Written Statement of Jeremy Allaire
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"The Future of Digital Assets: Providing Clarity for the Digital Asset Ecosystem"
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Chairman McHenry, Ranking Member Waters, and Members of the Committee, it is my honor to submit my testimony to you today.

My name is Jeremy Allaire, and I am the Co-Founder, Chairman and CEO of Circle, a leading global financial technology firm.

I come to the Committee having spent the past 30 years building important infrastructure on the internet. I have been both a principal in shaping technology development and a witness to the power of open networks, open software and competitive markets to transform how the world operates by building on the internet.

I co-founded Circle 10 years ago with the vision that digital currency could transform how value was exchanged, bringing to our global financial system many of the same benefits the internet has brought to software, media, communications and commerce. For Circle, the core of our day-to-day mission is expanding the role of the dollar on the internet. In pursuing that mission, we have embraced a regulatory-first path, becoming licensed and supervised by payments and banking supervisors in the US, Europe and Asia.

Five years ago our founding vision became a reality when we launched USD Coin, or USDC, one of the first regulated payment technologies for digital dollars on the internet. Now, several years later, USDC has grown to become one of the largest dollar-based digital currencies in the world and the largest US-domiciled and regulated dollar stablecoin. Circle has issued $333B USDC since inception, and has redeemed $305B. USDC powers thousands of applications that benefit from a blockchain-based digital dollar, and has handled over **$**10 trillion in transactions. USDC is also the most transparent payment stablecoin in the world, backed by 100% liquid dollar-denominated assets that are subject to monthly independent attestations by major public accounting firms and published on our website since launch.

The Future of the Dollar

The demand for safe and secure dollars on the internet is real and growing. With the right regulatory framework, stablecoins and blockchain networks could scale to support billions of users and tens of trillions of dollars in payment activity. Indeed, advancements in blockchains are accelerating, and Web3 technology is widely viewed as strategic infrastructure for the future of the internet.

At the same time, it is a profound moment for the dollar in the world today. Rapidly evolving geo-economic and geo-political blocs are putting enormous pressure on the post-WWII dollar-based global financial system. The dollar's share in global foreign reserves has been declining by about one percentage point every year on average for the past 8 years.

Alternative payment systems, often anchored in internet-based technologies, are also accelerating. Currency competition is real and is increasingly defined by technological competition, often with multiple compounding exponential technologies driving the velocity of change – 6G networks, quantum computing, blockchains and AI, as a few key examples. Perhaps no nation understands this better than China, which has created its own state-controlled, digital yuan, complete with embedded surveillance. Ultimately, there are designs for the yuan to compete with and erode the dominance of the dollar in the years ahead.

All eyes are on the US dollar, and the steps that the US government takes in the coming years will have a significant impact on dollar competitiveness in the decades that follow. Failing to take the appropriate steps could have devastating consequences for our country.

The dominance of the US dollar affords us what has long been described as an "exorbitant privilege" that has enabled Americans to benefit from low borrowing costs for our government, businesses, and households. Moreover, this dollar primacy allows the US to weather economic and financial shocks (as the dollar strengthens in times of crisis) and exert global influence far more than other countries.

As a nation, therefore, we need to ensure that the dollar is the most competitive currency on the internet, and that there can be universal access to the safest and most secure digital dollars possible. The stakes are simply too high to ignore.

Access to dollars is not only about America's economic competitiveness and international stature, but also about deepening the role of the dollar as a store of value and reliable medium of exchange in a global economy powered by smart devices and software. Digital dollars should freely and widely circulate on the internet for all lawful uses.

In order for that to happen, those digital dollars must be backed by the safest assets in the world. Full reserve money, backed by the highest quality liquid assets, and without embedded investment and lending risk, can provide the world with the safety and assurance needed to transact and exchange value without fears of bank runs or credit defaults.

Access and safety are cornerstones of keeping the dollar competitive. But at the heart of dollar competitiveness must be technological superiority, unleashing the innovation made possible by software and the internet, and open, free-market competition, which have been the drivers of American technology competitiveness for decades.

The Stablecoin Bill

We are here today to consider and discuss the merits of and issues with stablecoin legislation and the regulation of digital assets markets. The stablecoin bill is a crucial piece of legislation that should be the first step in creating a regulatory framework that builds the conditions for a vibrant and safe digital assets market. It would also have significant ramifications that go far beyond the digital assets market to the global role of the US dollar. The stablecoin bill would enable dollar access, safety and competitiveness in the digital currency age. I appreciate the substantial work that has gone into drafting this law, and the genuine bi-partisan effort to reach common ground and pass sensible legislation that addresses the most pressing issues.

Delivering a bill to President Biden's desk should be a national priority. As we speak, significant governments globally are establishing their own stablecoin laws. Indeed, today, emerging laws in the European Union, Japan and Hong Kong are establishing new rules for US-issued dollar stablecoins. That is a point worth repeating – other nations are enacting laws to regulate the use of the US dollar. The time has come for the United States to lead the development of global rules that will determine how our own currency moves around the world.

The broad parameters of this bill are strong. Critically, it provides for:

- Robust bank-grade supervision and risk management of stablecoin issuers
- Strict requirements on the assets that can be held to back digital dollars
- Redemption and custody requirements that protect consumers
- Strong transparency, audit and reporting requirements
- Measures to bar the circulation of counterfeit digital dollars by issuers that operate offshore and that do not play by US rules
- Roles for both state and federal regulators in supervising issuers, building on our robust dual-banking system

In addition, the bill permits both banks and nonbanks to responsibly issue payment stablecoins. It likewise clarifies that prudential supervisors rather than market regulators are best-suited to oversee this payment system innovation.

At the same time, there are four unresolved issues on which I would like to comment. I believe this Committee can find an agreeable solution to each.

The first is the respective roles state and federal banking regulators should play. In the US, the states have been the laboratory of fintech innovation for the past 25 years, and we should celebrate that fact. Indeed, the innovations that we are addressing today became possible only through our broad-based state regulatory system. We need to ensure an important and continuing role for states in the growth of well-regulated stablecoin adoption in the US.

We can learn from and adopt lessons from the dual-banking system to resolve this issue. Given the strategic nature of issuing digital dollars on the internet, we need nationally-established standards that set a high bar for both state and federally-licensed issuers. Those standards should be enforced by federal regulators where appropriate. This solution would not only effectively address federalism concerns but also ensure US standards set the floor for dollar-denominated digital currency innovations around the world.

A second issue is related to reserves. Circle believes stablecoin issuers should be as safe and sound as possible. In fact, reserve requirements should be even safer than for banks, where placing only a fraction of their deposits in the form of reserves while the rest is loaned out can interfere with the safety of money used for payments. The bill recognizes this point by requiring stablecoins be backed 1:1 by liquid, dollar-denominated assets, but it deprives payment stablecoin issuers of the ability to hold even a small portion of their cash assets at the Federal Reserve. As a consequence, payment stablecoin issuers will have little choice but to deposit all of their cash with banks and other depository institutions that could fail and ultimately undermine public confidence in digital dollars. Moreover, requiring that payment stablecoin issuers access Fedwire through intermediary banks could lead to unnecessary customer concentration risk within our nation's uninsured deposit base.

The appropriate solution is to afford payment stablecoin issuers tailored and limited rights for accessing basic Federal Reserve account services. This would facilitate more timely satisfaction of redemption requirements, enhance financial stability, and protect consumers without providing access to the discount window or other financing programs afforded only to banks.

A third crucial issue is the question of how financial institutions should be required to hold payment stablecoins. Both the history and precedence for cash custody under US banking law, as well as the harsh lessons learned in 2022 from the waves of digital asset exchange and brokerage failures teach us that we need stronger consumer protections around the custody of digital dollars and other digital assets.

A reasonable common-ground approach to this issue would be to require that any company acting as a financial intermediary for payment stablecoins be required to hold those stablecoins with either a state or federally chartered qualified custodian, including trust banks. Such measures are an important part of ensuring digital dollar safety.

Finally, the bill aims to clearly define what is and is not deemed to be a legitimate digital dollar, but falls short of the mark in terms of preventing illegitimate digital dollars from proliferating in the US and world economy. Today, the internet is plagued with dollar stablecoins that purport to be dollars, but where the operators are opaque, the risk management and financial integrity uncertain, and in some cases where the stablecoins are specifically designed to be resistant to US national interests and law. At best, these so-called stablecoins are counterfeiting the dollar, at worst, they are actively undermining US national interests and security.

Just as the bill mandates criminal penalties for US stablecoin issuers whose officers knowingly issue false certifications, the bill should impose criminal penalties on stablecoin firms that knowingly issue false digital dollars into the US, to US persons, or around the world. Simply put, I believe civil penalties alone are woefully insufficient to dissuade those who will have tremendous economic incentives to flout US law and undermine the dollar's credibility at home and abroad.

The Arc of Internet History

Having lived through multiple generations of internet technology disruption, it is helpful to look back at similar times and learn from how the US government and industry responded.

Back in 1999-2001, we were in a period of intense interest and hype around the promise of the Web. Thousands of companies were formed and even went public with little more than a whitepaper. There were total losses, scams and frauds. The technology was not living up to the promise, with the "World-Wide-Wait" being the user experience of the time due to tedious dial-up connections.

But a combination of proactive policy decisions in the late 1990s, and persistent technology development and private-market investment led to a period immediately following that established the US as the uncontested leader of internet-based technology and businesses. Americans are still benefiting from those policy decisions through high-paying jobs and everyday access to the most advanced and useful technology the world has to offer.

We are at exactly that same moment today. But unlike that period, we do not have the luxury of time. In the 1990s, a massive tech capability gap existed between the US and the rest of the world. Today, other nations, most notably China, have closed that gap considerably if not eliminated it all together.

The dollar is at a crossroads. And currency competition is now technology competition on the internet. I ask all of you as members of Congress to consider this moment, and ask what value system we want to enshrine in law, and safely and deliberately unleash the creative forces of US-led technology innovation.

Thank you again for the opportunity to share my testimony with you today. I would be happy to answer any questions you may have.