



# *FedFin Client Report*

---

Tuesday, February 8, 2022

## **Partisan Impasse Suggests Small Chance for Stablecoin Statutory Change**

Client Report: CRYPTO24

### **Executive Summary**

Today's HFSC hearing on stablecoins makes it clear that the bipartisan legislation Chairwoman Waters (D-CA) prefers is at best a long way off. Democrats generally agreed with the President's Working Group stablecoin report ([see Client Report CRYPTO21](#)), with Under-Secretary Liang today not only describing its findings but reinforcing the need for rapid regulatory intervention in concert with substantive statutory change. While Republicans acknowledged stablecoin's possible risks, they also believe that private issuers should not be forced into federal charters, that state standards suffice, that run-risk poses little systemic risk, and that CBDC will be able to coexist with stablecoins. As noted [yesterday](#), today's hearing is only an opening salvo, creating no legislative history setting the stage for near-term House action on any of the bills Democrats discussed today.

### **Analysis**

#### ***Opening Statements***

Chairwoman Waters opened the hearing by describing an array of stablecoin concerns, stating that the panel will continue to investigate them and determine any future action on a bipartisan basis. Ranking Member McHenry (R-NC) said that he and the chair agree on the need for legislation, but then described standards likely very different than those Rep. Waters would endorse. Although he did not detail legislative specifics, Rep. McHenry emphasized the importance of recognizing state regulation, avoiding a bank-only approach, and rejecting systemic-risk considerations.

Ranking Member McHenry countered that crypto is already regulated, but that these rules may be clunky and out of date.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.

---

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)

© 2022. Federal Financial Analytics, Inc. All rights reserved.

## Testimony

In her formal testimony, Under-Secretary Liang reiterated the key PWG's findings, noting also that the Biden Administration is working on a broader digital-asset strategy addressing risks to law enforcement, financial stability, investor/consumer protection, and financial inclusion. The FSOC is also, she said, continuing to consider stablecoin systemic risk and resulting action that may be warranted. Going beyond the report to address the questions raised following former FDIC Chair McWilliam's comments on stablecoin deposit [status](#), Ms. Liang indicated that this raises additional policy and technical questions (which she did not detail) that require additional, careful analysis by Congress and the banking agencies.

## Q&A

- **Legislation:** Rep. Emmer (R-MN) is pressing legislation to tokenize MMFs, while Rep. Sherman (D-CA) suggested that the PWG's recommendations be turned into a legislative draft.
- **Bank-Charter Requirement:** Led by Ranking Member McHenry, Republicans were highly critical of limiting stablecoin issuers to chartered bank due to concerns about slowing innovation, unfair competition, and a business-model misfit.
- **CBDC:** Under questioning from Reps. Huizenga (R-MI) and Barr (R-KY), Ms. Liang emphasized, as has the Fed, that stablecoins can coexist with CBDC.
- **Run Risk:** Many Members asked if stablecoins had run-risk characteristics akin to those of MMFs; Ms. Liang said that, while stablecoins have significant run-risk, the manner in which this occurs is different because stablecoins are payment vehicles and MMFs are investments.
- **Federal Action:** Rep. Mooney (R-WV) asked if FSOC will act before Congress; the under-secretary said that FSOC cannot address statutory matters, making it clear that Congress needs to clarify questions of oversight and reach. Rep. Cleaver (D-MO) suggested the need for SEC regulation for crypto as an asset class, but Rep. Davison (R-OH) said that the SEC should focus on "time bombs" such as Tether.
- **State Standards:** Rep. Sherman called for federal standards, while almost all Republicans spoke in favor of state regulation.
- **Financial Inclusion:** Rep. Dave Scott (D-GA) highlighted cryptocurrency's risk to minorities, but Rep. Williams (R-TX) said stablecoins can reach the unbanked and Rep. Greg Meeks (D-NY) suggested also that requiring stablecoin issuance in banks would create barriers to entry.
- **Illicit Finance:** Reps. Sherman, Cleaver, Foster (D-IL) and other Democrats noted an array of fraud and crime-related stablecoin risks. Ms. Liang noted the need here for Congressional action. However, Rep Meeks said that stablecoins can advance humanitarian relief.

- **Reserve Assets:** Rep. Green (D-TX) argued for dollar-for-dollar, fiat-currency backstops, while Rep. Lucas (R-OK) called for reserve-asset transparency. Rep. Heinz (D-CT) stated also that stablecoins fully backed by fiat currency should be regulated differently than other offerings.