



# *FedFin Client Report*

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Tuesday, May 10, 2022

## **Stablecoin Risk Sparks Renewed Legislative Interest**

**Client Report: FSOC26**

### **Executive Summary**

Today's Senate Banking Committee hearing with Secretary Yellen renewed calls for federal legislation based on recent algo-coin losses and resulting digital-currency market volatility. Chairman Brown (D-OH) and Ranking Member Toomey (R-PA) each noted the need for digital-asset legislation, with Mr. Toomey eliciting a commitment from Ms. Yellen to work with him to advance a measure, albeit without any specifics. We will await Thursday's HSFC hearing before forecasting the prospects for stablecoin legislation in the relatively short time remaining in this session, with this report assessing the details of today's discussion, as well as the Secretary's very cautious approach to renewing SIFI designation while under fire from Sen. Warren (D-MA). As [anticipated](#), the hearing also ventured into non-FSOC issues such as inflation and tackled one issue we did not predict – abortion's economic impact – ahead of voting later today in the Senate on this contentious question.

### **Analysis**

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

Chairman Brown discussed the importance of FSOC in improving financial system resilience, ensuring fair and efficient markets, and serving as a watchdog for Wall Street. Ranking Member Toomey criticized FSOC for focusing a disproportionate amount of attention on climate risk compared to more “imminent” cybersecurity threats. He also pressed hard on stablecoins, referring to his pending [legislation](#) on the matter and calling for bipartisan action.

#### ***Testimony***

Secretary Yellen's statement largely revisited the Council's 2021 [report](#), reiterating FSOC support for the SEC's MMF proposal ([see FSM Report MMF19](#)) and the Commission's pending work on open-end funds. The statement also reiterates work led by inter-agency staff to reform the Treasury Market ([see Client Report TMARKET2](#)) and efforts to achieve

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the president's executive orders on climate risk ([see FSM Report GREEN8](#)) and digital assets ([see Client Report CRYPTO26](#)).

## Q&A

- **Stablecoins:** As noted, Secretary Yellen supported legislation creating a Stablecoin statutory framework by the end of the year without directly endorsing Sen. Toomey's bill. Sen. Cortez-Masto (D-NV) asked if concentrated, institutional digital-asset ownership poses financial risk; the Secretary said that this depends in part on leverage.
- **Sanctions:** Sen. Van Hollen (D-MD) asked Secretary Yellen about broadening the use of secondary sanctions. Ms. Yellen stated that all entities supporting a sanctioned entity via sanctions evasion are currently subject to sanctions but did not provide any commitment to expand use or scope. Sen. Rounds (R-SD) asked if Treasury would let the exemption authorizing approved US entities to make Russian bond payments expire; Ms. Yellen replied that the matter is being reviewed.
- **China:** Sen. Warner (D-VA) asked Secretary Yellen how Treasury and the financial sector are evaluating risks of a potential Chinese invasion of Taiwan; Ms. Yellen noted that financial institutions are becoming more aware of the risks they face with China as the fallout from the invasion of Ukraine unfolds.
- **Climate Risks:** Sens. Cortez-Masto, Smith (D-MN), and Tester (D-MT) all strongly supported FSOC's focus on climate risk. Sens. Toomey and Daines (R-MT) countered with what they call the politicization of FSOC.
- **Cybersecurity:** Pressing his disapproval of what he says is the prioritization of climate over cybersecurity, Sen. Toomey cited that no bank has ever failed due to a catastrophic weather event but that a lack of cybersecurity poses an imminent threat. Ms. Yellen countered by emphasizing that the risks posed by cybersecurity are short term while climate change's are long-term and both risks are taken seriously. Sen. Tester asked what Treasury's biggest cybersecurity concern was; Ms. Yellen said malware attacks.
- **LIBOR Transition:** Sen. Tillis (R-NC) asked Ms. Yellen about progress on the LIBOR transition; Ms. Yellen stated that overall progress is good, but there needs to be more progress in loan products and is concerned about banks using credit related indexes. This is different than the FRB's conclusion in the new financial-stability report ([see Client Report SYSTEMIC93](#)), which cited certain ETFs as the most problematic transition concern.
- **SIFIs:** Sen. Warren quoted a [letter](#) Secretary Yellen co-authored in 2019, which criticized the Trump Administration's revised guidance on FSOC's oversight capabilities and asked Secretary Yellen whether she would reverse it this year. Ms. Yellen affirmed her views in the letter and said that Treasury was looking at the issue carefully, noting that both designation and activity-based approaches are available tools FSOC can use

to address financial risk in the nonbank financial sector. Sen. Warren and Ms. Yellen then agreed that one tool should not be used as a prerequisite for the other.

- **Overdraft Fees:** Sen. Warnock (D-GA) showed concern over overdraft fees, specifically about banks that rely on them to be profitable. Secretary Yellen agreed, calling some overdraft fees “abusive,” but reminded him that this issue is the purview of the CFPB.