



FedFin Client Report

Tuesday, February 15, 2022

Stablecoin Legislative Consensus in Sight, But from a Distance

Client Report: CRYPTO25

Executive Summary

Despite fierce partisan fighting over pending Fed nominations, today's Senate Banking hearing on stablecoin regulation was considerably more bipartisan than last week's HFSC session ([see Client Report CRYPTO24](#)). Both Chairman Brown (D-OH) and Ranking Member Toomey (R-PA) are in broad agreement on a two-tier structure in which stablecoins are issued either by banks or by nonbanks subject to strict reserve-asset, AML, and related regulation. That said, we think it may prove difficult for Democrats and Republicans to agree on key details in the construct of a U.S. private stablecoin regime, with the thorniest issue likely to prove the extent to which the federal construct preempts state regulation. Further, Sen. Brown signaled that there will be more stablecoin hearings before any action occurs, making it unlikely that time will permit resolution of outstanding differences of opinion within the Senate and then with the House before the end of this session. Treasury Under-Secretary Liang reiterated her House testimony, taking hard criticism from Sen. Warren (D-MA) due to the slow pace of FSOC action to designate stablecoins as a systemic activity and/or recommend the same for key companies in this sector.

Analysis

Opening Statements

In addition to castigating Republicans for boycotting the nomination votes, Chairman Brown highlighted cryptocurrency fraud, risk and even "outright theft," as well as disputing any financial-inclusion benefits. Sen. Toomey outlined legislation along lines previewed last week by Rep. Gottheimer (D-NJ), but he would go considerably further in terms of respecting state money-transmitter standards.

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Testimony

Restating her formal testimony from last week's hearing, Under-Secretary Liang reiterated the key PWG 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

- **FSOC:** Sen. Warren questioned Ms. Liang on FSOC's willingness to act in response to Ms. Liang's testimony about 'not acting ahead of Congress.' Sen. Warren argued that FSOC's job is to coordinate regulatory actions for emerging threats to the financial system, repeatedly asking if Ms. Liang had advised FSOC to use congressional tools to mitigate threats in response to Ms. Liang saying FSOC would "look into" using its tools.
- **Reserve Assets:** Sens. Warner (D-VA) and Menendez (D-NJ) expressed concerns the with lack of transparency surrounding stablecoin reserve assets, with Sen. Warner then asking: if a stablecoin is truly backed dollar for dollar how could companies prove profitable? Liang repeatedly highlighted redemption risks if stablecoins are not adequately backed with "high quality" reserves.
- **Consumer Protection:** Chairman Brown asked about redemption-risk disclosures and the consumer risks resulting if large retail or tech-platform companies offer stablecoins. Van Hollen (D-MD) asked what happens to consumers should a stablecoin go "belly up."
- **Narrow Banking:** Sen. Toomey suggested a narrow-bank charter, leading Ms. Liang to say that staying flexible within an IDI framework would work rather than comment on the concept of a "narrow bank" itself.
- **CBDC:** Sen. Rounds (R-MT) asked whether CBDC and private currency could coexist; Ms. Liang said yes.
- **Interoperability:** Sen. Cortez-Masto asked Ms. Liang to elaborate on the interoperability feature of the PWG report; Ms. Liang said one of the risks listed in the PWG report was the "concentration of economic power" and one way to decrease that risk was to promote interoperability between stablecoin issuers.