Roll Call

# In a volatile crypto market, stable coins find increasing appeal

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Banks, regulators mull virtual currency with less risk

The cryptocurrency rollercoaster, with its price peaks and valleys, has financial technology proponents looking to a new type of virtual currency that promises the benefits of being virtual while limiting the risk.

Banks, regulators and industry leaders are studying, or have already started to implement, so-called stable coins. They tout the potential to speed up payments, cut money transfer costs for consumers, and help citizens of foreign countries whose currencies are under duress.

The lure of virtual currencies for early adopters, especially among libertarians, is the lack of a central authority. They are created and controlled by a widespread network of computer users, not a government that can limit access to the currency. But the idea that a virtual currency could be tied to established sovereign money is what's propelling this new technology.

Companies offering stable coins claim to have reserves in dollars or other currency to back them up. So if the stable coin is tied to dollars or euros, why not use them? There could be a variety of answers, but one popular one is speed. The transferring of "real" money can fall under tight controls and often involves antiquated and bureaucratic systems that can take days.

JPMorgan Chase & Co. last month introduced a stable coin linked to the dollar. Known as a JPM Coin, the global bank could use the coin to settle transactions without relying on the Swift network, according to panelists at a March 15 event in Washington hosted by the Technology Policy Institute. Swift, or the Society for Worldwide Interbank Financial Telecommunication, is the international telecommunications agreement by which financial institutions transmit electronically information on financial transactions.

If banks were to use ordinary virtual currency like bitcoin, they would be subject to too much price risk, meaning they'd be on the hook for extra funds if prices of the virtual currency fell. Virtual currencies have experienced massive ups and down, with bitcoin peaking at a value near $20,000 at the end of 2017 but now trading around $4,000.

Regulators appear to be encouraging a closer look, if not outright adoption of stable coins.

"There are many folks that are trying to think about ways you can create a more stable crypto asset that may be able to power a lot of the networks that people are contemplating," said Daniel

Gorfine, an official at the U.S. Commodity Futures Trading Commission, who was at the March 15 event. He heads a new fintech innovation project at the agency, known as LabCFTC. He said the technology could allow anchoring a stable coin virtual currency to physical assets, like commodities.

Gorfine said the agency has been hearing "a lot of hypotheticals" such as anchoring a crypto asset to gold or other assets.

JPMorgan created its stable coin because of how virtual currencies work with blockchain technology. A blockchain is a distributed ledger allowing for a theoretically immutable way to keep records. According to the bank, blockchain use could reshape how funds are stored and transmitted, offering cost savings and faster processing, particularly for global payments with different time zones. JPM coins would allow instantaneous payments, according to the bank.

JPMorgan said the new coins are only available for business users, but the bank plans to add more virtual coins backed by currency from other countries in the future.

Not every bank has reached the same conclusion. Citibank informally tested a stable coin but this month told the cryptocurrency site CoinDesk it decided to pull the plug on the project, saying it felt there were more effective ways to improve payments, whether by employing other fintech ideas or making direct improvements to the Swift system.

Consumer benefit

Using blockchain to facilitate payments would benefit consumers, according to Diego Zuluaga, a policy analyst at the libertarian Cato Institute. Costs fall hardest on the poor, he said, whose fees pay for what he called the "monopolistic systems" used to transfer payments. Blockchain could speed up the two days it takes for some funds to arrive at the endpoint, he said at the Technology Policy Institute panel.

Stable coins hold promise for retail users as well. A major virtual currency player, Gemini Trust Co., launched a virtual currency backed by the U.S. dollar last year. The company was founded by Cameron and Tyler Winklevoss, who earlier helped found Facebook.

According to Gemini, it helps users quickly move dollars to virtual currency and allows them to "send and receive U.S. dollars like email" which operates 24 hours a day, seven days a week, but the company says banks "only operate during specific 'business hours' (like snail mail) — a fundamental mismatch."

Bitcoin is difficult to use as a means of exchange because of volatility, according to Gemini.

Stable coins may even offer help to residents of countries with weak currencies. The former chairman of the CFTC, Timothy Massad, outlined how Venezuela residents use virtual currencies to access other forms of currency to mitigate the effects of hyperinflation on the country's official currency, the bolivar. But he pointed out that anyone from there who bought and held bitcoins in late 2017 would have experienced major losses.

"We will see over time if crypto currencies prove to be useful in countries that lack a stable currency," he said in a report prepared for the Brookings Institution this month.

The Venezuelan government has turned to its own coin tied to the value of the country's oil assets, though it has prohibited its own citizens from using the country's currency to buy them.

Americans are also out of luck. President Donald Trump issued an executive order last year barring U.S. citizens and businesses from transactions involving virtual currencies issued by Venezuela.

Regulators and those in the industry are grappling with how stable coins will work with current regulations. One way is through a private blockchain, such as that envisioned by JPMorgan, which would limit access. Other blockchains, like the one bitcoin runs on, are open to the public.

The private networks offer advantages when dealing with privacy requirements, according to Mark O'Riley of computer giant IBM Corp. European privacy laws include a right to be forgotten, and to have certain information off the internet, he said during the technology panel. Private blockchains may be the answer, he suggested.

There have been bumps in the stable coin road. One organization had to return about $133 million to investors after running into compliance issues. A group called Intangible Labs tried to establish a stable coin pegged at $1. The coin also had the potential to increase in value due to inflation, and this characteristic ran afoul of legal restrictions.

Hester Peirce, a commissioner at the Securities and Exchange Commission, indicated outdated securities laws may have been the reason for these false starts.