Ranking Member Pat Toomey (R-Pa.)
Opening Statement
Full Committee Hearing
May 10, 2022 at 9:45 AM

---

Thank you, Mr. Chairman. And Secretary Yellen, welcome.

Today's hearing is an opportunity to discuss FSOC's 2021 annual report. I have long been skeptical of FSOC's process for designating nonbank financial institutions as systemically important, or SIFIs. FSOC's process has been opaque and previous designations have lacked sufficient cost-benefit analysis.

This approach also needlessly imposed bank-like regulations on nonbank financial institutions, such as insurance companies and asset managers. More fundamentally, the act of designating a firm as a nonbank SIFI signals to the market that the firm is "too big to fail" and would be bailed out if it became insolvent.

For these reasons, I was glad to see FSOC in 2019 unanimously approved an activities-based approach to identify and assess potential risks, as well as an enhanced cost-benefit analysis for potential designations. These changes marked significant improvements over the previous approach with respect to both process and substance. I have been encouraged that you have recognized the value of this approach, and I urge FSOC to retain it going forward.

I have also been concerned that FSOC—like other financial regulators—is becoming politicized. Consider global warming. FSOC has held 10 meetings under your leadership, and seven of those meetings have focused on global warming, according to the public readouts. By contrast, not a single one of those meetings included a discussion of cybersecurity, which presents a much more imminent and significant threat to the financial system.

In October of last year, FSOC issued a lengthy report that audaciously claimed global warming is an "emerging threat to the financial stability of the United States." FSOC uses this supposed risk to justify its recommendation that financial regulators consider sweeping changes to their rules.

The actual data show that “physical risks” associated with global warming—that is, severe weather events—don’t threaten financial stability. Economic damage from weather-related events as a percentage of GDP has actually trended down steadily over the past 30 years. And we’re not aware of a single bank failure in the modern era caused by any weather event.

As I have previously warned, the real risk is political. Some unelected financial regulators want to accelerate our transition to a lower-carbon economy by misusing their powers to allocate capital away from traditional energy companies.

At a time of skyrocketing energy prices, we certainly don’t need financial regulators making it even more expensive for Americans to fill up their gas tanks or heat their homes. Addressing global warming requires difficult political decisions involving tradeoffs. In a democratic society, these tradeoffs must be made by elected representatives accountable to the American people through a transparent and deliberative legislative process.

Instead of pursuing political issues that are outside the mandate and expertise of financial regulators, the FSOC should enhance coordination across regulators on existing threats to the financial system. To this end, I was encouraged that the FSOC annual report identified certain issues that are worthy of regulatory attention, such as enhancing the resilience of the U.S. Treasury market, and improving the cybersecurity resilience of the financial sector. But I worry that progress on addressing these challenges is being stalled because of FSOC’s focus on political issues.

Finally, in your role as chair of the President’s Working Group on Financial Markets, or PWG, you released a report last November on stablecoins. Although I disagree with the report’s recommendation that all stablecoin issuers must be insured depository institutions, I was glad to see the report acknowledge that it is the responsibility of Congress to create new rules for stablecoins.

To that end, last month, I released a discussion draft of a bill—the Stablecoin TRUST Act—to establish a regulatory framework for stablecoins. There are tremendous potential societal benefits from stablecoins. Today, stablecoins primarily facilitate trading of digital assets.

But tomorrow stablecoins could be widely used in the physical economy for payments and automating transactions.

Because of the dollar price stability of stablecoins, they have the potential to serve all the traditional functions of money, including acting as a medium of exchange. Stablecoins could also improve upon traditional forms of money by increasing payment speed, reducing transaction costs, helping to combat illicit finance through an immutable and transparent record, and enabling programmable contracts.

The proposed regulatory framework I’ve released will allow stablecoins to continue flourishing while protecting consumers and minimizing potential risks from stablecoins to the financial system. It’s critical that Congress provide clarity in this area as soon as possible.

Congress needs to enact a sensible regulatory framework before something bad happens with a stablecoin that harms consumers. If that were to happen, Congress will rightfully share some of the blame. Thankfully, I am optimistic that the administration is working with members of Congress and that we can find common ground on bipartisan legislation that addresses the risks of stablecoins while also encouraging innovation and competition.

Secretary Yellen, I look forward to hearing your testimony and discussing these and other important issues with you today.