Federal Financial Analytics, Inc.

REMINTING STABLECOINS:
U.S. Standards are Ready, Set, Go

U.S. rules will quickly bring stablecoins within the regulatory perimeter before the Fed crowds them out with its own digital currency.

On July 20, Treasury Secretary Yellen convened the President's Working Group on Financial Markets (PWG), making it clear that this august group – not the broader Financial Stability Oversight Council – will serve as the be-all and end-all of U.S. stablecoin policy. This will put stablecoin in as much of a regulatory corner as the PWG can devise, giving the Fed time to consider central bank digital currency (CBDC) and the luxury of not being forced to offer it were the Fed to decide against it or – more likely – Congress fail to authorize it in a timely fashion.

Biden PWG action will follow the path set for it in a parting salvo from the Trump Administration's PWG in a lengthy report blessed before issuance by Secretary Yellen and approved at the time by Chairman Powell.

To be sure, the PWG lacks direct authority over some stablecoin issuers and even over stablecoins themselves. But it can, and we think it will, cut off every avenue it can find that now permits high-minded stablecoins to operate outside the regulatory perimeter, setting tough standards for any stablecoins granted access to the keys to the financial kingdom firmly held in the hand of PWG member agencies. This means:

- setting stringent sterile-reserve standards for any stablecoin that comes even close to a bank for custody, payment, or other services. This is a sharp reversal of the laissez-faire reserving authorized by Trump's Acting Comptroller;
- requiring a banking license for any stablecoin that wants its own direct access to the payment system. It's possible that the Fed might grant stablecoins access outside a bank once it decides who gets payment-system access when and how, but the standards the Fed then may set will still be bank-equivalent;
- barring interfaces between key financial hubs for any anonymous stablecoin without suitable AML/CFT safeguards;

- clarifying when stablecoins are securities or commodities, specifying that like-kind rules thus apply; and
- laying out specification for an array of consumer and privacy protection standards crafted in concert with the CFPB.

There's more of course, with other key issues under PWG scrutiny including conflicts of interest between a stablecoin provider (think Facebook) and user and financial-system welfare and the extent to which any stablecoin that isn't demonstrably dollar-equivalent needs still tougher standards.

What does this mean for CBDC and the role of banks in traditional financial intermediation? A lot, as FedFin will continue to make clear in forthcoming reports.

Federal Financial Analytics, Inc.
2101 L Street, NW – Suite 300
Washington, DC 20037
Phone: 202.589.0880
www.fedfin.com