July 19, 2023

The Honorable Patrick McHenry
Chairman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Chairman McHenry and Ranking Member Waters:

On behalf of the Credit Union National Association, American Bankers Association, the Consumer Bankers Association, and our member banks and credit unions, we write to offer our shared perspectives and concerns with proposed stablecoin legislation under consideration by the Committee. Throughout the last year, we have engaged the Committee by providing informal feedback, sending letters and submitting statements for the record expressing our views on various iterations of draft legislation. While we appreciate the changes made in some of those drafts, namely the removal of non-insured depository institution access to Fed Master Accounts, we remain concerned with several provisions that could threaten financial stability and consumer protection in the stablecoin ecosystem.

As you know, banks and credit unions have a strong interest in ensuring that the financial activities, products, and services offered by non-bank entities do not harm consumers, investors, or the financial system. Stablecoins are a special class of digital asset that is similar to commercial bank money due to its intended peg to the US Dollar and its budding use as a means of payment. Stablecoin issuers effectively create a new form of private money, which has clear monetary policy implications and should be subject to federal oversight that ensures financial stability and consumer protection.

Our primary concern with the draft legislation remains the inadequate oversight applied to state-licensed payment stablecoin issuers, which will promote charter arbitrage and heighten systemic risk. Given these entities' intent to create new money, we believe they should be subject to at least the same form of supervision from a federal regulator as are state-chartered banks and credit unions. The draft legislation, however, imposes critical limits on the role of a federal regulator to approve and supervise state-licensed payment stablecoin issuers and creates a regulatory arbitrage opportunity for nonbank entities to shop for the "best" regulatory regime by state. Further, it is unlikely that states are prepared to regulate stablecoins on their own, especially given stablecoin issuers' capacity to quickly scale into global stablecoins that facilitate international payments.

Further, the draft's creation of a state path to license stablecoin issuers without federal oversight invites an exacerbation of potential contradictions in a 51-jurisdiction regime that is ripe for bad actors to take advantage of loopholes and a lack of consistent oversight. The proposed state-licensed payment stablecoin issuer is similar in its oversight model to state-based money transmitter licenses, a model that is insufficient to mitigate the risks to financial stability and consumer protection posed by stablecoins.

Two additional concerns we share that bear repeating are the lack of accountability and commercial entity prohibitions. Any stablecoin legislation should mandate exams and audits for stablecoin issuers. While the draft calls for some reporting, including an attestation of stablecoin reserves, it stops short of requiring supervisory exams or third-party audits, critical tools to ensure accountability and compliance with established rules and law. Finally, the legislation should prohibit or provide limitations on a non-financial commercial company owning or controlling a payment stablecoin issuer. These restrictions are critical to protect consumers from potential self-dealing or conflicts of interest.

We support and encourage responsible innovation in financial services. Our intent is not to restrict innovation, rather to ensure risks presented by novel financial products are fully considered and appropriately managed. We look forward to working with the Committee on revisions that address these serious concerns before the bill moves through the legislative process.

Sincerely,

Credit Union National Association
Consumer Bankers Association
American Bankers Association