

Testimony of J. Austin Campbell
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Introduction

First of all, let me thank Chairman McHenry, Ranking Member Waters, subcommittee Chair French Hill, subcommittee Ranking Member Stephen Lynch, the members of the committee and the hardworking staffers behind all of them for giving me the opportunity to testify. It is an honor and a privilege to share my thoughts on how America has a historical opportunity to expand our leadership of the global financial system, bring sound money and property rights to billions of people globally in a responsible, risk-conservative manner, and modernize the now creaky and aged inner workings of the United States' own financial system.

As, if we fail at that, we risk giving away control of the financial rails of the future, the reserve status of the dollar, and financial inclusion for billions of people denied the opportunity we take for granted in the United States.

My CV is included with this testimony, so here is the summary version: I have been on the sell side and the buy side in finance at large banks, I've worked in crypto and managed the reserves of a large stablecoin, and now I run an independent consulting firm and teach.

Overview

There are many topics I wish to address in writing for the committee today, so I will start with an overview of the important points. I also want to note that I direct my comments to all of the members of this committee, as stablecoins are not and should not be purely a partisan issue. Representatives Hill, Torres (shout out to a fellow crypto-constructive New Yorker), Emmer, many other members of this subcommittee who are seeking common ground, or in the House proper, members like Ro Khanna demonstrate we can all work together here. I commend chairman McHenry and ranking member Waters for being early to advocating for clarity and developing legislation for stablecoins. I am here today to be part of that effort.

First, the overall discussion on stablecoins has been chaotic, confused, misinformed, uninformed, and likely value subtracted for those watching from the outside and trying to understand the space, such as the members of the committee. As a result, we have dueling narratives that stablecoins are the most important financial innovation of all time and should be special exempt magical instruments and that stablecoins are a dire threat to the financial system and essentially a criminal conspiracy to launder vast sums of money. Both are wrong.

Stablecoins are not new; they look a lot like pretty basic cash instruments. If a pile of t-bills and bank deposits are an existential threat to the financial system, Vanguard's government money market fund would have destroyed us a long time ago. Conversely, this also means stablecoins are not some innovation so futuristic that they deserve exemptions from many of the rules around basic financial risk management, disclosure, and controls that characterize banks, money market funds, and insurance products in our current system. In short, stablecoins are actually mundane.

Second, stablecoins are a key to expanding the reach of the dollar. The United States runs a significant deficit we must fund. Simultaneously, the dollar, thanks to the strength of the American economy, the solidity of our legal system, and the core rights that come with that, is demanded globally. In the world of blockchain and crypto, the preferred fiat currency is, unsurprisingly, also the dollar. The only thing that could stop that would be the interdiction of usage of the dollar on blockchains, meaning that if the United States embraces the innovation of stablecoins, then as the usage of blockchains and crypto grows, the reach of the dollar will also grow commensurately. US Dollar stablecoins expand the reach of the dollar into a new, rapidly growing market, cementing the usage of the dollar for global trade. Additionally, the reserves for stablecoins, if appropriately regulated, provide a pool of additional capital purchasing treasury debt or lending to the American financial system that did not previously exist, allowing stablecoins to draw in new foreign capital to fund the government.

Third, stablecoins are a key to financial inclusion. In my course at Columbia Business School, one of the exercises we do is to create a crypto wallet. It takes approximately thirty seconds. This is far faster than opening a bank account. A new option creates competition for banks, who have a long history of things like excessive overdraft charges, opening fake accounts, underpaying depositors while taking significant risks with their money, and generally treating their retail customers poorly, only to eventually require bailouts when they fail. For those who are traditionally most mistreated by banks or for those who live in parts of the world where the official system itself is untrustworthy (due to inflation, arbitrary confiscation, or worse), stablecoins can be an immediate outlet where each individual requires only access to the internet and a phone to become their own bank vault and store stablecoins in that vault. Taxi drivers in Ulaanbaatar, a recent immigrant with no credit history in the Bronx, Russian dissidents secretly supporting Ukrainian refugees, or just a random college professor at an American university demonstrating for a class can all use this technology. They can all send stablecoins to each other, choosing (if we allow and foster their growth) the US dollar over any particular local system. Stablecoins are a tool to allow billions of people globally to adopt the dollar and the benefits that come with it, especially those with poor access to traditional financial services.

Fourth, the current situation in America is rapidly evolving into a ban on stablecoins. There are going to be those who say that regulations are sufficient currently, and there will be others who believe that current institutions can engage in many of these activities. The reality is not that. Right now, we have a handful of state regulators who have attempted to blaze trails in the space, such as the NYDFS and superintendent Harris, or more recently, director Lammers in Nebraska. We also have federal banking regulators who have said the following: "The Board

generally believes that issuing tokens on open, public, and/or decentralized networks, or similar systems is highly likely to be inconsistent with safe and sound banking practices.”¹. Note that this is directly contradictory to the efforts of the state regulators, who have permitted literally the opposite. This same note in the Federal Register has also caused banks to back away from banking the crypto sector, meaning that stablecoin projects now also face some difficulty establishing very basic banking relationships (operational accounts, reserve accounts, and securities custodians) that are taken for granted by virtually every corporate client in America. On top of that, we also have the SEC, who has sent a Wells Notice to Paxos, the issuer of BUSD, alleging that the stablecoin is a security. In short, someone attempting to launch or manage a stablecoin in the United States doesn’t know if they can issue on a public blockchain, doesn’t know if they can get banking relationships, and doesn’t know if they have to answer to a state financial regulator, a federal banking regulator, or the SEC, who all often have mutually contradictory answers as to responsibilities.

Fifth, in the face of all of this, the market is moving outside of the United States. The Monetary Authority of Singapore, the European Union, Dubai, Abu Dhabi, Hong Kong, Bermuda, and others are all moving forward with legislation, have passed legislation, have opened sandboxes for experimentation, or in many cases, some of all three. This means that a good actor wanting to run a stablecoin with appropriate financial controls, risk management, transparency, consumer protection, and operations would be better served leaving the United States and the incredible chaos inside of our regulatory system and instead creating what is essentially an offshore eurodollar version of a stablecoin. **I will transparently warn the committee that not only am I aware of multiple efforts going down this path outside of the United States, but also that the biggest winner of the US regulatory actions and legislative inaction over the past year has been Tether, an offshore stablecoin that provides very little in the way of transparency or consumer protection. When I am asked to consult or advise for projects attempting to build stablecoins or use stablecoins, my first advice has now become to avoid US operations and a US domicile. The jobs are going elsewhere. Soon, they may also be in a different currency instead of the dollar.**

Sixth, this paradigm creates what is ultimately a national and financial security problem for the United States. Remember this: a stablecoin operating outside of the United States is far less likely to be responsive to US government efforts to protect the financial system. We lose the data. We lose direct access to the persons operating such an effort. We may even lose the ability to enforce our laws or sanctions regime, depending on the domicile of a stablecoin. Similarly, we have no guarantee of strong financial protections for the users. While some jurisdictions provide financial protections on par with the United States, that is not universally true, and certainly, the United States has been a global leader with significant expertise in regulating financial instruments. Why would we want to offshore that? Why would we want to open the door for stablecoins to use other currencies as their primary backing by blocking efforts to create US dollar stablecoins? What will the future financial system look like if the euro

¹ <https://www.federalregister.gov/documents/2023/02/07/2023-02192/policy-statement-on-section-913-of-the-federal-reserve-act>

or perhaps the e-yuan CBDC becomes the preferred currency for blockchains and crypto while the space continues to grow at the same pace it has from 2012 to present?

Seventh, I have implied or said several times above that stablecoins can be done in a safe, sane, risk-conservative way. Let me lay out the principles that I believe can ensure that, some of which are similar to the ones I discussed with the NYDFS² in the past, that I would propose be enshrined in the 117th Stablecoin proposal:

1. Stablecoins should have clear reserve guidelines that restrict the reserve assets to those which are appropriate for cash stability products. In particular, I would expand the assets permitted to cash and bank deposits, T-Bills, Agency Debt of less than 1 year maturity, Overnight Repo and Reverse Repo secured by treasuries or agency debt, and potentially small (<5%) holdings of certain highly rated types of municipal bonds³. The overall portfolio should be limited to a weighted average maturity of 90 days or less. Government money market funds that fit within these guidelines should also be permissible assets.
2. Stablecoins should have a bankruptcy remote form factor for the reserves or strict guidelines around capital and controls, and thus, stablecoin issuers should either be insured depository institutions, uninsured depository institutions, or trusts, and subject to appropriate regulatory oversight around their risk, capital, and controls. They should not be corporations without strict rules around these activities and they should not be able to operate using only money transmitter licenses, as those are insufficient for the protections needed for consumers and the financial system.
3. Stablecoins should have a legal requirement to allow users to mint and burn⁴ coins at a stable \$1 peg, or if such a requirement cannot be fulfilled due to severe difficulties with the issuer, the ability to suspend redemptions and go into unwind or receivership under the supervision of an appropriate regulator (to avoid advantaging or disadvantage specific token holders if such an event occurs). While small fees for mint and burn may be permissible, they should be limited in size and scope.
4. Stablecoins should have appropriate controls around the mint/burn process to ensure their KYC/AML processes are on par with other regulated financial institutions, and stablecoins should only be allowed on blockchains that permit freeze and seize of stablecoins so that the tokens can be interdicted in the case

² Here, Matt Siegel deserves some significant credit for leading the development of reserve guidelines that have allowed the 3rd largest stablecoin to liquidate over 60% of its holdings in a short period of time with zero disruption to the peg or reserve stability. Well done to Matt and the rest of the NYDFS team showing this can and should be done safely.

³ This expanded definition escapes the problem of stablecoins being too much like a narrow bank, as here they invest extensively in forms of funding beyond just risk-free deposits. Likewise, this addresses some of the monetary policy concerns of the Federal Reserve by allowing t-bills to be repo'd back out to the market to provide liquidity in times of stress.

⁴ Mint/Burn is the process of creating and destroying stablecoins. Give \$1, get a token. Give a token, get \$1. This should require AML/KYC at the point of transaction, always.

of usage by criminals or other bad actors, either in response to legal orders or the stablecoin issuer's own risk policies and rules. Blockchain monitoring should also be required, as while blockchains operate pseudonymously, meaningful data analysis and tracking tools do exist and should be used to detect malicious activity and bad actors.

5. Transparency should be mandatory, with stablecoins required to publish their entire reserve holdings no less frequently than monthly, publicly disclose the reserve guidelines that they are bound by so holders of the token are aware of what future reserve composition may look like, and to have audits or attestations (as appropriate) which include a review of these reports.
6. Stablecoins with these features should be expressly permitted on public blockchains, as limiting them only to private blockchains or walled gardens ensures that they will not develop a network effect, will be captured by incumbent interests and will not benefit consumers, and likely have very significant privacy concerns that emerge about their usage.
7. There should be rules around commercial speech that ensure only stablecoins that fit the guidelines laid out above are able to be called stablecoins. I can't just rent an office, buy a computer, and then start taking deposits and calling myself a bank without appropriate regulatory approval; stablecoins should be no different. A regulatory regime that expressly defines stablecoins and requires compliance with that regime would have prevented things like UST from catching on based on false promises of safety.
8. Stablecoins should be allowed to pay interest to their holders, if and only if those holders have KYC'ed with the stablecoin issuer and their wallets are known, just like a bank account.
9. It should be made clear that stablecoins within this framework are not securities. Restricting trading in stablecoins in the way securities are restricted, requiring registration with the SEC and the disclosures appropriate for instruments like stocks, or putting trading rules intended for assets with volatile prices in place around stablecoins would be a little bit like saying dollar bills themselves are securities. Stablecoins need to work like money, to make a very simple statement, and belong in the hands of the banking regulators.
10. There should be both a state and federal pathway for stablecoins. We are early in the space; there will be a lot of experimentation and many efforts. It does not make sense for the OCC or the Federal Reserve to be spending significant amounts of time on a \$2mm market cap stablecoin run out of Alabama, but nor does it make sense for Alabama⁵ to be the sole overseer for a \$500b market cap stablecoin. Therefore, I would suggest that we take advantage of the relative strengths of the American system and allow each state to regulate stablecoins below a \$100b threshold that conform with these rules, but that any stablecoin that expands above this threshold must transition to federal regulation. For all state regulated stablecoins, I would suggest also allowing one of the federal

⁵ If you are wondering why I picked Alabama, it's because I let my 7 year old daughter Leandra pick a random state for this example

regulators to be provided with all the same data and access to information as the state regulators, so that even if they are not the prudential regulator at the time, they have visibility into efforts nationwide.

Stablecoins within this framework are highly unlikely to be dangerous to the US financial system, as they are limited to highly liquid, safe, relatively boring assets that are similar to conservative bank assets under the Basel 3 framework or money market funds. **Put differently: if stablecoins in the structure I have described are actually a safety and soundness concern, our regulators should be positively panicking about the >\$22T of riskier assets that compose our banking system.**

Stablecoins within this framework will also be maximally protective of consumer interests, facilitate financial inclusion and the ability to use dollars safely for the disenfranchised or less well off both within our nation and globally, and provide a significant pool of funding for US debt securities that previously did not exist at exactly the time where we run a significant deficit at the federal level. There are no losers here, other than those countries that wished to take parts of the US economy and financial system away for themselves.

Therefore, I would like to conclude here with a call to action for the committee. You have been leaders in the American political system by moving forward with a bill that is badly needed. I would ask you to finish your work; if we don't manage to pass something, I will be forced to continue to advise clients to leave the country and take their jobs and capital with them to build things elsewhere. Others will continue to build the future financial rails in places other than America. We will open the door to the dollar not being the preferred currency on blockchains, and other nations eroding our status as the reserve currency.

I would like to see America be a global leader in this space, where consumer protection, financial inclusion, innovation, and strengthening the dollar are all benefits of the actions that we take today. I urge you to lead us down that path. Thank you.

Further Discussion of Key Points

What is a Stablecoin?

This has been a topic of much confusion, so I think it is worth discussing here what a stablecoin actually is for the committee and the record.

Definition: "A stablecoin is the representation of a unit of fiat currency on a blockchain."

That's it. In the most simplistic form, one could take literal, physical dollar bills, put them in a vault, and issue tokens for each dollar in the vault. This would be a basic form of stablecoin,

and ironically, somewhat similar to a CBDC as it would be the physical version of the central bank's currency, just tokenized⁶.

While there are many implementations of stablecoins in the wild, the core definition is always simple. It's a dollar (or euro, or yen, etc.) on a blockchain. The innovation is no more complex than a dollar being an electronic bank deposit, or in PayPal or Venmo, or a prepaid gift card.

For those arguing either for or against stablecoins, this also creates a useful rule of thumb: substitute in the word Zelle or gift cards or prepaid debit cards for what they say. Anyone arguing that these things are either existential threats to the financial system or such unique and novel financial instruments that they should be completely exempt from our current rules sounds pretty silly when you do that, no?

How have Stablecoins been constructed so far?

There are essentially three major models of stablecoins that have existed in the world, as the definition is commonly used: fiat-backed stablecoins, like USDT, USDC, BUSD, and others, crypto-backed stablecoins like DAI, and algorithmic stablecoins, like the ill-fated IRON and exceptionally ill-fated UST. Each of these work a bit differently, but in general terms they are as follows:

Fiat-backed stablecoins are those which attempt to hold their peg to a unit of fiat currency by actually having that fiat currency. Be it in the form of bank deposits, t-bills, or gold, commercial paper, or private loans, they are essentially engaging in an activity somewhere between running a money market fund, an old school trust, or a bank. To me, as someone who worked for a decade in fixed income at JPM analyzing various forms of cash stability instruments, they fit best within a banking framework, though I would be very conservative about the types of assets they are allowed to hold and the capital and risk controls framework around them.

Crypto-backed stablecoins are, essentially, securitizations using crypto. Someone minting the stablecoin must provide excess collateral, say \$2 worth of BTC for every \$1 of stablecoin. This collateral is supposed to provide a buffer, and if it declines in value enough, it will be auctioned off and liquidated with the proceeds put into more stable assets such as, ironically, fiat-backed stablecoins. This model is both dependent on the demand for leverage and prone to the same sort of instability as things like senior tranches of AAA CLOs in traditional financial markets. While it might hold a stable peg to a unit of fiat currency, there is no particular guarantee here, and they are likely to be more volatile than conservatively reserved fiat-backed stablecoins.

⁶ A CBPC (Central Bank Physical Currency)?

Algorithmic stablecoins are an exciting and wildly destructive (so far) attempt at creating what is essentially a synthetic fiat currency. They exist by attempting to preserve an exchange-based relationship to another token that, in theory, has independent value. For example, in the case of UST, \$1 of LUNA (the main token for the Terra blockchain) could be exchanged for 1 UST, or 1 UST could be exchanged for \$1 of LUNA. This worked so long as LUNA had independent value and continued to have demand. However, when the main value of LUNA was the UST token itself, it meant that when UST lost its peg, LUNA also collapsed into a death spiral that destroyed \$40B of market cap in a very short period of time. While I do not foreclose upon the possibility of an algorithmic stablecoin working someday, for now, a better term for them would be algorithmic unstablecoins.

So what does this tell us? Fiat-backed stablecoins, properly constructed, look a lot like boring old financial instruments that we handle every day in the trillions. The only excitement here is putting them on a blockchain, and I would suggest that is a feature, not a bug. We can, and should, create a regulatory framework to allow these instruments to exist.

As to the other two types of stablecoin products, we would not consider CLOs or highly novel exotic instruments to be stable instruments, and so while they are interesting and perhaps have some utility, it's probably a stretch to call them stablecoins.

Therefore, my recommendation is a simple consumer protection addition to the 117th Stablecoin proposal: the only things where people should be allowed to call them stablecoins, market them as stablecoins, or make any promise of stable redemption should be fiat-backed stablecoins within an appropriate regulatory framework. This should be made explicit so that consumers are protected from unfair, deceptive, or abuse acts or practices in marketing, disclosures, or statements by issuers. A benefit here is that enforcement under this angle is likely easier than litigating complex financial issues.

This will be far more effective than attempting to ban non-payments stablecoins, the constitutionality of which is likely questionable in some cases. Rather, just ban misrepresentations about their status, risk, or characteristics. This will also make enforcement actions easier to bring where necessary.

Dollar Stablecoins Expand the Reach of the Dollar

Every economic system has a preferred form of money. In the United States, I use dollars. When I travel to Singapore, I am using Singaporean dollars. In France, I use the euro. In Japan, I use the yen. In Korea, I use the won. In Argentina, I use the US dollar.

Wait, what? Notice that last point. Another interesting aspect of an increasingly global economy is that in countries where the currency is not viewed as legitimate, usually due to some combination of inflation, poor governance, or arbitrary confiscation, people will substitute in another currency where possible.

Right now, the most frequent choice for this is the US dollar. The safety, security, property rights, stability, and reach of the dollar make it the primary choice globally, for many forms of transactions. There are other well regarded currencies, like the euro and the yen that I mentioned above, so the dollar does not stand alone, but it does have the pole position and majority share. In fact, the dollar is so well-regarded and widely accepted that it is considered the reserve currency of the world.

Against this backdrop, we have crypto and blockchain technology. For something that literally did not exist 20 years ago, it has made quite an impact. Billions of dollars of value transact on blockchains, and the ecosystem continues to grow in volatile fashion, prone to fits and starts, exactly as one would expect for a nascent technology. It's important to remember how early we are in the history of blockchains and crypto. After all, at a similar time in the history of the internet, we were still using modems that sounded like a cybernetic goat was being tortured to death when they connected. We are early.

At this early point, though, one thing is clear: the currency of choice on blockchains is the dollar. In fact, it's often the choice of those who did not have good dollar access before; by my best estimate, when I was at Paxos and running BUSD, roughly 95%+ of BUSD token holders were non-US citizens. This means people were opting into the dollar, globally, to the tune of billions upon billions of new funding for the US Treasury! Every dollar in a stablecoin is potentially a human being lifting themselves out of a corrupt regime and into the US financial system. Arguably, we have never created a more inclusive financial technology.

This is part of what makes the current US regulatory response to stablecoins a bit confounding for me. It's very rare that a country with the reserve currency, a large deficit, which cares deeply about inclusion and freedom, and has a need for funding encounters a rapidly growing new source of money and financial empowerment and says "Nah, we're good, go away."

But that is what we are doing when our federal banking regulators say that stablecoins on public blockchains are incompatible with safe and sound banking practices. Why is this? Are we threatened by having more funding for the treasury? By having people buy t-bills and hold them in a fashion similar to the \$5T of money market funds in the world? Or is this a misunderstanding of these instruments, assuming they are primarily used for criminal activity⁷, where the freeze and seize capabilities of stablecoins mean that even if people are using crypto for illicit purposes, they tend to prefer native crypto assets that cannot be confiscated and that such activity is still likely lower than the rate of crime via regular dollar rails⁸? My best guess is this stance comes from a combination of misunderstanding of what stablecoins are and

⁷ This is not legal advice, financial advice, or in fact advice of any sort, but if you're going to commit a crime, use cash. Blockchains leave a lot of evidence, and firms like Chainalysis and Inca Digital are getting better every single day at using that evidence to find bad actors. Do not underestimate the public part of public blockchains.

⁸ <https://blog.chainalysis.com/reports/2023-crypto-crime-report-introduction/>

preferring the short-term stasis of well-understood old legacy systems, even if that path ultimately leads to obsolescence and a slow death in the long-run.

In short, the United States has every incentive in the world to make sure the dollar is the base currency of the fastest growing financial market in the world, rather than impeding that development and allowing another country to step in and fill the void. After all, if we embrace technophobia and assume blockchains and crypto will fail, how will that look in 30 years if the majority of assets trade globally on blockchains, priced in Yuan? Oops.

Competition From Stablecoins & Financial Inclusion

If I were still working at a large global bank, I would have a significant financial incentive to oppose stablecoins. Why? They are competition for deposits. In the current system, banks still take in deposits, pay essentially zero interest on them, and loan them out for significantly higher sums. My old employer, JP Morgan, recently released their quarterly results and they were impressive⁹. The success was driven by an increase in interest income, so naturally, I went into the Chase app, looked up my checking account, and assumed they would be passing some of those gains to me, as a depositor of the bank.

Nope! Still 0%¹⁰.

For the privilege of having a bank account, many people are also subject to mandatory minimums, monthly or annual fees, overdraft charges, and upcharges for many basic services, like wires. They also have the benefit of still likely earning 0% or near 0% on their balances.

Those who are most disadvantaged in this paradigm are, of course, those with less money to begin with. If you don't meet the monthly minimum? Fees. If you have less money to begin with, a \$10 fee can matter. \$10 out of \$1000 is a big chunk, but \$10 to a billionaire is just not going to move the needle. In fact, as you get wealthier, you get access to things like money market funds and other investments, so your opportunity to earn interest income goes up, not down!

Enter the stablecoin. More so, let us posit the existence of a stablecoin that conforms with the principles that have been laid out in my testimony. Now, as a worker earning minimum wage and struggling to make ends meet, you have an option where you will likely be paid a higher rate of interest, pay lower fees, and not be subject to some of the complicated financial risks that come along with using a bank. Instead, you get a very simple payments tool without added bells and whistles, and on the right blockchain, you can pay people with it for essentially zero.

⁹ <https://www.jpmorganchase.com/content/dam/jpmc/jpmorgan-chase-and-co/investor-relations/documents/quarterly-earnings/2023/1st-quarter/be0fc3a0-c499-4af9-933c-6e7f75025097.pdf>

¹⁰ Technically 0.01%

This sort of simplified, open-source, cheap access financial system is life changing, especially when it is a global and peer-to-peer. I've talked so far about basic use cases to reduce some of the influence of the too-big-too-fail bank crowd or monopolistic payments providers, but imagine the benefits for things like remittances, international transfers, or simply a vendor paying a supplier in another country.

Stablecoins, properly designed and regulated, reduce rent-seeking by intermediaries and put financial control and profits back into the hands of the most vulnerable and underserved in our systems.

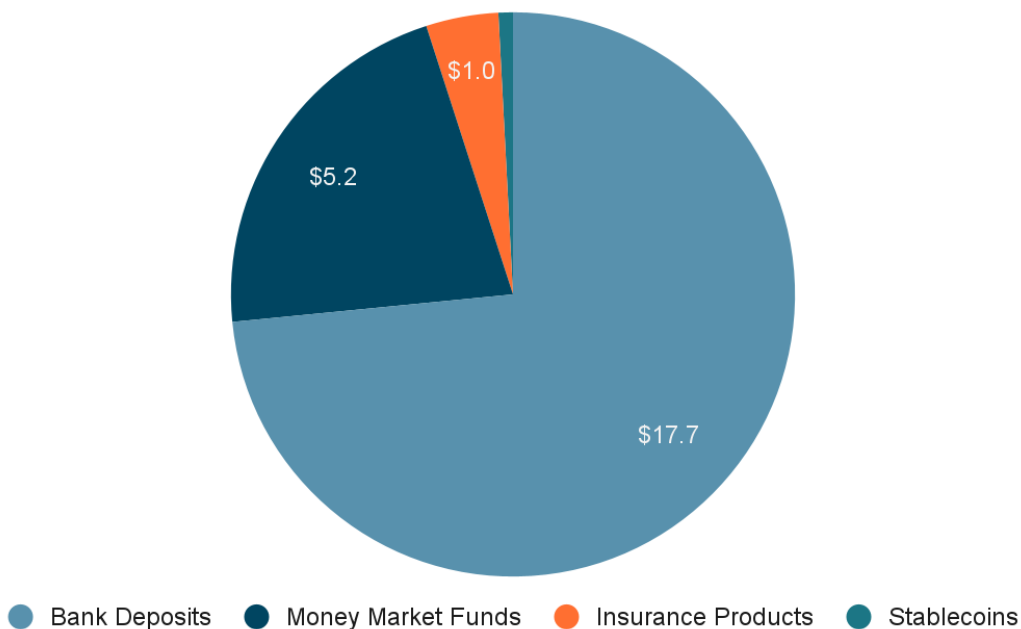
American Regulatory Landscape

Right now, it's growing close to impossible to be a stablecoin issuer in America. To do so, one needs to have the following things in place to construct a properly designed stablecoin: banking relationships, trading, securities, and custodial relationships, a regulatory framework, and distribution across the blockchain and crypto space.

Right now, thanks to the actions of federal regulators, the first is becoming increasingly difficult to find. While a small subset of crypto firms retain their banking access, new entrants are increasingly finding it difficult to even open operating accounts, much less do things like trade treasuries or overnight reverse repo. Similarly, given the statement that public blockchains are not compatible with safe and sound banking practices and the extreme emphasis on crypto risks by the FDIC, OCC, and Federal Reserve (up to and including requiring non-objection for all new crypto activities, daily and monthly activity reporting far in excess of that required for other business lines, and soft caps on the amount of exposure a firm can take), even those banks providing services are largely not expanding those services. Simultaneously, it's unclear what regulatory framework applies, as the three aforementioned regulators, the SEC, the CFTC, and various state regulators have all thrown their hat into the ring, many of which bring mutually incompatible requirements when it comes to issuing a stablecoin.

All of this sound and fury, by the way, about an industry that is a tiny fraction of overall cash instruments:

US Cash Products (\$24.1T Total)



That tiny green slice that is so small I couldn't even fit a label on the chart in a way that is readable? That is the <math><0.2\text{T}</math> of stablecoins that exist in the world, or put differently, a less than 1% rounding error on the amount of cash products in the US financial system. Yet even now, we have a five-way (minimum) fist fight between regulators over that sliver.

At the same time this is the landscape in the United States, there are now foreign jurisdictions where one could do the following: face a single regulator with absolute clarity on legality, establish banking relationships which are stable, and have complete certainty about product taxonomy and rules around facing consumers. Many of these jurisdictions might also prefer those stablecoins not be in dollars, before we even get to the more complicated topic of CBDCs.

From the perspective of an entrepreneur, this makes for a very easy decision: leave the United States. Staying here to attempt to build currently means years of confusion and huge costs to respond to multiple contradictory requests while trying desperately to hold onto banking relationships, and going abroad means foreign jurisdictions that may well offer tax breaks or incentives to build there with a clear legal framework.

America, in this one particular space, has become the thing we often criticize other nations for: a system where the government is used as a weapon against non-incumbents in an anti-free-market anti-consumer fashion to entrench legacy interests. Nobody, after all, is happier about the complete blockage of stablecoins than legacy banks. If one bans consumers from having options other than the traditional zero-rate checking account with excessive fees, they

don't have to compete. Meanwhile, talent and economic growth will happen, they will just happen somewhere else, eventually in another currency.

The final point here is that “do nothing” is not benign neglect to allow a fledgling industry to evolve, nor is it consumer protective, as the stablecoin that has grown the most in response to the actions of US regulators this year is Tether! Do nothing is an affirmative statement that the United States does not intend to provide onshore consumer protections, and instead other jurisdictions should lead the way on what will be used as money on a blockchain while the United States does everything it can to hold the space back from using dollars. This would be a huge tactical mistake, unless I am completely wrong about blockchain and crypto, and it turns out that despite hundreds of thousands of extremely talented young people, multiple billion dollar companies, and global adoption, this whole space is going to zero.

Set that against the “danger” of allowing properly regulated, very conservative, highly transparent stablecoins, and it becomes clear that the path of least damage is to allow the experiments, but in controlled fashion.

It would also be a mistake to attempt to do too much in this one bill. There are extremely important market structure, trading, and custodial concerns that apply to the crypto space. I know this has also been a focus of both chairman McHenry and ranking member Waters, but I would urge the committee to understand the plight of the space and how much confusion there is right now. Please do not let perfect be the enemy of good - those concerns can and should be addressed, but not at the expense of giving us clarity on how to use money at the base layer. Similarly, payments stablecoins themselves do not necessarily share many of the market structure concerns that exist for price volatile instruments (for example, Starbucks using a stablecoin in their app to allow a consumer to simply pay for coffee is not the same as trading a manipulated token through an unregulated exchange). Address them, certainly, but don't hold up a stablecoin bill for them.

National Security

It is a common refrain that blockchains and crypto are primarily used for criminal activity. While this is confused as a general statement (for instance, I am very confident that JP Morgan's Onyx is not a hotbed of terrorism financing), even when this statement is narrowed to tokens on public blockchains, this is not particularly true. Certainly, there are some bad actors in the crypto space: ransomware attackers prefer crypto¹¹ as a form of payment (though each day, law enforcement gets better at interdicting this activity), North Korea's state-sponsored hacking group has misappropriated funds from crypto projects, and money launderers have used crypto as a way to attempt to obfuscate their activities.

Even so, I have doubts about the long-term viability of public blockchains for criminal activity. With each passing day, we have more metadata available to us to attempt to identify

¹¹ However, typically they do not prefer stablecoins, as those can often be frozen and seized!

wallets, both data from the blockchain itself and data from various other sources, such as social media, to triangulate wallet ownership. Each wallet that is owned forms part of a chain that can be used to trace transactions. Already, the Treasury has been able to place wallet addresses on the SDN list, and as our intelligence agencies, law enforcement divisions, and regulators improve their technological capabilities, our ability to use the rich data provided by blockchains to detect illicit activities will grow exponentially.

After all, consider the parallels between a stablecoin and cash. In the case of cash, once it leaves a bank through an ATM, we know only the person who took the cash out and then, much later, the person who put the cash back in. All of the transactions between those two endpoints are often completely invisible, or at least only partially visible after very significant efforts. On the other hand, imagine the same scenario with a stablecoin. We know who minted it, and we know who burned it, just like in the ATM example. Only here, because of a public blockchain, we have a complete and total record of every single transaction in the chain between those two points: wallet addresses, time of transaction, amount of transaction, and who they transacted with. We may not always know who owns the wallets (yet), but we know the entire chain. One of those two fact patterns is a much better long-term paradigm for law enforcement, and we should embrace the one providing us with rich data.

At this point, I also want to take a moment to say one of the strategic imperatives of the committee should also be to greatly strengthen our regulators on this front. I am privileged to have many friends in the regulatory community, and I am sympathetic to the fact that they are underpaid, under-resourced, and often trying to do the best they can with the hand they are dealt while getting blamed whenever things go wrong. I know I have raised comments throughout this document critical of their performance, but I want to stress that this is an outcomes based analysis, not one motivated by any belief in personal malice or bad intentions on their part.

As a final point on national security, it would also be a crippling mistake to leave this technology in the hands of foreign nations who might be hostile to American interests. Imagine a semi-private blockchain, where validator nodes are run by a consortium of foreign governments that provide visibility to each other on transactions, but not to the United States. This sort of endgame, with stablecoins in other currencies being a staple of transacting on such a chain, would blight our efforts to use the financial system to combat bad actors. We are faced with a growing, data-rich, open-source system. We should not force it into the hands of others and out of our own.

Conclusion

I want to end by again thanking you all for the opportunity to testify. I truly believe we are at a pivotal moment in the history of American financial markets, and I hope I have played a small role in pushing us in the right direction (behind the much larger efforts of chairman McHenry, ranking member Waters, and the entire committee and their respective staffs). I

salute the committee for the attention paid to this important issue, for bringing together a diverse set of voices to testify today, and for any and all future actions to provide clarity, financial safety, and opportunity for Americans as a whole.

I will re-iterate my points that stablecoins are not novel from a financial perspective and can and should be safely regulated. I would re-emphasize that I have laid out principles of good governance above, and as someone who has traded cash instruments in the 100s of billions over a career in traditional financial services before running a stablecoin myself, I am confident I have covered the major points to protect consumers and encourage innovation. Similarly, I hope the committee will remember my comments on regulatory realities, how both a state and federal path should be created so we can appropriately allocate efforts and responsibility, and finally, that some of our hard-working regulators get some badly needed reinforcements in their policy, innovation, research, and tech groups so that they can lead from the front.