Written Statement of Dante Alighieri Disparte Before the United States Senate Committee on Banking, Housing and Urban Affairs
Stablecoins: How Do They Work, How Are They Used, And What Are Their Risks?
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Chairman Brown, Ranking Member Toomey, Members of the Senate Committee on Banking, Housing and Urban Affairs, thank you for the opportunity to share my testimony with you today.

My name is Dante Disparte and I am the Chief Strategy Officer and Head of Global Policy for Circle, a leading digital financial services firm and the sole issuer of USD Coin, or USDC - a dollar digital currency supporting the extensibility of the U.S. Dollar in a competitive, always-on global economy.

Having recently completed my 3-year term on the Federal Emergency Management Agency's National Advisory Council, and being no stranger to disaster displacement and hardship, I want to acknowledge the communities affected by last week's devastating storms. Indeed, as this disaster and others have shown, with the movement of financial aid and disaster relief, when speed matters most, friction stands in the way.

As a country, we have faced a Great Depression, a Great Deleveraging and in 2020 with the onset of the COVID-19 pandemic, we faced nothing short of a Great Correction. In this correction, the centrality of technology for any semblance of political, business, economic and household continuity was laid bare. What was also clear is that access to the internet and other digital public goods was unequal. How we engage with money and payments in digital form was clearly an area of pre-pandemic vulnerability in the U.S. and around the world.

The advent of stablecoins or what we like to refer to as dollar digital currencies like USDC, are an important innovation enabling greater control over how we send, spend, save and secure our money. To define a stablecoin - noting that, like money itself, not all of these innovations are created equal - is tantamount to the moment we converted our compact discs (CDs) into MP3s. The CD and music is still yours, but now enjoys the powers of programmability, user control and a digitally native form factor that works anywhere, on any device, across the planet.

Stablecoins, in effect, are designed to reference and import the economic properties of an underlying asset. By circulation the most successful of which all reference the dollar, with the economic aim of combating the "buyer's and spender's remorse" that plagued early cryptocurrencies. USDC is a now 3-year old dollar digital currency standing at more than $40 billion in circulation and cumulatively supporting more than $1.4 trillion in on-chain transactions, in a manner that enhances financial inclusion, responsible innovation and integrity. Critically, the dollar-denominated assets backing USDC, which are strictly cash and short-duration U.S. Treasuries of 90 days or less, are all held in the care, custody and control of U.S. regulated financial institutions.

Indeed, as this internet-native financial infrastructure continues to grow, we aim to do our part ensuring the future of payments and money is more inclusive than the past. Our recently announced Circle Impact initiative has four core components, each of which is close to home for me having grown up in poverty and being a first generation high school and college graduate.

These include:

- Allocating a share of USDC dollar reserves to Minority Depository Institutions (MDIs) and community banks across the country. We hope this will accrue to billions of dollars over time, strengthening the balance sheet of these banks and, thereby, strengthening their communities.
- Embarking on Digital Financial Literacy initiatives together with Historically Black Colleges and Universities (HBCUs) and other partners supporting the development of essential learning and hands-on approaches to entrepreneurialism.
- Leveraging our SeedInvest platform, which is one of the nation's leading equity crowdfunding businesses, to catalyze targeted campaigns for women and minority entrepreneurs across the country.
- Assisting humanitarian interventions and coordinating public-private partnerships to mobilize blockchain-based payments and USDC to deliver corruption-resistant, real-time aid and relief.

Because nothing worth doing is worth doing alone, our hope is to catalyze uncommon coalitions on these initiatives, which are deeply connected to our mission of raising global economic prosperity through the frictionless exchange of financial value.

While some argue the U.S. may lose the digital currency space race if it fails to issue a Central Bank Digital Currency (CBDC). I argue that we are winning this race because of the sum of free market activity taking place inside the U.S. regulatory perimeter with digital currencies and blockchain-based financial services. The sum of these activities are advancing broad U.S. economic competitiveness and national security interests.

Thank you again Chairman Brown and Ranking Member Toomey for the opportunity to speak with you today. I look forward to addressing the Committee’s questions.

Reflections on the Policy Environment

With the emergence of digital currency innovations as important financial markets infrastructure, Circle has continued to prioritize engagement with U.S. state, federal, and international regulators and policymakers. This culminated with the President's Working Group on Financial Markets report on stablecoins (PWG), which highlighted the recommendation that stablecoin arrangements be managed by insured depository institutions. The report goes on to raise a number of other potential risks to financial markets and consumers, which Circle has prioritized satisfying. It is important to note that the most enduring financial markets policies espouse a same risk, same rules technology-neutral approach to regulation. With the advent of digital assets, it is important to also look at the economic behavior of the digital asset or token.

Indeed, well before the PWG issued its recommendations, Circle announced its intention to become a federally chartered commercial bank. In the interim, USDC in circulation and the appropriate consumer protection, financial crime compliance and other standards are governed on a level footing to other major U.S. payments companies. One core difference, however, is that payments companies tend to build payment systems on proprietary technology, which creates a walled garden environment and often exacts the highest fees from those who can least afford it. Circle's approach, on the other hand, is to build on public blockchain infrastructure and in accordance with open source technology standards. This not only promotes innovation and competition, it promotes interoperability across payment systems, akin to how email networks work across platforms and service providers. Imagine how usable a Gmail account would be if Gmail could not send a message to a Hotmail user or a Yahoo account? Many of the world's payment networks labor under this walled garden challenge where the cost of interoperability, speed and distance travelled draw close parallels to pre-internet telecommunications networks.

Along these lines, Circle's services and USDC in particular, are increasingly being leveraged as a pro-competition open medium of exchange based on the U.S. dollar being the currency of the internet. Major credit card companies, small businesses, remittance companies, and many others, are making USDC a native settlement option for their businesses. This in turn is increasing market optionality with payments, while building a bridge between digitally-native financial services and real-world use cases. One recent example is the enablement of USDC as a settlement option on the MoneyGram network leveraging the Stellar blockchain as open financial infrastructure.

Some digital currency projects may resemble monetary airline miles, which are usable only if you wish to travel on a specific, closed network or if you were born in the "right" postal code. The structure of USDC and other Circle services based on public blockchain networks, promotes wide adoption, network effects and much needed price competition and interoperability, all without sacrificing requirements to protect the integrity of the financial system. Over time, important companion innovations in the digital identity domain will ensure privacy preserving approaches to financial access and novel internet-native financial markets based on digital currencies and blockchains can continue to grow.

In an always-on global economy, markets and people's financial needs do not take bank holidays. The advent of trusted digital currencies like USDC are enabling a wide range of use cases, including supporting cross-border remittances such as the MoneyGram example mentioned above. Remittances are the veritable flywheel of the global economy and are typically recession resistant money flows. However, with the onset of the COVID-19 pandemic, global remittance flows may have lost up to $200 billion in volume according to the World Bank (down from more than $700 billion pre-pandemic) due to the double-jeopardy of economic slowdowns, as well as the void of open payment networks. Digital currencies and the corresponding blockchain-based financial services ecosystem are beginning to fill this void as more than 200 million people worldwide (and more than 20 million) in the U.S. adopt these services.

Another use case in keeping with lower cost peer-to-peer payments and remittances, is the use of USDC and blockchain-based payments for disbursing aid and humanitarian relief. Moving physical cash into a humanitarian setting may often be a honey pot for corruption, bribery and fraud due to the limited traceability of physical money. The auditing fidelity of blockchains and the trust and price parity to the dollar of USDC can be used to support corruption-resistant, real-time relief payments. A successful program supporting doctors in Venezuela is emblematic of the opportunity for faster aid, development and humanitarian support using digital currencies.

Micropayments and programmable money, which are elusive but needed areas in our economy, are also made possible with dollar digital currencies and blockchain-based transaction ledgering. By prevailing payment standards, it often costs more to send a small amount of money than the sum of money sent. Micropayments for example for a freelance journalist who can accrue payments for each "like" of their article becomes a possibility with the increasingly widespread use of USDC for high-trust low-friction internet commerce and payments. Indeed, the bootstrap use case of USDC supporting the growth of digital asset market activity has satisfied exacting performance and operational standards.

In terms of market trust, transparency and accountability, Circle has consistently and voluntarily reported on the status of dollar-denominated reserves and their sufficiency to meet demands for USDC outstanding. This has been done with third party attestations from a leading global accounting firm. Circle has also prioritized building, designing and guarding the prudential standards for USDC inside of and conforming with prevailing U.S. regulatory standards that apply to leading fintech and payments firms such as PayPal, Square, Venmo and Stripe, among others.

Since its inception, USDC has always been easily redeemable and most redemptions happen speedily. Additionally, given the growing integration as a settlement option in leading merchant and credit card networks, the use of USDC in its digitally-native form for the procurement of goods and services remains a growing use case. The first USDC stablecoin was minted in September 2018. Since then, $95,976,829,528.16 have been issued and, as of December 1, 2021, $57,129,781,321.95 have been redeemed. This demonstrates a vibrant market is evolving around the use of USDC for payments, as well as a well functioning on and off ramp supporting redemption requests.

The extensibility of the U.S. Dollar as the reference currency of the internet is not a zero-sum proposition. As and when the potential for a CBDC becomes a possibility in the U.S. (notwithstanding some of the potential design risks and drawbacks), the experience, transaction throughput and openly competitive market powered by dollar digital currencies and blockchains, will be a useful pathway for future upgradability. In short, it is better to get it right, than to get it fast. The same also holds true with acknowledging that most “value added” money in circulation today, whether enshrined on a plastic card or stemming from the money creation of the fractional reserve banking system, is in fact privately issued. The advent of dollar digital currencies like USDC inherit, are answerable and additive to U.S. monetary, regulatory and compliance policy.

Emerging policy and regulation for the future growth of stablecoins and the digital assets market in the U.S. should aspire to do no harm, spur responsible financial services innovation and recognize the importance of U.S. states for being our fintech innovation labs. One challenge however, is that the states are not often represented in global macroprudential and regulatory bodies such as the Bank for International Settlements (BIS), the Financial Action Task Force (FATF), among others.

Harmonizing a broad U.S. approach to digital assets and competition in the digital currency space race, can improve U.S. competitiveness, security and lower fundamental costs for basic financial access.