



Wednesday, December 8, 2021

## HFSC Begins Political Taxonomy of Crypto-Asset Policy

Client Report: CRYPTO23

### Executive Summary

As [anticipated](#), today's HFSC hearing was a marathon session at which industry witnesses defended their business model, Republicans liked it fine, and Democrats worried about a wide array of policy challenges. While both sides of the aisle agreed that cryptoassets might well enhance financial inclusion, partisan battle lines formed over issues such as the extent to which stablecoins are fully reserved, covered by the securities laws, and if a single regulator for this sector is either desirable or feasible. Industry witnesses strongly rejected the PWG's stablecoin conclusions ([see Client Report CRYPTO21](#)), suggesting for example that stablecoins are safer than bank deposits because they are fully – not fractionally – reserved. Although Chairwoman Waters (D-CA) made it clear that this hearing is the start of committee action without indicating its direction, we expect HFSC to proceed to hearing from academics and then from regulators before deciding which legislation – if any – to bring to mark-up. This deliberative pace is in part dictated by the sharp partisan divide evident today and the Democrats' narrow majority, but it also stems from doubts that any hard-fought House battles will lead to Senate action that then produces new law. However, perhaps showing Senate interest, Banking Chairman Brown [today](#) announced a stablecoin hearing on December 14 based on his [tough questioning](#) of many of the same companies that testified today.

### Analysis

#### *Opening Statements*

Chairwoman Waters noted cryptoassets' rapid growth and their volatility, saying that questions remain about how traditional rules apply and if regulators have sufficient authority to protect consumers and investors, maintain market integrity, and encourage innovation. Rep. Waters also said that the lack of an overarching or centralized regulatory framework creates opportunity for fraud, manipulation, and abuse. Crypto-

---

Federal Financial Analytics, Inc.  
2101 L Street, NW – Suite 300, Washington, D.C. 20037  
Phone (202) 589-0880  
E-mail: [info@fedfin.com](mailto:info@fedfin.com) [www.fedfin.com](http://www.fedfin.com)

mining's energy use also may pose climate concerns.

Ranking Member McHenry (R-NC) countered that crypto is already regulated, but that these rules may be clunky and out of date. He questioned if Congress has the requisite knowledge to seriously debate crypto policy, arguing that Members need more education before making any updates to law and rule.

### ***Testimony***

FTX CEO Samuel Bankman-Fried, Paxos CEO Charles Cascarilla, and Coinbase CEO Alesia Jeanne Haas all argued that a single primary prudential regulator at the federal level is needed to supervise digital assets under a new, crypto-specific regulatory framework. Circle CEO Jeremy Allaire noted that his firm is seeking a full national bank charter from the OCC, but continues also to prioritize inter-agency engagement with all relevant Federal and state regulatory stakeholders. Bitfury CEO Brian Brooks and Stellar Development CEO Denelle Dixon argued for the availability of multiple options, pointing to the need for both state and federal frameworks due to significant differences between various cryptoassets. Ms. Dixon added that stablecoin frameworks should be focused on reserves, not issuers and require that stablecoins be fully reserved and held at IDIs in segregated accounts. She also pushed back on the recent PWG report, arguing that housing stablecoin issuers only in banks poses challenges due to the fundamentally different business models of banks and stablecoins – i.e., fractional versus full reserving.

### **Q&A**

- **Regulatory Framework:** Reps. McHenry and Williams (R-TX) said the current framework is sufficient although some updates may be needed. Rep. Casten (D-IL) asked if crypto assets should be governed by the framework for commodities; Mr. Allaire disagreed. Several Democrats and Republicans countered that the current regulatory framework is a “patchwork” ill-equipped to account for cryptoassets.
- **Single Framework:** There was some bipartisan support for creating a single regulatory framework specific to cryptoassets, with Reps. Dean (D-PA), Adams (D-NC), and Hill (R-AR) asking what this should look like. Several witnesses suggested this be created under a new regulator.
- **Illicit Transactions:** Rep. Maloney (D-NY) argued that cryptocurrencies facilitate money laundering and worried about their potential to be utilized in ransomware attacks. Reps. Emmer (R-MN) and Sessions (R-TX) instead stated that crypto is

more resilient against manipulation and fraud than traditional financial instruments. Rep. Mooney (R-WV) worried about authoritarian governments using digital currency to evade U.S. sanctions. Rep. Timmons (R-SC) asked what can be done to improve ransomware recovery rates.

- **Safety and Soundness:** Reps. Green (D-TX) and Dean highlighted cryptocurrency volatility, warning about financial bubbles. Rep. Loudermilk (R-GA) urged minimal crypto data collection by U.S. authorities, fearing data breaches. Rep. Maloney noted private firms also experience hacks, pointing to one at Coinbase earlier this year and calling for increased consumer protections.
- **Securities Regulation:** Reps. Wagner (R-MO) and Barr (R-KY) argued securities law is unclear with regard to crypto activities; Ms. Haas said the law is clear that blockchain is not a security, while Mr. Brooks agreed that additional clarity is needed.
- **Financial Inclusion:** Reps. Wagner and Torres (D-NY) argued cryptocurrency lowers barriers to financial access; Ms. Dixon agreed, noting easier access via mobile phones and lower fees when compared to traditional finance.
- **Stablecoins:** Rep. Lucas (R-OK) asked about key differences between banks and stablecoin issuers; several panelists stated that banks engage in multiple forms of financial services and lending activities while stablecoins are not lenders.
- **Remittances:** Rep. Torres suggested that crypto facilitates lower remittance fees. Garcia (D-TX) asked about the ease of converting fiat and cryptocurrencies, arguing that rural populations experience significant difficulty making these conversions due to a lack of physical presence.
- **Reserve Currency Status:** Members of both parties were concerned about the potential to undermine the Dollar's reserve status; witnesses argued instead that stablecoins reinforce Dollar dominance due to one-to-one backing.
- **CBDC:** Rep. Vargas (D-CA) suggested that a digital dollar would make cryptocurrencies superfluous, while Rep. Barr asked about the advantages of stablecoins compared to CBDC; Mr. Allaire noted that the digital dollar is not yet operational and, in the event it becomes operational, it would be closed off from the benefits of private innovation.
- **Off-Shore Regulation:** GOP Members contended that U.S. hesitancy to promote cryptocurrency drives innovation off-shore, while other countries are embracing the new technology and surpassing the U.S.