BLOCKCHAIN ASSOCIATION

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March 9, 2023

The Honorable Patrick McHenry
Chair
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chair McHenry and Ranking Member Waters:

We write to urge prompt Congressional action on stablecoin legislation and to outline fundamental principles for effective regulation of these important assets.

Over the last year, digital asset markets have experienced significant turmoil, culminating in the now-infamous failure of the Bahamas-based exchange FTX. The blockchain industry has felt the impact of these events far and wide, with even the most rigorous, resilient, and highly-regulated companies suffering commercial and reputational damage due to the carelessness and misconduct of bad actors.

The industry now finds itself in a period of reflection and self-examination. There is no doubt that blockchain technology has the power to fundamentally reshape the global financial system and digital economy to be more innovative, efficient, and inclusive. Yet, many stakeholders are questioning how an industry driven by the desire to eliminate reliance on third parties fell victim to the same risks that characterize traditional finance.

Through this process of self-analysis, the industry is poised to emerge with a renewed sense of purpose and commitment to its mission. Despite the views of some skeptics, crypto is here for good, and blockchain-based digital assets will play a crucial role in the lives of everyday Americans. The industry is convinced that, to achieve its goal of responsible innovation, outdated laws and regulations must be revised to address the unique nature of public blockchains. The time has come for Congress to take action.

Blockchain Association is the leading nonprofit membership organization focused on promoting a pro-innovation policy environment for the U.S. blockchain industry. We represent more than 100 member companies from every sector of this dynamic industry, including software developers, infrastructure providers, exchanges, custodians, investors, and more. Our member companies are strongly committed to regulatory compliance and have long requested clear rules of the road from U.S. policymakers so that they can build safe, sound, and successful businesses here in the United States.

Regulatory clarity is essential to ensure that the United States remains the world leader in the development of blockchain technology and to protect digital asset investors and consumers from harm. As a matter of law, only Congress — not the federal agencies — can decide how digital assets should be regulated. We recognize that it will take significant time and careful study to determine how best to regulate many of these novel, complex assets and the applications in which they are used. But one type of digital asset is already ripe for tailored legislation: stablecoins.

A. Congress Must Pass Stablecoin Legislation.

Stablecoins are digital assets that maintain a stable value compared to a reference asset, typically the U.S. dollar. Stablecoins represent a categorical improvement on legacy payment infrastructure, allowing users to transfer any amount of value to any person anywhere in the world nearly instantly and at nearly zero cost. Stablecoins are transmitted on public blockchains, which outperform existing payment rails that are slower, more expensive, and exclusive to incumbent financial institutions.

Unlike traditional payment methods, stablecoins are accessible by anyone with an internet connection, enabling billions of people around the world who lack financial services to join the global economy for the first time. In so doing, stablecoins reinforce the dominance of the U.S. dollar as the global reserve currency at a time when our foreign adversaries, such as China, are actively seeking to undermine that status.[1]

Although stablecoins have only existed for a short time, they have already shown a meaningful, positive impact on the global stage. Today, stablecoins are used by the United Nations Refugee Agency (UNHCR) to distribute dollars to internally displaced persons and other war-affected people in Ukraine;[2] for cross-border remittances between family members working and living abroad;[3] by citizens in countries ravaged by

[1] Samantha Hoffman et al., *The Flipside of China's Central Bank Digital Currency*, Australian Strategic Pol'y Inst. (Oct. 14, 2020), https://www.aspi.org.au/report/flipside-chinas-central-bank-digital-currency.
[2] Michael Bodley, *Can Stablecoins Revolutionize Foreign Aid? The UN Thinks So.*, Blockworks (Dec. 16, 2022), https://blockworks.co/news/un-stablecoins-revolutionize-foreign-aid.
[3] Austin Adams et al., *On-chain Foreign Exchange and Cross-border Payments* (Jan. 18, 2023), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4328948.

inflation like Argentina, Turkey, and Zimbabwe;[4] and to fight for the health and safety of people suffering under authoritarian regimes like that of Nicolás Maduro in Venezuela.[5]

Despite stablecoins' economic and geopolitical importance, the United States lacks a comprehensive federal framework governing existing U.S.-based firms that issue, maintain, and redeem these assets. In November 2021, the President's Working Group on Financial Markets (PWG) published a report recommending that "Congress act promptly to enact legislation to ensure that [stablecoins] are subject to a federal framework on a consistent and comprehensive basis."[6] In May 2022, Treasury Secretary Janet Yellen reiterated this recommendation during testimony before this Committee, stating that she was "eager to work with [Congress]" on legislation through "a bipartisan effort."[7]

Since the PWG published its report, Congress has made great strides toward well-tailored legislation that maximizes the benefits and mitigates the risks of stablecoins. These extensive efforts have received bipartisan, bicameral support. Last February, Rep. Josh Gottheimer (D-NJ) released a discussion draft of the Stablecoin Innovation and Protection Act of 2022.[8] Last April, Sen. Patrick Toomey (R-PA) released a discussion draft of the Stablecoin TRUST Act of 2022.[9] And last fall, we were excited to hear about the progress that this Committee made on stablecoin legislation under your leadership.

We urge the Committee to resume its focus on drafting and introducing stablecoin legislation, if it has not done so already. The opportunity that well-regulated stablecoins

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[4] Sam Lyman, *Stablecoins as Statecraft: How Uncle Sam Could Replace Satoshi as the King of Digital Currency*, Fortune: Crypto (Feb. 26, 2023), https://fortune.com/crypto/2023/02/26/stablecoins-statecraft-uncle-sam-satoshi-digital-currency/.
[5] Gideon Long, *Digital Scheme Pays Venezuela Health Workers from Frozen Funds*, Financial Times (Dec. 9, 2021), https://www.ft.com/content/2a271032-35b4-4969-a4bf-488d4e9e3d18.
[6] Press Release, U.S. Dep't of the Treasury, President's Working Group on Financial Markets Releases Report and Recommendations on Stablecoins (Nov. 1, 2021), https://home.treasury.gov/news/press-releases/jy0454.
[7] *The Annual Report of the Financial Stability Oversight Council: Hearing Before the H. Comm. on Fin. Servs.*, 117th Cong. 6-7 (2022) (statement of Janet Yellen, Sec'y, U.S. Dep't of the Treasury), https://www.congress.gov/117/chrg/CHRG-117hhrg47651/CHRG-117hhrg47651.pdf.
[8] Press Release, Rep. Josh Gottheimer, Release: Gottheimer Announces "Stablecoin Innovation and Protection Act," Critical New Cryptocurrency Legislation (Feb. 15, 2022), https://gottheimer.house.gov/posts/release-gottheimer-announces-stablecoin-innovation-and-protection-act-critical-new-cryptocurrency-legislation.
[9] Press Release, Sen. Comm. on Banking, Hous., and Urb. Aff. Minority Staff, Toomey Announces Legislation to Create Responsible Regulatory Framework for Stablecoins (Apr. 6, 2022), https://www.banking.senate.gov/newsroom/minority/toomey-announces-legislation-to-create-responsible-regulatory-framework-for-stablecoins.

offer to the United States is substantial, and the consequences of failing to act quickly — losing ground to competing national currencies like China's digital yuan, losing out on the benefits of a revolutionary upgrade to legacy payment systems, and losing innovators and entrepreneurs to other jurisdictions — are dire. Other countries are forging ahead with comprehensive regulatory regimes, so there is no time to waste.

B. Principles for Stablecoin Legislation.

Effective stablecoin legislation must protect consumers and promote financial innovation. To achieve that goal, stablecoin legislation should account for the risks associated with these assets while also providing a clear path for stablecoin issuers to operate in the United States. Below, we outline five principles for your consideration that we believe are essential components of a balanced bill:

1. Stablecoin legislation should focus on applying tailored regulatory standards to "custodial" stablecoins, meaning those issued, maintained, and redeemed by a firm responsible for holding assets backing the stablecoins in a bank or other financial institution. Other types of stablecoins function in materially different ways that warrant further study and thoughtful analysis before they are ready to be addressed in legislation.

2. Both insured depository institutions and non-bank firms should be allowed to issue stablecoins, subject to regulatory compliance obligations tailored for each category of issuer. Forcing all stablecoin issuers to obtain bank charters would severely restrict innovation without any attendant regulatory benefit, since stablecoins issued by properly-regulated non-bank firms will be equally safe and sound as those issued by banks.

3. Assets held by stablecoin issuers as backing for stablecoins should be limited to specified, high-quality, liquid assets that meet a minimum standard of safety and soundness. The federal regulator authorized to oversee stablecoin issuers should also be allowed to approve other assets at their discretion.

4. Stablecoin issuers should be subject to operational requirements, such as making public disclosures regarding assets held as backing for stablecoins, segregating those assets from corporate funds, implementing clear policies

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and procedures regarding issuance and redemption of stablecoins, and conducting routine audits or evaluations by registered public accounting firms.

5. Stablecoins should be overseen by a prudential regulator such as the Federal Reserve System or the Office of the Comptroller of the Currency, and should be exempt from overlapping regulation by the Securities and Exchange Commission or the Commodity Futures Trading Commission, so as to provide regulatory clarity and clear delineation of responsibility between agencies.

In addition to these principles, we strongly support the view that good stablecoin legislation can only come from a bipartisan effort. How digital assets should be regulated is a major question of national importance and has been the subject of healthy debate among people of all political persuasions for years. We are confident that bipartisanship will yield the best, most durable result for the benefit of all Americans.

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We thank you for your consideration and stand ready and willing to assist the Committee on this critical issue in the coming months.

Sincerely,

Kristin Smith
Chief Executive Officer

Jake Chervinsky
Chief Policy Officer

cc: The Honorable French Hill
The Honorable Stephen Lynch
Members of the House Committee on Financial Services
Members of the House Subcommittee on Digital Assets, Financial Technology, and Inclusion