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Opening Statement
Full Committee Hearing: Stablecoins: How Do They Work, How Are They Used, and What Are Their Risks?
December 14, 2021 at 10:00 AM

Thank you, Mr. Chairman.

Stablecoins are a central component of the cryptocurrency ecosystem, which is itself at the vanguard of the tokenization of assets.

Stablecoins can speed up payments, especially cross-border transfers, reduce costs, including remittances, and help combat money laundering and terrorist financing through an immutable and transparent transaction record.

Stablecoins can also be programmed and made interoperable with other currencies, creating efficiencies to improve access to financial services for more Americans.

But unlike volatile cryptocurrencies like Bitcoin, stablecoins don't fluctuate in their dollar price.

In today's hearing, we will focus on stablecoins designed to maintain a 1-to-1 value relative to the U.S. Dollar, meaning one stablecoin is meant to always equal one dollar.

Over the past year, the stablecoin market has exploded. As one of our witnesses, Dante Disparte, will explain, stablecoins are beginning to be used for small business payments and international remittances. While traditional payment systems can be expensive and take several days to settle, transferring funds via stablecoins is low-cost and nearly instantaneous.

Given that stablecoins disrupt the status quo, they've naturally drawn skepticism from incumbent industries and regulators. Last month, the President's Working Group on Financial Markets, or PWG, issued a report recommending that Congress pass legislation to establish a federal regulatory framework for stablecoins. In their report, the Treasury Department and others expressed their worries about consumer protection and financial stability with stablecoins.

Although the report did little to highlight the potential benefits of stablecoins, I was encouraged the report acknowledged that responsibility for clarifying whether, and to what extent, federal agencies have jurisdiction over stablecoins rests with Congress. I am open to working with the administration and my Democrat colleagues on this front.

But whatever Congress does, let's be sure that we don't stifle innovation in an evolving digital economy or undermine our own country's competitiveness. Let's have the humility to recognize that many of our views about how financial services are delivered and how investments work are quickly becoming outdated.

This morning, I'm releasing a set of guiding principles that I think should influence our work on a stablecoin legislative framework.

Innovation

These principles recognize that stablecoins are a very important innovation, and they introduce new capabilities into money that did not previously exist. In addition to their ease of use and reduced fees associated with their transfer, stablecoins can improve the privacy and security of our transactions. They also introduce the concept of money programmability, or smart contracts, which allow automated transactions based on a sequence of verifiable events.

In recognition of the potential of these new capabilities, any regulation should be narrowly tailored and designed to do no harm. At the same time, sensible regulatory standards may help to protect against key risks, such as redemption or run risk. These principles take a different approach than the PWG report.

Options for Stablecoin Issuers

For example, the PWG report recommends that all stablecoin issuers must be insured depository institutions. There are three reasons I disagree with that recommendation.

First, stablecoin issuers have different business models than banks. They do not provide the same services as banks and do not present the same risks.

As one of today's witnesses, Jai Massari has observed, stablecoin providers do not engage in taking deposits and making loans like banks do. Because of these important differences, subjecting all stablecoin providers to the full suite of bank rules and regulations meant to address maturity transformation is not appropriately tailored to the potential risks.

Second, requiring all stablecoin issuers to become banks would stifle innovation. We know that a tremendous amount of innovation occurs outside of the banking system, including by technology companies. It is unlikely that much of this development could happen within the banking system because of onerous regulations, which create a difficult environment for innovation. Allowing entrepreneurs to innovate with digital assets like stablecoins will promote greater competition and deliver better results for consumers.

Finally, the regulation of payments activities should create an equal playing field. Great innovators like PayPal, Venmo, and Apple Pay are already subject to a state-by-state licensing regime, as well as registration with a federal regulator.

Recognizing the range of different business models, there should be at least three options for stablecoin providers: operate under a conventional bank charter; comply with or acquire a special-purpose banking charter designed for stablecoin providers, which would be designed in accordance with legislation; or register as a money transmitter under the existing state regime and as a money services business with FinCEN at the federal level.

This optionality would match each stablecoin provider with the regulatory framework most appropriate to the business model.

Requirements for All Stablecoin Issuers

Regardless of the charter or license they pursue, all stablecoin providers should meet certain minimum requirements. For example, they should clearly disclose what assets back the stablecoin, as well as give clear redemption policies and subject themselves to periodic audits.

These requirements would ensure that consumers have sufficient information about which stablecoin they use. It might also be appropriate to set minimum reserve requirements and attestations as well.

In addition, legislation should stipulate that non-interest-bearing stablecoins are not necessarily securities and shouldn't automatically be regulated as such.

This framework should protect the privacy, security, and confidentiality of individuals using stablecoins, allowing customers to opt out of sharing personal information with third parties.

Finally, anti-money laundering and other requirements regarding financial surveillance under the Bank Secrecy Act should be modernized for all financial institutions subject to them, given the emergence of stablecoins, cryptocurrencies, and other new technologies, including artificial intelligence.

The emergence of stablecoins represents to me the latest development in the ongoing evolution of money. I stand ready to work on this issue and do so in a manner that doesn't discourage innovation or competition moving forward.

I look forward to hearing from your witnesses and yield back.