United States Senate
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
WASHINGTON, DC 20510–6075

October 7, 2021

The Honorable Janet Yellen
Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, D.C. 20220

Dear Secretary Yellen:

I write to raise concerns with the process and the reported content of the administration's forthcoming report on stablecoins. While it is important to discuss and consider regulatory and legislative approaches for safeguarding consumers and financial markets, the federal government should take the time necessary to thoughtfully develop a comprehensive understanding of an emerging financial innovation like stablecoins. I am worried the administration, however, is not doing that.

In July, Treasury and the President's Working Group on Financial Markets (PWG) announced they would issue a report this year with written recommendations on the regulation of stablecoins. As a threshold matter, the decision of whether, and if so, how to regulate stablecoins should be determined through legislation enacted by Congress. It is indisputable that current laws and court decisions were developed decades before anyone had conceived of stablecoins or cryptocurrency. Rather than have regulators stretch existing laws or take advantage of ambiguities to cover stablecoins, Congress should enact new clarifying legislation and determine whether, and to what extent, federal agencies should have jurisdiction over stablecoins.

Since the PWG announced its stablecoin review, the administration has revealed very little about the process it is using to draft this report. It is my understanding that stakeholders have had only minor involvement in the process, with just a few stablecoin providers invited to participate. Those invited participants were given a mere five minutes each to make highly structured presentations. These reports are concerning. Policymakers should meaningfully consult with the individuals who have developed these novel and complex technologies in order to understand how they work and can benefit society.

In addition, I certainly hope that the content of the report appropriately considers several important aspects of stablecoins, including their economic benefits and the differences between various coins. The report should explore the fact that stablecoins are not homogenous. Numerous stablecoins are backed by different asset classes, including commodities, physical assets, and currencies like the U.S. dollar. In addition, the means used to ensure a stablecoin remains stable relative to an asset can vary widely. Many stablecoins keep reserves in centralized repositories, but others collateralize the obligations of the stablecoin in a decentralized manner without a direct intermediary. The report should also explore the economic benefits of stablecoins. They have the potential to facilitate smooth cross-border transfers, reduce remittance costs, and provide enhanced traceability to mitigate money laundering and terrorist financing. Stablecoins can also be programmed and made interoperable with other currencies, creating efficiencies to improve access to financial services for more Americans.

It would be very unfortunate if, instead of focusing on these important aspects of stablecoins, the administration's report encourages the Financial Stability Oversight Council (FSOC) to recommend more stringent regulations of stablecoins or even designate stablecoin providers as systemically important. Not only would such a designation cause tremendous damage to an emerging technology, it would violate the statutory standard for designation since stablecoins do not pose a threat to the stability of the U.S. financial system. A comparison helps to illustrate this point. The Clearing House Payments Company is currently classified as one of only eight systemically important financial market utilities. It clears and settles $1.8 trillion in payments per day. By contrast, the total supply of stablecoins, regardless of transactions per day, is just seven percent of that figure. While aggregate transaction value is not the only factor FSOC must statutorily consider, the orders of magnitude in difference between stablecoins and such payments starkly illustrates one of the many reasons it would be inappropriate to attribute systemic risk to stablecoins.

As the administration continues its work on the report, I strongly encourage you to take a thoughtful, fair, and balanced approach to analyzing stablecoins. The administration would do well to remember that America's longstanding status as the world's leading economy is due, in no small part, to our tradition of fostering technological innovation, not stifling it.

Sincerely,

Pat Toomey

Pat Toomey
Ranking Member

cc: The Honorable Jerome Powell, Chair, Board of Governors of the Federal Reserve System
The Honorable Gary Gensler, Chair, Securities and Exchange Commission
Mr. Rostin Behnam, Acting Chairman, Commodity Futures Trading Commission
The Honorable Jelena McWilliams, Chairman, Federal Deposit Insurance Corporation
Mr. Michael J. Hsu, Acting Comptroller of the Currency
The Honorable Randal Quarles, Vice Chair for Supervision, Board of Governors of the Federal Reserve System
The Honorable J. Nellie Liang, Under Secretary for Domestic Finance, U.S. Department of the Treasury