INDEPENDENT COMMUNITY
BANKERS of AMERICA®

July 22, 2022

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Re: Community Bank Perspective on Stablecoins Legislation

Dear Chairwoman Waters and Ranking Member McHenry:

On behalf of ICBA and the nearly 50,000 community bank locations we represent, I write to thank you for crafting legislation in response to the President's Working Group on Financial Markets (PWG) report on stablecoins. Legislation is urgently needed to address the emerging systemic risk created by a proliferation of unregulated stablecoins. **However, we believe that it would be premature to markup legislation of this scope and scale without the benefit of full review and comment from ICBA and other stakeholders.** We encourage you to convene a hearing to more fully evaluate the significant consequences for the financial industry posed by the regulation of stablecoins.

We appreciate the opportunity to review the proposed framework of your legislation. Frankly, however, we have serious concerns about elements of the framework which we believe will not adequately address systemic risks created by stablecoins. For example, the framework would allow non-banks to issue stablecoins, and while the Federal Reserve would license non-bank issuers, there is no certainty around whether the Federal Reserve would have adequate oversight authority under the contemplated structure. For example, it is unclear whether the Federal Reserve would examine non-bank issuers or whether the Agency's oversight would extend to the parent companies of these issuers among other unanswered questions around supervision. Additionally, questions regarding stablecoin issuers' capital and liquidity requirements and access to master accounts at the Federal Reserve remain unresolved. We hope to work with you to address these concerns and others in the legislative text.

Community banks have a strong interest in ensuring that digital assets such as stablecoins do not create systemic, investor, or consumer risk and that resulting risks created by non-banks operating in this manner do not spillover into the traditional banking system. As described below, ICBA is concerned with stablecoins' potential risks to end-users, the financial system, and national security. These risks must be addressed by appropriate safety and soundness requirements, without loopholes.

The PWG report on digital assets rightly reflects ICBA's concerns that continued, rapid stablecoin growth creates heightened risks for consumers, the financial system, and the broader economy. The November 2021 Financial Stability Report of the Board of Governors of the Federal Reserve, quoted below, identifies the following risks associated with stablecoins:

- "Certain stablecoins, including the largest ones, promise to be redeemable at any time at a stable value in U.S. dollars but are, in part, backed by assets that may lose value or become illiquid. **If the**

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assets backing a stablecoin fall in value, the issuer may not be able to meet redemptions at the promised stable value."
- "Accordingly, these stablecoins have structural vulnerabilities similar to (…) certain money market funds and are susceptible to runs.
- "These vulnerabilities may be exacerbated by a lack of transparency and governance standards regarding the assets backing stablecoins**. The potential use of stablecoins in payments and their capacity to grow can also pose risks to payment and financial systems."**

Stablecoins create the risk of a destabilizing run on redemptions which could ripple through the financial system. This risk is compounded by misleading representations by stablecoin issuers and a lack of transparency into reserves backing stablecoins, which is needed to reassure investors in times of uncertainty. Moreover, the dramatic increase in the volume of stablecoins in circulation represents a concentration of economic power and risk, potentially distorting American finance and commerce.

Recommendations for Stablecoin Legislation

ICBA encourages policymakers to harmonize regulations to ensure strong, clear, and consistent oversight of all stablecoin issuers.

- Congress should act to ensure that stablecoin arrangements are subject to comprehensive federal prudential oversight and examination. Any regulatory regime applied to stablecoins should be comparable to regulations applicable to traditional, functionally similar payments products and services offered by the banking system.
- The scope of regulation should include capital adequacy and reserves; activity restrictions; due diligence; information security and privacy; business resiliency; ownership and control of data; anti-money laundering and anti-terrorist financing; reporting and maintenance of books and records; consumer protections; safeguarding customer information; vendor and third-party management; and ongoing examination.
- A more comprehensive, coordinated regulatory approach by banking and market regulators, including the Securities and Exchange Commission and the Commodity Futures Trading Commission, could help address risks, dispel confusion in the marketplace, and prompt more community banks to explore digital asset products and services to address customer needs. Stablecoin companies are not subject to comprehensive consolidated supervision, which allows for risks to multiply and creates an unequal playing field with banks.
- The harmonization of regulations would not only address risk—the additional clarity would level the playing field and create opportunities for more community banks to consider offering digital products and services, including stablecoin. Without such information, many banks may choose not to engage in digital asset activities.
- Collaboration can also help to ensure that the development of digital assets will not harm the integrity of the U.S. financial system by disintermediating community banks. Without harmonization among all the banking regulators, community banks that are not regulated by the OCC may find they are at a competitive disadvantage relative to their OCC-regulated peers and non-bank digital asset companies.
- Stablecoins must be brought within the regulatory perimeter. Appropriate federal oversight is needed to close regulatory gaps and mitigate the risk of regulatory arbitrage regardless of how these digital assets are classified by policy makers. The regulatory framework should address risks posed by any

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entity within a stablecoin arrangement that participates in the creation, transfer, or storage of stablecoins. Unregulated entities should not be permitted to issue stablecoins.

- A consistent federal regulatory framework for stablecoins should balance their benefits and risks and preserve the separation of banking and commerce.

Thank you for your consideration. Again, we look forward to reviewing and responding to your draft legislation.

Sincerely,

/s/

Rebeca Romero Rainey
President & CEO

CC: Members of the House Financial Services Committee

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