November 17, 2022

The Honorable Maxine Waters  
Chair  
U.S. House Committee on Financial Services  
Washington, DC 20515

The Honorable Patrick McHenry  
Ranking Member  
U.S. House Committee on Financial Services  
Washington, DC 20515

The Honorable Sherrod Brown  
Chair  
U.S. Senate Committee on Banking, Housing and Urban Affairs  
Washington, DC 20515

The Honorable Pat Toomey  
Ranking Member  
U.S. Senate Committee on Banking, Housing and Urban Affairs  
Washington, DC 20515

Dear Chair Waters, Ranking Member McHenry, Chair Brown, and Ranking Member Toomey:

The collapse of crypto exchange platform FTX underscores the need for a modern, clear, and well-functioning regulatory regime for digital assets. In a moment where uncertainty for cryptocurrency investors is rising — with customers losing their savings in the failures of unregulated institutions — the need for legislation to protect investors in the market for digital assets has never been more clear. But protecting investors while enabling the innovation that drives progress will require a balanced approach.

Stablecoins can mitigate the risk of volatility associated with other cryptocurrencies and capitalize on the benefits of digital assets, such as allowing for faster and more efficient transmission of money. However, without a regulatory definition of ‘stablecoins,’ other tokens call themselves stablecoins and are listed as such but are not truly stable, hurting consumers who invest in them. The industry has seen so-called-stablecoins lose value almost overnight, as evidenced by the collapse of TerraUSD in May 2022.

Bipartisan legislative efforts by House Financial Services Committee Chair Maxine Waters and Ranking Member Patrick McHenry have sought to address the need for regulatory clarity in the realm of stablecoins. These efforts can be an important building block in the effort to provide sensible protections for investors.

In the wake of the failure of FTX, regulation may need to be expanded to a broader scope. Fundamentally, though, regulation must both ensure stability and liquidity, and put appropriate
measures in place to protect consumers when that is not the case. In regard to stablecoin regulation, a first step is defining a stablecoin as something backed by dollars, allowing consumers to determine legitimate value of digital assets in the market. Additional measures could include enforceable reserve requirements for stablecoins, transparency, and disclosure requirements for the assets backing those stablecoins, compliance with anti-money laundering/counter-terrorism financing rules, and clear rules regarding the timely redemption of payment from the sale of stablecoins.

Innovative payment systems like stablecoins bring competition to the banking and money transmission industries and can provide less expensive, more efficient payments. But legislation is needed to make this system more sustainable. It is crucial that Congress move forward to regulate digital assets, including stablecoins, in a way that balances their benefits and risks.

Sincerely,

Progressive Policy Institute