Opening Statement
Chairman Sherrod Brown
Examining the President's Working Group on Financial Markets Report on Stablecoins
2/15/22

Let me start by talking about the Federal Reserve.

This afternoon at 2:15 we will be meeting in SVC-200 to markup five Federal Reserve nominees and one for the FHFA.

We need a full Federal Reserve Board of Governors to bring down prices and put workers first.

Ranking Member Toomey and I agreed on the dates for the hearing and markup over three weeks ago.

Americans are depending on us to get them on the job as soon as possible.

If my colleagues are as concerned about inflation as they claim to be, they will not slow down this process, which will only hurt workers, their families, and our recovery.

If you watched the Super Bowl on Sunday, you saw ad after ad for a product that most Americans have heard of, but almost nobody knows what it is. Even many of the people who've bought it often don't really understand it.

Big crypto companies are looking to make big profits, and are desperate to reach as many Americans as they can. They brought in celebrities and gimmicks to make crypto sound exciting and daring and profitable.

But the ads left a few things out.

They didn't mention the fraud, scams, and outright theft.

The ads didn't point out that you can lose big in crypto's huge price swings. They didn't tell you about the high fees pocketed by the crypto companies.

And they sure didn't explain that crypto markets lack basic investor protections and oversight.

Just a few weeks ago, hackers stole more than $300 million of people's investments from a crypto platform.

The fact that these companies felt the need to advertise at all is a bit of a giveaway about one of their major claims – if this were actually meant to be used as currency, why would you need to buy ads? I've never seen the Federal Reserve buy a multimillion dollar commercial for "U.S. dollars."

That's because crypto isn't money. It's designed for speculation. And watching all those ads reminded a lot of us of some asset bubbles we've been before.

The 2000 Super Bowl featured 21 ads from 14 different dot com start-ups. The internet may have been the next frontier, but those companies weren't – many of them were defunct within a year or two, and just four are still around today.

We're here today because once again, real people's <u>**real**</u> money is at risk. We need to look beyond the unproven promises, and protect Americans and our entire financial system.

In a hearing last July, this Committee examined the risks of cryptocurrencies to our economy. In December, we looked closely at the mechanics behind stablecoins and stablecoin companies.

Today, we're joined by Treasury Under Secretary Liang, to look at the risks stablecoins pose, and how regulators and Congress can protect consumers.

Last fall, the Treasury Department led a team of our financial regulators to conduct a report on stablecoins. The report makes it clear that without regulation, stablecoins can endanger our economy, our payments systems, our hard-earned money.

And while stablecoins suggest they're like money, good luck trying to use one at the store. Their main purpose today is to make it easier to trade, speculate, and in some cases even hide assets in crypto and digital markets.

In just a few years, stablecoins have mushroomed into a 175 billion dollar market. Now they're asking us to believe that what they've built is as good as real money, and that it works the way these start-ups say it does.

Americans—and this Committee—should look carefully at those promises.

The companies claim that a stablecoin is backed by real dollars, invested in a reserve account—that's what makes it "stable".

But our regulators tested that claim by a giant stablecoin issuer. That issuer ended up paying nearly $60 million in fines because it lied about its reserves. It turns out that for over two years, the stablecoin was only really "backed" 28 percent of the time.

Stablecoin companies say that you can, quote, "redeem" a stablecoin whenever you want, exchanging it back into dollars from the stablecoin's reserve.

But the fine print in the agreements of some of the biggest companies says that ordinary consumers can't actually redeem their stablecoins for dollars from the company that issues them. Only institutions like hedge funds can. And even then, many stablecoin issuers can delay redemptions, or refuse them entirely.

So if you saw a Super Bowl ad and figured you'd give this a try, and you change your mind and want to exchange your stablecoin for dollars, you might be out of luck. The website could be down. Your money could be trapped.

Stablecoin issuers also promise that their product will serve people who have been left behind in the financial system.

But as we've established, crypto doesn't actually function as real currency in any traditional sense. Allowing more people to trap their money in risky, speculative investments isn't the kind of financial inclusion we need. It's not going to do anything to help Americans working hourly jobs who don't put their paychecks in the bank because of abusive fees.

Finally, stablecoin companies say that if you hand them your money, your money will be safe. They tell us that they structure their reserves so that people's money is protected, and that their business will weather any kind of crisis.

Now, maybe the stablecoin companies are right. Maybe we should just close our eyes and trust that a product called "Magic Internet Money"—run by an outfit called "Abracadabra"—is a safe place for your money.

But I don't think working Americans can take that risk.

Remember in 2007 and 2008, when the banks said homes prices would only go up and mortgages would never be underwater?

And then, as now, it's workers and their families whose homes and hard-earned savings are being used as gambling chips. They're the ones who will pay the price.

I understand the appeal of crypto. Americans have burned over and over again by Wall Street. The 2008 crisis, abusive fees, a stock market that seems detached from reality – of course people don't trust the big banks. And they figure, how could putting my money in one of these new products be any worse? Maybe I'll finally get in on the kinds of deals that have been making investment bankers wealthy for years.

And some of those Super Bowl ads were pretty compelling television. They make vague allusions to innovation and the future – and who could be against innovation?

But we have ignored warnings like the report we're talking about today too many times before.

Before the financial crisis, Congress and regulators ignored warnings about the risky bets, increasing leverage, and over-the-counter derivatives on Wall Street. Then the banks got a bailout, and working people paid the price.

That's why I want Congress and regulators to work together to tackle these risks now, before it's too late.

I urge my colleagues to listen carefully to Under Secretary Liang's testimony today, and to the warnings in the PWG report.

We need a strong, proactive approach from regulators and Congress to limit stablecoins' risks for working Americans.

As our economy continues to recover from COVID-19—as workers are finally starting to see higher wages and more bargaining power in the workplace—the last thing we need is for a risky new financial product to cause disaster.

This isn't the first hearing this Committee has had on stablecoins, and it won't be the last.

Ranking Member Toomey.

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