Biden Administration Seeks to Punish Stablecoin Success

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Stablecoin market capitalization has risen by 500 percent in past 12 months. The growth aligns with growing interest in transacting outside heavily regulated banking system. People are seeing myriad benefits from stablecoin use, including more fluid trades, smaller fees, simple borrowing procedures, and smooth cross-border payments, among many others.

The Biden administration has looked on with alarm and suspicion. Last summer, the President's Working Group (PWG), composed of several financial regulators, announced it would evaluate stablecoins and recommend action. The president should scrap the gloomy report recently issued by the PWG and let the stablecoin market develop.

Because of their value in the cryptocurrency ecosystem, stablecoins demand more interest than their dollar-pegged book value, to the benefit of middle class savers. Virtual marketplaces like Nexo and Celsius offer 10 percent APY or higher to deposit stablecoins.

The PWG report ignores stablecoins' benefits and instead reflects a myopic, risk-averse, regulator-centric view of crypto. It warns of every possible stablecoin risk and calls for Congress to create a "comprehensive" regulatory apparatus to oversee those supposed risks and warns the administration will pursue the matter solo if Congress fails to act. The Financial Stability Oversight Council (FSOC), an administrative board created through Dodd-Frank, could designate stablecoins as systemically important, thereby subjecting them to onerous oversight, compliance, and enforcement.

Odd things arise from this approach. First, it is ironic for the administration to claim that the stablecoin phenomenon is so unwieldly that it requires a new regulatory cloak, while SEC Chairman and PWG member Gary Gensler has insisted all year that crypto needs no such overhaul, and many cryptocurrencies are already subject to the SEC's jurisdiction.

It is curious why this relatively tiny $139 billion market would need a comprehensive solution, but the greater $3 trillion crypto market must conform with decades-old investment contract

analysis that Congress never defined in the original statute. The extent of Gensler's guidance boils down to enforcement, period. Unsurprisingly, the SEC has stablecoin issuers Tether and Circle in its crosshairs.

But as the Digital Chamber of Commerce argues, stablecoins, a tiny subset of the overall crypto market, already fit into regulatory apparatus:

[A]pplicable regulatory frameworks can involve money transmission laws and state-level trust company charters on the federal level, and [Financial Crimes Enforcement Network, Consumer Financial Protection Bureau], and CFTC [Commodity Futures Trading Commission] regulations on the federal level.

This system works as intended. When stablecoin Tether allegedly used shady accounting practices for stating its reserves, both New York state and the CFTC levied fines. Now all major stablecoins voluntarily publish their reserves on varying schedules. In fact, accounting firm Grant Thorton LLC attests to stablecoin Circle's reserves.

Second, bureaucrats' concern about risks, which the report classifies in several distinct ways, are unfounded. The market is miniscule compared with both the crypto market and other financial sectors. An FSOC "systematically important" designation would be disproportionate to its size. As the Cato Institute's Norbert Michel points out, circulating dollars amount to $2 trillion, treasuries $5.4 trillion, money market funds $4.5 trillion, and equities $40.7 trillion.

In an October 7 letter to Treasury Secretary Janet Yellen, Senator Patrick Toomey (R-PA) notes that the Clearing House Payment Company, one of only eight designated systemically important financial market utilities, clears and settles $1.8 trillion payments *per day*.

Furthermore, stablecoins because of their one-to-ome pegs, pose less systemic risk than other financial instruments. As the Digital Chamber of Commerce states:

[L]eading U.S.-headquartered stablecoin payments systems—unlike banks—are not leveraged**.** Instead, the reserves of these stablecoin payments systems are held almost entirely in cash or cash equivalents. And, notably, the only sizable U.S. dollar-pegged, cryptocurrency backed stablecoin is over collateralized. The reserves of these stablecoin payments systems arguably have a much lower risk profile than permissible investments of other state-regulated money services businesses.

Finally, PWG advocacy for "comprehensive" federal oversight, while unsurprising, should be examined by the results of other such federal efforts. The Securities Act of 1933 did little to thwart fraudsters. Dodd-Frank has been worse, with its notable accomplishments being slowing the IPO market, killing off free bank accounts, and destroying money market mutual funds. These laws did no more for financial integrity than McCain-Feingold did to restore trust in campaign finance. The list goes on.

In fact, Congress' only successful financial reforms have been deregulatory. The Small Business Investment Incentive Act of 1980 led to the wildly successful Reg D. The Jumpstart Our Business Startups Act of 2012, is slowly creating a business-capitalization revolution.

The PWG should allow stablecoins to flourish and abandon the regulatory instinct to suffocate innovation it does not understand. If it does this, the stablecoin market will grow and allow middle class Americans to prosper from its success.