence at all. And then I was asked to do a special project by executive leadership on changes in debt capital market structure and what it means for the ratings business. And I went into that thinking, I've been in markets a long time, I know what this is going to, the findings are going to be, it's a combination of policy and regulation changes, consumer preferences, and technology. So when it came down to the technology piece, I realized I didn't really understand blockchain.

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And so I called a friend of mine who had a crypto fintech startup and he had a prior startup that I sat on the board of where S &P had made an investment and I was kind of representing SP in that board. And so I got to know him quite well. And his comment to me was, well, start with the Bitcoin white paper, just read that. It's not a difficult read, it's high level, but it kind of sets the foundation and then we'll take it from that.

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So I got the Bitcoin white paper and I started reading it and literally like 10 minutes into reading it I put the paper down said oh god if this technology can do what it says it can do This is going to transform how markets work and now I'm not a technologist So I don't know if they can do what it says they can do but the the promise of it is transformational nature So I went back to the executive leadership at S &P

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I said, we need to revamp my project where changes in debt capital market structure that are incremental in nature and everything we know, and then changes in capital market structure that are transformational in nature and center around blockchain, smart contracts, and cryptography. And the executive leadership agreed that we, and my comment was, this is happening. It's already.

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live and real, it's just not scaled yet and you need to focus on this right now. And there's agreement that that's the case. And so from that minute on, all I've worked on is building an

on-chain capability. So at S & P, that meant for me was I saw that the potential to streamline, reduce costs and get more effective execution

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in markets that blockchain promises as the total game changers. And there's a lot of extensions from that in terms of like can come down into really specific component pieces of seamlessness in transmission, money transmission, reducing the layers in the middle and kind of the fee extraction that that entails and ultimately leading to how securities trade, how they're priced.

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what kind of premiums get priced into securities, especially like fixed income, like the balance between credit risk, then subordination risk, structural risk, and liquidity risk. How do all those component pieces come in to create a new pricing mechanism for on-chain securities that is different from off-chain securities? Absolutely.

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At the time, just wonder because I, know, I, in this DeFi summer, used all these tools. I even got a Uniswap ad drop at the time because I interacted with the tooling and Ava was there, for example, to create the future of credit markets. Now they are competing with players like Morpho and stuff like that. So did you also go that route to...

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to really look into some of these more major DeFi projects and thought about, okay, this might hit this depth cattle market thing or how can we imagine the depth of your research? Yeah. So, I guess I jumped in with two feet and I would describe it as a vertical learning curve. So I know and have been in markets for decades and I understand market functioning, but this was all new to me.

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It was an entirely new language. was new concepts. There was new capabilities. And so I really jumped in with both feet to do my own self learning. And I found that the most important way to self-learn is through experience. I got, know, like a, like a ledger and I started experimenting on different protocols to, to, to do, to, to do swaps and trades and see.

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see how it works. And I learned it tremendously throughout through the experience, the experiential learning, but also by actually doing the academic homework of how does all this work and how does it come together? And one of the first things I did, so it's interesting when I, you know, when I, when I spoke to the executive leadership at SMP and we agreed that's when I do this, um, one of the first questions was, what do we need to do right now?

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as an organization. And my answer to that was, well, there's really two things. One is that people who are in roles leadership need to come into this with an open mind. And having an open mind is probably the most important aspect for a Trap5 player to come into this space. And I say that because I had had a closed mind to it. And I recognized that having, know, having the, I was open to reading a white paper. And once I did, was, I was abundantly clear to me,

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kind of the directional travel here, but it's really important that people in traditional companies have an open mind. That's the first one. The second thing that I said that we need to do immediately is upskill our people at the firm and start the learning journal. And that, by the way, includes executive leadership. It's not just people running the day one. It's really across the board. And so the first couple of things I did,

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was set work with our internal training people to establish our learning program across the organization around kind of blockchain and defog. And the second thing I did was launch with another partner, we've launched the digital asset research lab, which initially was focused within one division, but then over time, it spread across the firm. And the whole purpose of that was one, to upskill internal people to get to where we have a real

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bench of expertise within the organization. And then two, of course, to put out a research thought leadership that established their franchise and brand in the marketplace as, we know something about on-chain markets and covering lots of different angles of it. So those are the two of the first things I did in that new role was to kind of start upskilling and build a franchise around education and kind of getting people to where they could. Like, because if you don't know the terms and you don't understand the concepts, can't.

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possibly conceive of how the market structure is going to change and what it's going to mean for your business and your clients. That's true for any company. So I thought that is the foundation. What I really like about your findings is that you tried out. Because I can't tell you how many people I meet even on these dedicated conferences, even today that obviously read

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their knowledge about the whole stuff and which falls short of experiencing it shorthand. Fun fact, I did an institutional DeFi study three years ago when everybody thought I was crazy that institutional and DeFi might work together. even then many people, even responsible people for DeFi, they had the title like you did, but their only exposure was buying Bitcoin on cracking or Coinbase, which is not DeFi, obviously.

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and having this fantastic experience of an atomic swap. think many people talk so much about these atomic swaps and I think if you haven't done it on your own ledger or metamask, it's actually a different experience. You have a different view on it. How different that is from pressing a button in your investment account and trying to buy or sell something, which also feels quite immediately, but less under your own control than...

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than working against an automatic market maker. There's no substitute for doing when it comes to trying to learn and making mistakes. Long story. We all make mistakes. I the first few times that I actually did it and I'm watching the screen and watching the Everscan and seeing like, when it actually, when the money comes in and the trades done, just kind of giggly. Like It actually works.

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Yeah, cool. But let's talk a bit about trust. I think you are a person that's very focused on trust because that's what your analysis brings across. And what's your impression on what the technology does to that trust angle? How does it change the trust angle? It does. It's a complex, I think, relationship and connection between trust and trust in markets. So to kind of really go through this topic, you have to start

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kind of in the trap by market. So trust is an underpinning characteristic of financial systems. And the reason that is, is because financial systems are leveraged. So the banking system is leveraged with the fractional deposit system. And the reason it's leveraged is because that facilitates economic growth. so policymakers for a thousand years have decided that it's worth having leverage in the financial system to get the economic outcome.

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of economic growth that brings with it. And the trade off to that is every once in a while you have systemic crises. So the foundation is the leverage in the system and also the opacity in the system. So that when you've got leverage in the system and something happens and you don't know what the true standard of the exposure is, that's when the trust comes in and leads to bankrupt. And so there's an entire

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industry set up for the last century to navigate that, to protect against idiosyncratic risks, to put frameworks in place that protect against systemic risk, and then remediation programs, the most recent of which, you know, from the global financial crisis and Dodd-Frank, for instance, to how to, what you do when you face those sorts of situations, and what are the steps you can take to try to remediate those underlying factors of opacity.

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and leveraged in the system. So that's the foundation of how global financial systems work and global banking systems work. introduce blockchain. And now all of a sudden, you're bringing in clarity of assets and exposure and the promise of reducing the opacity and markets. And that can be a real game changer in helping to limit the systemic risks that come from a panic.

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Um, if you don't have that in any clarity, what blotching doesn't do automatically is take leverage out of the system. in fact, you know, it increases it, would say that, you know, it can, it can increase it. So I think the promise when you talk about trustless markets, you know, that's the promise, but it's not, it's not in fully true, right?

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because not all markets are going to be fully transparent and there are going to be component parts, whether you're talking like public change or private change and privacy preservation, those are all really important aspects of getting a functioning market. So I think the relationship or the expression of how trust is baked in can change, but the underlying basics haven't changed moving from an off-chain market to an on-chain market that is the leverage in the system.

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and still not full transparency in the marketplace will require still some level of trust. Now one thing that is a little different when you move to an on-chain world is you are eliminating or reducing counterparty risk. So with atomic settlement and immediate transactions, you are taking out a layer intermediary risk which plays into the systemic risk question.

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So I think that, you know, I don't have all the answers. I don't think anyone does. But I think over the course of the next, call it, you know, five to 10 years, that these questions and frameworks are going to get more. The technologies are going to advance. The consumer expectations and preferences are going to advance. And the policy frameworks are going to advance to where we have a new paradigm of this trust relationship and how markets function as we migrate from off-chain to on-chain markets. Absolutely. Absolutely.

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When we prepared the session, you also said that financial markets are quite different from manufacturing or other industries. I would like to dive into that with you. What are your thoughts about that statement? Yeah, that's a function of this whole trust dynamic. So, you know, being on Wall Street for my career and speaking to, you know, investors or trading guests who are buying, you know, industrial company, A, B and C or energy company, A, B and C.

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Now, those are more tactical and proof points. Like there's a product, there's a market. Now, how do you analyze the product? Is there a product flaw? Is there a consumer demand? Like those are the things you're analyzing. In financial systems, you've got this entirely different layer of trust. Is what they're reporting accurate? Like are their assets valued accurately? Is the regulation or policy makers

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and regulation kind of on top of it enough to kind of secure the financial system. So there's a deeply embedded layer of trust in financial market analysis compared to, which is really different from kind of industrial kind of markets. And that's why you typically would see in the industry, you you've got different verticals, but the financial sector vertical is, you know, the systems that rely or that

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fall into that trust where trust is an important part of the category. So it could be banks, brokers, exchanges, know, buy side insurance, like those all have an element of kind of navigating and integrating those component parts of trust in how the markets functions. And then by extension, then how securities or assets get priced within that system. That is really different than a tire manufacturer or somebody producing

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kind of a unit of energy. So this stresses how important policy is actually to make such a financial market work. And here comes the potentially very disruptive technology of blockchain, which fundamentally changes or has the potential to change the role of certain participants in that market. Which means that at least some of the policies that worked out nicely in the past, where it was completely clear that you need that intermediary to get that trust, which now is

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potentially driven inside a certain part of the technology or technology can take parts of that trusted role away from an institution into a technology layer. And I think that affords many, fine grained regulations actually to be rethought. And I would be really interested in your thoughts about that because I like this principle-based approach and the Swiss law, for example, they heavily rely on these principles and say, okay, let's

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Let the courts decide the nitty-gritty details because you need more context to decide if it's right or wrong. I really, really like that thing. But even principles, I think if you talk about principles, you need to think about the different responsibilities, who plays which role in that overall system. And if a technical system now plays a certain role, you couldn't imagine when you wrote the principle, even your principle-based system might get at its boundaries.

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I wanted to ask you that question. How do you look upon this principle-based policies? Can you do that and can you completely abstract away from the technology or is that a bit too big of a wish for that? I think the principle-based approach is going to be the correct one. And I think policymakers are really sitting at a difficult juncture. Because on the one hand,

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They are striving to protect consumers and at the same time striving to manage and identify and navigate systemic risks in the entire financial system. And then at the same time, fostering and enabling innovation, financial sector innovation. And that's tough. That's a tough mandate to fill. And I would say, almost certainly, remember mistakes along the way.

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And it's virtually, in my opinion, it's going to be impossible to get it kind of 100 % right at every step of the way. So there's going to have to be some give and take in terms of learning on how to kind of navigate those policy formations. And when you think about the policy framework that we have all, everyone alive has worked in, now the frameworks that we have today were set up a century ago. On the basic premise of consumer

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consumers protection and instilling integrity in markets and protecting consumers against the untoward actions of intermediaries and going back to the late 20s and the financial crisis that evolved from that. And so you flash forward to today, a lot of those concepts and principles are still in place, but now you have kind of a set of market capabilities and set of market rails.

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that are completely different and change fundamentally those categorizations of risk and how they play out. And so what that means is there's gonna have to be a pretty fundamental reworking or enhancement of policy frameworks. And that's difficult to do. In my experience, that shift in policy frameworks is difficult to do without an external catalyst. And unfortunately, usually,

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that external catalyst is a negative catalyst that prompts action to make changes. So that's kind of a very black and white way to present it. Of course, it's not that black and white. But

what you see is that policy formation around the world is advancing at different pace across individual countries and across regions. And so you cite Switzerland as an example. I think some jurisdictions that have been

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very far ahead and doing great things, whether it's Switzerland or Luxembourg or Singapore. There were many that had been advancing strongly going back in time. But then, you you get a country like the United States now who has really advanced the policy formation. And I say policy formation on purpose because it can be regulation or it can be legislation. And so you see some give and take, for instance, you know, the Clarity Act didn't get past Senate cloture.

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But you have regulators who are doing, creating rulemaking and advancing the policy formation, even in the absence of legislation. Absolutely. Yeah. Where you did have the genius act in the U S so I'm saying that it can be, it can be uneven and at different speeds at some driven by legislation and some driven by regulation, but all heading towards the same goal, which is to protect consumers, contain systemic risk and inspire and enable financial intervention that

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democratizes access to financial markets and ultimately lowers the cost of capital. So that's what policy makers are ultimately striving for. And I think it's going to be a lowbie road, in my opinion, to get there. But I do have conviction. We will get there. It's just a question of how long it takes. And this goes back to looking at the catalyst. What are the catalysts and identifying those catalysts and then understanding how that translates?

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into adoption curves of the technology or the reconfiguring of how a piece of technology works to fit within the paradigm of the policy formation that's underway. How do you see the interaction between fintechs and regulators and also public blockchains and regulators? Because sometimes when I look at that, so, you know, we had a lot of experience now with Mika and what that did to the market. And I think it plays out.

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On the one hand side, like the regulators wanted. So a lot of early players are out because they might have been shady, but it might also be because they don't have 20 people in compliance and couldn't live up to what the regulators wanted. So if you, the guys that are left that are very happy, are strong fintech players, but often, yeah, well funded maybe by the behemoth of the past. So actually small new players, they might not have

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gone beyond the hurdle, despite being legitimate actually, but it's just too much cash they couldn't afford to. That's one thing I see in the market in Europe actually, which is good for consumer protection, but maybe bad for innovation because the existing players are not pressured enough to move faster. And the other thing I saw, and I need to laugh sometimes when...

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when public blockchains are invited by central banks or so to be part of a sandbox, to test out their technology after being 10 years in the market for so, I think sometimes it's a bit, even a bit arrogant to go that way because I think actually they should ask if they can visit them and learn. So how do you look at these two?

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Yeah, forces for regulators. That's a huge topic. We could talk about that for hours, I think. Yes. So I guess I would start with a couple of premises. One is I think public blockchains will be where the future is. I think there will be roles, a role for private blockchains or kind of protected environments. But in the end, I think to get the innovation and the transformation of market structure, think public blockchains is going to be where it is. And so

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And that's just my personal opinion. And for that to happen, there has to be a lot of developments along the way, including the technology itself, particularly around privacy and kind of institutional players getting kind of comfortable with that. And then also from the policy formation side, like kind of understanding and recognizing the role of public blockchain and putting frameworks in place that contain

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some of the systemic risks or help quantify or identify what some of the systemic risks are and then putting in place different parameters to protect against that. I think there's a lot of evidence that markets are heading that way. So, you see many institutions doing what typically is kind of a pilot or prototype on a public blockchain and then that they learn, they take their learnings from that.

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And then they can build from there to kind of build out kind of an offering. But I do think to get the full promise of the blockchain set of capabilities, the public blockchain is going to be where the kind of the momentum really lands. Then in terms of, know, like I give policymakers a ton of credit, like it's from my seat and my observation point, they've done a lot of hiring. have.

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brought in a lot of skill sets into the policy arena and have set up not only hiring people, but also setting up forms that bring in voices and capabilities and ingest that into the internal dynamic workings of a treasury department or central bank or a fiduciary financial regulator. And so those are really important steps to laying the foundation of how the market is going to evolve. I do think that on the fintech side,

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And I've seen this, I would say quite a bit, that you can have a developer or an entrepreneur have a concept or an idea about a product or service they can provide. But in the absence of really deeply understanding the kind of policy framework and safeguards and kind of market structure around financial markets, sometimes there's a gap between what the ambition is and what

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what I would characterize as the reality is. Because if you're gonna move trillions of dollars from off-chain to on-chain markets, there's going to have to be, there will be frameworks in

place that enable that to happen. And so I think that's part of closing the gap between the entrepreneurs and the fintech space and the very established practitioners in traditional markets, like those coming together to understand the realities of the frameworks that are needed

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and the technology capabilities, that's where the magic's going to happen. And I have to say that from my seat in the six years I've been doing this, there's been a tremendous amount of progress made in closing that gap. There's still a lot more to do, but I'm really amazed at how much the gap has been closed in the last five or six years. Absolutely. And especially in the US lately, I think,

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A lot of progress has been seen, as you mentioned, also what the SEC is now doing in the last two years is really phenomenal. And looking from Europe to the US, this is such a tremendous change, even not being in that market, just as an outside observer. You have complete embracing of that technology, very much jargon of the blockchain space now entering also with people like Hester Peirce, obviously pushing the boundaries and...

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and really nailing it in detail also. So you can tell that some of these people at the SEC actually use the system and spend a lot of time with DeFi OGs to understand the different aspects of what you could put into an on-chain vault and that you need to be very, very differentiated about what's in there before you start regulating and treating the container as something that you could treat as something very generic or...

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You might need very different approaches depending on what's in there actually, what you managed. Which brings me to my next question. And that's actually what Gana started in Brooklyn. We talked about agents and how they manage a portfolio in the future or even today on Robinhood. So what's your take on that? Because I think that's the next frontier also for the policymakers to say,

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Wow. It's now we have, we have the foundational technology, which changes the backend. That's how I look on the blockchain technology actually. And then you have the agents that work for the clients on the, on the front end side and much faster and automated that in the past, which also touches a lot the consumer protection thing, because some of the consumers want to get away with that because they said, I told my agent, I don't need your law to protect me or that you will need it maybe a minute later when the agent does behave as intended. So how are you looking?

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at this kind of new technology and especially the intersection of both. Yeah. So I personally think this is the most exciting aspect of the evolution in markets or evolution revolution, whatever you want to call it, is the intersection between blockchain execution capabilities and agentic AI, particularly around portfolio construction and risk management. And what is so exciting about that to me is that

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If you have the ability to use an agent to identify a strategy and then to build a portfolio construction and then the risk manager and then all executed on chain, that unlocks a potential to create very bespoke portfolio strategies for a company or even for individuals in a way that has never been possible before. And so I think that can really migrate the investment landscape.

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particularly in the wealth management landscape from being in model portfolios, that's kind of a cut, a cut that's applied across a vast kind of investment universe of individual people or institutions to one that is very bespoke around an individual companies or individual persons, exact risk parameters, exact views, exact kind of exposures they're willing to have and what their parameters are.

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And that I think can really fundamentally transform the asset management and wealth management industry. And so that's the vision. Now there's a million steps that have to happen kind of in the interim to make that a reality. And I would say one of the very first steps is answering the question and getting to the point of confidence around fiduciary responsibility. And how does that sit?

41:14

in the traditional market, it's very clear who has fiduciary responsibility and there's an entire infrastructure around that, protecting that and holding people accountable to that. So when you move to an agentic economy and agentic portfolio instruction and execution risk management, how does that fiduciary kind of responsibility translate? And I think that will be a fundamental catalyst or a fundamental benefiting feature that has to get addressed before you can really start moving.

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comment into this next world. Absolutely. Going back to the learning piece. So I've been using different FinTech platforms to experiment with building my own agents, to do my own portfolio construction. And I'm building several different strategies to experiment with that and see how it works. like that's being a market practitioner, I can see that a lot of times that you come back and you get a

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set of assumptions, you're like, well, that's not right. That's not on the mark. You still need a lot of iterations from a market practitioner to say, no, no, no, don't look at inflation that way, or let's not look at the employment labor member that way, giving it really specific inputs. you know what? Give it five years. No, there's no reason for me to believe that those kind

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gaps or that information voids that are there today are going to be there tomorrow. I think five years is not the right timing. I think it will be much closer in a year to Yeah, so I say five years. I really don't have a perspective on the timeframe that this is going to take. While I spend my time looking at one of the catalysts and understanding one of the catalysts that are going to unlock.

43:09

set of capabilities and then to be able to recognize when those catalysts have been put in the merger. So it could be, I personally think like you that things are going to happen a lot faster than what people think. And I also think that blockchain, getting a scale and accelerating adoption of blockchain at this and agentic AI will both catalyze each other. And so that's a whole set of catalysts and dynamics that are still kind of in the process of being sorted.

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Absolutely. And you know, I think agents will also help with some of the nitty gritty details, like having a watchdog that can in some external shock moment, save your portfolio. And yes, they might go out of a position too early, but then you might also instruct them to see if this is just a small dip that you go in back. I think this could be so amazing in the end, but that's me as an amateur talking about it.

44:09

It might be much more actively managed against certain proven methodologies that I won't create for my own. But it feels like, you know, I think a lot about programmability from the money perspective and what that actually means for me being able to, the client side programming. We always talk about programmable money as if it wasn't programmable before, but actually it was programmable, but just for the guys who invented the system or who issued the money.

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Now it's on the user side, actually, the programmability switched the sides, actually. That's the power of DeFi. That's the power of stable coins. And that's also the power of portfolio management with agents in the future that no, you won't program that on yourself. think even you won't even program the agent because of the nitty-gritty details you just talked about. There will be specialists, there will be plugins, there will be stuff that says, okay, you are a person in that range of...

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investment experience and that wealth category, we would advise you to take that kind of an agent that is proven by a hundred different investors beforehand and you can fine tune it in a certain way. So that's for me, the programmable, very individual portfolio management of the future. This is actually programmable, but you won't do it on your own. There will be experts who help you and you will fine tune that and that's the future I see coming. Yeah, no, I...

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completely agree with that. And like you made the point about, you know, if you have a drawdown, like each investor will have a different tolerance point of what they can take. Right. And so that's that goes back into that very bespoke ability to build portfolio, manage portfolios to your unique and specific requirements and risk tolerances. And that's you can't that's not really possible today, or it's not scalable. Whereas I think the intersection

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of agentic AI portfolio construction, risk management and blockchain will make that doable. And so that's gonna probably turn my belief would be that will transform the asset management and wealth management industry. I think one of the byproducts of this is that

there's gonna be another continuing consolidation in the asset management industry. As firms struggle with building the technology

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capabilities in transforming, moving with the transformation set of capabilities and what the consumers ultimately are going to be asking for. That's tough to do. And I think a lot of firms either aren't going to have the vision and find themselves kind of left out a bit as this transformation happens, or they're not going to have the free cash flow to make the investments they need to do in order to keep up. And so my guess is that leads to more consolidation in asset management industry.

47:01

in the coming years. Cool. Before we close, I think we need to have one last chapter and that's about systemic risk and stable coins, because you know, the money side is always the foundation for anything you do with your portfolio. I learned it the hard way. that's why Mika and Genius are so important that we have regulated money on chain. But betting big on stable coins is also quite a significant risk and this is far beyond.

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one bank or one player, is, if some of these major stable coins are used across the capital market, then we have an interesting new risk factor. What's your viewpoint on these stable coins, especially driven out of the US, Jeff? Yeah, I think that this is going to become like a main topic of the stable coin market as market cap of stable coins grew from 150 billion to 200 billion.

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on its way to a trillion or multiple trillions, it has different systemic implications kind of at different levels of market cap. And most importantly, not just market cap, but integration into the real economy. So as the growth in the stable point ecosystem happens, and as it gets integrated into the real economy, it introduces a different level of systemic risk. And I think that still, I think a lot of the parameters around

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regulating and putting a framework in place for stablecoin issuance and function have been terrific steps. But there's that next step of like, and what are the implications systemically that still haven't, are still going to be kind of a topic to discuss. like one, for instance, I think about is when you look at stablecoins potentially,

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being the largest owners of US treasuries, like what are the ramifications of that from a policy perspective? And how does that impact policy formation and monetary management come up for a software? So right now most stable coins are US dollars. Now as if and when the stable coin market goes from a few hundred billion to multiple trillions, what are the implications of that?

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systemically, not only for the real economy, but also from a policy formation and implications in the US Treasury market and yield curves. So I don't have the answer to that, but I can see those are the topics that are going to start emerging as the industry scales and expands and becomes a dominant form of the money transmission.

49:45

Yeah, you know, we discussed that heavily in Germany and Europe because we also have this wholesale CBDC thing live now with ECBs Pontus and Apia. So they have a clear plan. Actually, I moderated a panel this week with Bundesbank and even the digital euro as a retail CBDC is being pushed out in about 29 or so. the system landscape of digital money will be heterogeneous. yes, there will also be euro stablecoins and other currencies, but it's absolutely not clear.

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how this will actually look like on a global scale and which risk vectors you will have in the different financial markets. I guess they will be very different because the US is so much focused on tokenized deposits and stable coins and Europe is not. Europe is much more open and much more on the public money side. So this will be very interesting to watch the different capital markets, how they involve, how they look at counterparty risk for the cash lag side of things. So I think the verdict is still out and let's see.

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how this plays out and if the US Fed is, if the Fed is not also peeking into the whole CBC thing. Because when I talk to capital market experts in Germany, they see a lot of useful stuff in that, in that public money aspect. They're not trusting too much into stable coin issuers for their big, swaps at least. I don't know how you look at it.

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I agree with you, the verdict is out. I personally think that there can be a role for stable coins, tokenized deposits, and CBDCs, but there are going to be many catalysts in the marketplace that kind of set the stage for kind of what scales and what takes off and how they're used. So when you look at these different forms of money or ability to transmit payments,

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Like when you look at a tokenized deposit, that's still the underlying risk of the bank, right? And so you've got the credit risk of a bank itself versus if you're a stable coin issuer, like the credit risk of that stable coin issuer. CBDC is obviously a different risk framework and parameter, but there are elements of risk that are similar in traditional markets to whether it's a tokenized deposit, a stable coin or CBDC. I would say one of the new

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dimensions though is this concept of systemic risk and how they come together to create systemic risk in a way that may be faster or more accelerated or different than what traditional markets have operated in. And I would say you maybe got a glimpse of that. It's not exactly the right parallel, but when you look at the Silicon Valley Bank and the ability for money to move so seamlessly and quickly, it

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kind of changes the parameter of how you think about and how you, how you mitigate systemic risk. And I think these are the types of questions that will be coming up and will require some policy response to come and get to the point where you facilitate smooth market functional. Yeah. And you know, I think even there, the, the risk experts, they need to rethink how they think about stablecoin risk. For example, when you, when you talk to

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to regulators who are not so deep into that stable coin market. They really think that people would take out stable coins for fiat if something bad happens, which is ridiculous from my perspective, because they will simply swap on DeFi exchanges like Curve or elsewhere into another US dollar stable coin or into Bitcoin. I think the reaction is completely different than many of the people who are not that deep into that on-chain finance is actually.

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which makes it even more systemic from my perspective, because I think if you have a DPEC moment like we last year had with that Binance thing where we even didn't have a DPEC, but they thought it was, and this tears down the whole market. It tears down other stable coins, which are innocent actually on paper, but actually there's a huge turmoil and Bitcoin crashes and Ethereum crashes and this makes it worse for each and everyone. So I think sometimes...

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People look very isolated at one stable coin and don't see how deeply intertwined they are with all these credit markets, on-chain, et cetera, et cetera. So everything is connected to everything. And you need to actually, actually you need to have a black swan event or a white swan event because actually it's quite easy to imagine what could happen and test it out because I think it won't affect the issuer that much. think it will have much more ripple effects across very different players.

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And that's the systemic risk from my perspective. That's interesting you raised that as you were talking, I was thinking about something I haven't really thought about before, which is when you move to an agentic economy, how does that shift the systemic risk question? Because now, like one of the reasons you have systemic risk is due to, we talked about leverage, opacity and panic, and people make decisions based on limited information.

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can be, become self-fulfilling. And that's what kind of is the genesis or the foundation of the financial panel. When you move to an objective economy and you have not 10 or five or 10 or 20 data sources or inputs, but you have a thousand, you know, maybe that will change the framework or the paradigm of financial panics and systemic risk in a way that an agent will not respond the same way that a human being would.

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For the better or the worse. Exactly. mean, it could go either way, but that's not something I've really thought much about. now that we're talking about it, I can see that being kind of a natural consequence of changing the shape of what a systemic response looks like in an agentic economy versus a non-agentic economy. Absolutely. Chuck, we need to come to an end and I prepared one interesting closing question.

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would organize a meeting between you and a European regulator and you had five minutes. What would you tell them? I would say, I guess it depends which European regulator. You could choose. A wide range. No, I would say that it's interesting from my seat. I think the European regulatory framework and structure was so far ahead of the U.S.

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for many years and now we've got a new Congress and a new president for the last couple of years. And I think the US has really advanced a lot, both on legislation, but also in kind of regulatory frameworks. And the question I would have for European policymakers is how do they balance kind of their concerns and kind of worries and focus on

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capabilities against the need for European innovation. And if I were a European college maker, I would be concerned about the seeding kind of the innovation momentum to other jurisdictions, including us. Absolutely. And so I think that's, that's a fundamental question, I think, for policymakers of having enough freedom for entrepreneurs to

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innovate and kind of for it to happen in Europe and not leave because it's so restrictive. So that's not a specific question, but really more of a theme of like securing a role and a leading role in the European landscape for frames for innovation. And then how does that translate into policy formation? Couldn't agree more. Thank you very much for that thought. And hopefully some of them will listen and think about.

57:54

your wise words. Which brings us to the end. Many listeners, I hope, many listeners who now want to follow you, Chuck, where do they find you? So I'm on LinkedIn. I'm also on the EPS. And in fact, I was just thinking about this last week, starting a sub stack. don't have the sub stack yet, but I'm looking at different venues, but to kind of get thoughts out and ideas out. But right now it's primarily SMUken. Okay.

58:22

Thank you. We'll link your contacts in the show notes. So Chuck, thank you very much. It was a real pleasure to continue the Brooklyn Conversation. And I'm glad we made it happen finally. Dear listeners, thank you for making it to the end of this episode. Please share it with your friends and see you next time. Bye bye. Thank you.