Ranking Member Pat Toomey (R-Pa.)
Opening Statement
Full Committee Hearing: Examining the President's Working Group on Financial Markets Report on Stablecoins
February 15, 2022

Thank you, Mr. Chairman. And Ms. Liang, welcome.

Two months ago, this Committee held its first hearing on stablecoins. I was encouraged to hear from our witnesses about the essential role stablecoins play in the larger cryptocurrency trading ecosystem.

It also important to note the tremendous potential stablecoins have to be adopted as a common medium of exchange in the broader, ordinary goods and services economy. Unlike cryptocurrencies that fluctuate in value, stablecoins are designed to maintain a 1-to-1 value relative to reference asset, typically a fiat currency, such as the U.S. Dollar. Put simply, one stablecoin is meant always to be worth one dollar.

Because of this price stability, stablecoins have the potential to serve all the traditional functions of money by acting as a medium of exchange, unit of account, and store of value. Stablecoins can also improve upon traditional forms of money by increasing payment speed, especially cross-border transfers, reducing transaction costs, and helping to combat illicit finance through an immutable and transparent transaction record.

Stablecoins can also be programmed to execute payments automatically upon the occurrence of some predesignated, verifiable event. This capability in particular has the potential to transform finance and, in time, much of our economy.

Any regulatory regime for stablecoins will inevitably focus on consumer protections and systemic stability. But at least as important will be preserving the tremendous, unimagined benefits that will flow from future innovations.

As stablecoin usage has grown significantly, regulators have increasingly taken interest. Last November's report from the President's Working Group on Financial Markets—spearheaded by Ms. Liang—appropriately recommended Congress pass legislation to establish a federal regulatory framework for stablecoins.

The PWG report recommends Congress address three perceived "prudential concerns": stablecoin runs, payment system risks, and systemic risk and concentration of economic power. The principal recommendation is that stablecoin issuance be limited to insured depository institutions (IDIs).

While I commend their contribution to the public discussion, I strongly disagree with that recommendation. And I believe we can protect against concerns such as run risk through a less restrictive and more appropriately tailored approach.

To accomplish those objectives, I released a set of guiding principles for stablecoin legislation. These principles recognize that stablecoin issuers have significantly different business models than banks and present different risks.

For example, stablecoin issuers typically neither make loans nor take deposits. They may choose not to transform maturity or intermediate credit risk. As such, a stablecoin issuer using cash or cash equivalents to back its coin is likely safer than most existing financial institutions.

Because of these differences, it would be inappropriate to subject stablecoin issuers to the full range of bank regulations meant to address risks posed by the fractional reserve, deposit and lending banking system.

I am encouraged that Ms. Liang has recognized these differences and sensibly agreed there should be regulatory "flexibility" for stablecoin issuers not engaged in traditional banking. But that raises the natural question: why require all stablecoin issuers to become insured depository institutions?

My legislation will take a different approach. It will provide regulatory treatment that is flexible and adaptable to future technological innovation. It will also promote competition in the stablecoin market by allowing at least three types of regulated entities to issue stablecoins.

First, it will preserve the regime to which the majority of stablecoin issuers are currently subject as state-registered money service businesses and money transmitters. To disrupt this regime would both introduce unnecessary burdens to an emerging technology and unwisely diminish the success of states with experience and expertise in this area. Rather than discard this regime, we should build on it to ensure the public has the right disclosures about stablecoin reserves to make an appropriately informed decision about whether to use any given stablecoin.

Second, it will clarify that insured depository institutions are in fact permitted to issue stablecoins. The former head of the OCC, Brian Brooks, pioneered work to give banks clarity on digital asset activities, but the current OCC has created confusion regarding permissible activities.

Finally, it will establish a new stablecoin charter with regulatory requirements designed specifically for stablecoin issuers. The requirements will address the risks identified by the PWG report, but will not force stablecoin issuers into a one-size-fits-all system created for traditional banks. Ms. Liang's recent testimony indicates to me that she agrees with a tailored approach for such issuers.

Rather than rely on the "flexibility" of the existing framework for depository institutions, which leaves full discretion to bank regulators, it is the responsibility of Congress to design this approach. These three paths would allow each stablecoin issuer to choose the regulatory framework most appropriate for its business model.

And under this legislation, each stablecoin issuer would be required to meet certain minimum requirements regardless of its charter or license. For example, all would be required to disclose the assets backing the stablecoin, adopt and clearly disclose redemption policies, and undergo third-party audits. These requirements would ensure that consumers have sufficient information to choose which stablecoin they use.

Ms. Liang's thoughtful comments on stablecoin regulation lead me to believe there are many issues on which we can find common ground. I look forward to developing legislation with my Senate colleagues and working with the administration to establish a regulatory framework for stablecoins that addresses potential risks while also encouraging innovation and competition.