

The Honorable Patrick McHenry  
Chairman  
U.S. House Financial Services Committee  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Maxine Waters  
Ranking Member  
U.S. House Financial Services Committee  
4340 O'Neill House Office Building  
Washington, DC 20515

The Honorable French Hill  
Chair  
Subcommittee on Digital Assets  
U.S. House Financial Services Committee  
2129 Rayburn House Office Building  
Washington, DC 20515

The Honorable Stephen Lynch  
Ranking Member  
Subcommittee on Digital Assets  
U.S. House Financial Services Committee  
4340 O'Neill House Office Building  
Washington, DC 20515

April 18, 2023

Dear Chairman McHenry, Ranking Member Waters, Subcommittee Chair Hill and Ranking Subcommittee Member Lynch,

We, the undersigned organizations, write to express our concerns about the grave risks stablecoins pose to households and to our financial system and urge the Committee to take the utmost care to not advance legislation that will increase these risks by expanding the reach of stablecoins without providing adequate protections.

Unfortunately, the draft bill up for discussion this week - H.R.\_\_\_\_, [a bill to provide requirements for payment stablecoin issuers, research on a digital dollar, and for other purposes](#) - which attempts to provide a regulatory framework for stablecoins fails to provide adequate protections for consumers, investors and financial markets, and may in fact amplify the risks posed by stablecoins. We oppose the introduction and markup of this bill.

Stablecoins, despite their name, have proven anything but stable. There are ongoing questions regarding the degree to which their issuers hold enough stable reserves as collateral in order to redeem their customers should they choose to withdraw their funds. What's more, the fragility of stablecoins and how their vulnerabilities can amplify market instability was on full display during the market crash last spring, where the collapse of the Terra stablecoin and its ecosystem, along with other factors, helped to spur roughly \$2 trillion in investor losses in a mere few weeks.

In addition to these concerns, there are other risks and harms to consider. Stablecoins have yet to be proven as a truly effective means of payment. Instead, stablecoins are primarily used to facilitate speculative cryptocurrency trading, lending or various types of decentralized finance. The underlying blockchain technology used to generate these coins is also prone to hacks and theft. A large share of issued stablecoins rely on energy intensive verification methods that generate negative environmental impacts. And as of now, blockchain 'payment' systems are

generally incapable of reversing erroneous or fraudulent transactions, given the inability to delete data from the chain. The Committee should thoroughly consider the possibility that stablecoin legislation intended to transform stablecoins into a mainstream, reliable mode of payment might instead further fuel the mining and trading of cryptocurrencies in an environment rife with pump-and-dump scams, lack of consumer protections, extreme volatility, and cybersecurity risks.

While federal financial regulators already possess considerable authority to effectively police stablecoins, these powers could be supplemented for some regulators. At the same time, the Committee should be careful not to materially undermine existing regulatory protections, or create new regulatory loopholes for both stablecoins, but potentially other assets.

Any stablecoin legislation pursued by Congress must adequately address the risks associated with stablecoins, many of which are similar to the risks posed by banks, including, but not limited to: run risk, credit risk, operational risks, and liquidity risk, as discussed in the President's Working Group report on stablecoins. Furthermore, legislation must also address concentration and anti-competitive effects, as stablecoins issuers continue to rapidly grow and eventually seek to benefit from economies of scale through mergers and acquisitions. Such legislation should also actively affirm consumer and investor protections and the roles of regulators in protecting said investors and consumers, and lastly, should make it clear that rigorous standards should be applied to oversight of stablecoins across sectors, rather than relying primarily on the discretion of any one regulatory agency.

Because the use or theorized uses of stablecoins spans the gamut of financial sector activities (e.g., banking, consumer finance, investments, etc.), crafting legislation that would adequately address the risks associated with all these activities is a complex and difficult endeavor that requires time and careful consideration. Additionally, any new legislation in this arena must be careful not to materially undermine the SEC's regulatory oversight beyond stablecoins.

The bill introduced this week falls short of the elements listed above in many respects. For example:

- The bill provides an overly permissive regulatory approach to stablecoins, allowing issuers to seek primarily state regulatory oversight in lieu of meaningful federal oversight, even as state oversight often falls short of what is needed to manage the systemic risks these assets pose.
- The bill has a streamlined approach to federal oversight and authorization of stablecoin issuers that provides insufficient time or fail safes to adequately evaluate issuers' applications for approval or for proposed mergers and acquisitions that involve stablecoin issuers or associated entities.
- The non-bank stablecoin issuer pathway in the bill would give non-bank entities greater access to national payment rails and systems and many of the privileges of banking institutions, without commensurate oversight and obligations to comply with consumer protection laws.

- In particular, we fear the bill allows stablecoins issuers to use the non-bank issuer pathway to evade effective consolidated supervision, deposit insurance, consumer protection, and strict prudential standards and enforcement otherwise found in traditional regulatory regimes.
- The bill also lacks sufficient clarity about how it would enable effective enforcement of the Bank Holding Company Act to prevent the co-mingling of commercial and banking activities, despite containing provisions attempting to address such activities. This is a significant concern given the very real interest of tech and commercial companies in securing market share in the private payment space, despite obvious concerns that such encroachment would pose in terms of economic concentration and collusion.
- The bill lacks language that explicitly affirms other regulators' authority, in particular the SEC and the CFPB, to regulate stablecoins when traded on secondary markets. The bill's current language saying this stablecoin regime shall not infringe upon other regulators' authority is insufficient, and if enacted as written would likely hamstring the SEC and other regulators' rulemaking and enforcement abilities.

We strongly urge the Committee to withdraw this bill. In the meantime, we urge the Committee to encourage the regulators to use the tools currently at their disposal; any legislation you choose to pursue in the future should supplement existing authority for regulators through rigorous protection of consumers and investors and additional efforts to protect against systemic threats to our financial system and economy.

We would be happy to speak further and at length with Members of your Committee and staff on these guiding principles and our opposition to this bill in more detail.

Sincerely,

*(Signatories as of Wednesday, April 18, 2023, 3 p.m., ET)*

Action on Race and the Economy (ACRE)

Americans for Financial Reform (AFR)

Center for LGBTQ Economic Advancement & Research (CLEAR)

Center for Responsible Lending

Demand Progress

National Community Reinvestment Coalition (NCRC)

National Consumer Law Center (NCLC) (on behalf of its low-income clients)

National Fair Housing Alliance

Public Citizen

Revolving Door Project

Texas Appleseed

U.S. PIRG

Virginia Citizens Consumer Council

20/20 Vision