



# *FedFin Client Report*

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Thursday, May 12, 2022

## **Demand for Stablecoin Rules, Legislation Ramps Up**

**Client Report: FSOC27**

### **Executive Summary**

With stablecoin markets even more distressed than earlier in the week, today's HFSC hearing with Secretary Yellen was even more emphatic than senators two days before on the need for action ([see Client Report FSOC26](#)). Chairwoman Waters (D-CA) urged FSOC quickly to implement the key regulatory recommendations in the PWG report ([see Client Report CRYPTO16](#)). Ranking Member McHenry (R-NC) emphasized instead the need for federal legislation to define this new framework but did not clearly object to any regulatory action. Instead, he and Rep. Torres (D-NY) argued that fully reserved stablecoins do not engage in financial intermediation and, since this makes them different than banks, bank regulation for any such stablecoins would be inappropriate. Secretary Yellen countered that there are many different types of banks and this business model distinction is thus not grounds for different regulation. She demurred on the extent to which stablecoins pose systemic risk, but urged rapid action to ensure that this does not prove the case. Pressed on whether CBDC would obviate stablecoins, the Secretary echoed the arguments for CBDC in the President's executive order ([see Client Report CRYPTO26](#)) but noted also that design factors addressing issues such as privacy must first be resolved by the Federal Reserve.

### **Analysis**

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

Chairwoman Waters stated that climate risk would soon be declared systemic and urged Secretary Yellen to take action against tech-platform companies, crypto firms, and other systemic nonbanks. Ranking Member McHenry sought to refocus FSOC away from what he called partisan politics and called for a federal regulatory regime for stablecoins, stating that Congress should act.

#### ***Testimony***

Secretary Yellen's testimony was the same as that presented before the Senate.

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## Q&A

- **Stablecoins:** House Democrats including Reps. Himes (D-CT), Lynch (D-MA), and Sherman (D-CA) joined Chairwoman Waters by inquiring about stablecoin systemic risk, with some calling for regulatory action that would better inform and protect consumers. Ranking Member McHenry asked Secretary Yellen whether Treasury differentiated algo-coins and stablecoins, which Treasury does. He then asked how limiting stablecoin issuance to only banks promotes innovation, to which the Secretary responded that she believes developing an appropriate framework provides the certainty needed for innovation. Reps. Huizenga (R-MI), Emmer (R-MN), Loudermilk (R-GA), and Davidson (R-OH) also asked the Secretary about her views on regulating stablecoins, raising issues such as proposals to limit stablecoin issuance to insured depositories, whether a bank regulatory regime is appropriate, and if stablecoins regulated as New York trusts require the same standards as algorithmic stablecoins.
- **CBDC:** Reps. Himes and Lynch argued that a CBDC would mitigate some of the concerns brought about by stablecoins. Secretary Yellen tentatively agreed but reminded both that any CBDC benefit would depend on its design.
- **Sanctions:** Rep. Auchincloss (D-MA) asked if Treasury was considering either a special payments authority for Russian gas payments or sanctions on oilfield servicing companies. Secretary Yellen committed to working with his office to discuss a special payments initiative.
- **Climate Risk:** Reps. Posey (R-FL), Barr (R-KY), and Hill (R-AR) reiterated Republican opposition to FSOC's recent focus on climate risk, preferring greater attention to cyber security. Rep. Tlaib (D-MI) pushed for even tougher action beyond just disclosures. Secretary Yellen reaffirmed the need for standardized and increased climate disclosures.
- **Chopra:** Rep. Luetkemeyer (R-MO) asked Secretary Yellen if she thought CFPB Director Chopra's membership on the council is appropriate in light of his suggestion that FDIC insurance be revoked as an enforcement [tool](#). Ms. Yellen replied by saying that she hasn't had the chance to review Mr. Chopra's proposal, but deferred deposit insurance decisions to the FDIC. Rep. Luetkemeyer said he would be sending a letter to Ms. Yellen, emphasizing the threat of such remarks to financial stability.
- **Mergers:** Rep. Garcia (D-IL) pressed his legislation to subject ILC parents to BHC regulation ([see FSM Report ILC13](#)), asking Ms. Yellen to agree that these charters pose systemic risk. She stands by prior views about the need to curtail these

charters because nonbank credit is not beholden to safety and soundness standards. Rep. Garcia also pressed the Secretary to support his bill ([see FSM Report MERGER8](#)) restricting bank mergers, but the Secretary refused to take a position on it at this time.

- **FSOC:** Pressing his legislation to restructure FSOC, Rep. Emmer argued that designating stablecoin companies in any systematic way would demonstrate a lack of sufficient independence. Rep. Loudermilk asked the Secretary to affirm the viability of FSOC using an activities-based approach ([see FSM Report SIFI35](#)), to which Ms. Yellen agreed.
- **Major Markets:** Rep. Hill raised systemic issues germane to the Fed's reverse-repo program; Secretary Yellen deferred to the Fed, noting her responsibility to uphold stable treasury markets. Rep. Hill also challenged SEC regulation of primary dealers.
- **LIBOR:** Citing the recently passed LIBOR transition law ([see FSM Report LIBOR7](#)), Rep. Sherman urged the Secretary to press the Fed to issue required regulations.