Statement for the Record

On Behalf of the

American Bankers Association

before the

Senate Committee on Banking, Housing, and Urban Affairs

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The American Bankers Association (ABA) appreciates the opportunity to share our perspective on the proposed payment stablecoin legislation, S. 919, the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act, and we applaud the Committee's efforts to establish a regulatory framework for payment stablecoin. Ultimately a durable regulatory framework must balance the potential for improving a customer's payment experience with the need to limit negative economic consequences, promote financial stability, and guard against consumer protection risks. Such a framework has the potential to spur innovation, and the banking industry is ready to participate.

Stablecoin is an area of particular interest to our members, given the token's similarity in use to commercial bank money. Despite the name payment stablecoin, which implies value transfer, there is strong evidence that payment stablecoins will also serve as a store of value. Take Tether, for example; as of December 31, 2024, it held about $143 billion in reserves, with about 80% of these in US T-bills and just 0.09% in cash and bank deposits. The presumption is that these are funds that moved from Tether holders' bank deposits to Tether. If nonbank payment stablecoins scale, it is reasonable to expect the same dynamic to occur – an outflow of funds from bank deposits to the reserves backing these stablecoins. This would be similar to the outflow experienced with the development of money market mutual funds. We urge the Committee to avoid establishing a framework that disintermediates the banking industry by incentivizing a flow of deposits out of community banks and into payment stablecoins.

We appreciate that the bill codifies the repeal of SEC Staff Accounting Bulletin 121, offers a path for banks to issue payment stablecoins, and acknowledges the authority of banking institutions to issue digital assets that represent deposits (i.e., tokenized deposits), otherwise use distributed ledgers for recordkeeping, and provide custodial services for payment stablecoins and their reserves. Banks are responsibly innovating in these areas and subject to a robust regulatory framework that ensures the safety and soundness of their operations.

In addition, we noted and support several changes in the reintroduced bill that strengthen the proposed regulatory framework, especially the prohibition on interest, confirmation that payment stablecoins are not eligible for deposit insurance or a government backstop, and provisions around the Bank Secrecy Act and anti-money laundering rules. We thank the Committee for making these and other important improvements.

Three principles have guided our thinking about what the legislation should accomplish to mitigate risk from payment stablecoins:

Do no harm – avoid negative economic impacts and bank disintermediation. Payment stablecoin has the potential to significantly disintermediate core commercial bank activity like deposit taking and lending. This concept is not a mere competitive concern; rather it poses significant risk to the fundamental role banks play in credit intermediation. Banks power the economy by providing loans and credit to consumers, small businesses, and corporations. This lending is funded in part by taking on liabilities in the form of bank deposits. History shows us time and again that having fewer deposits in the banking system leads to fewer loans being made and lower economic output being generated. It is imperative that the regulatory framework for payment stablecoin not interrupt the flywheel for credit creation by incentivizing value be held in the form of payment stablecoin rather than bank deposits. We believe one important way to control this incentive structure is to prohibit nonbank payment stablecoin issuer access to Federal Reserve master accounts.

Control for the known risks – ensure robust, consistently applied regulation, supervision and enforcement. Perhaps the most critical role of a payment stablecoin issuer is to establish confidence among the public that the token it issues will retain its value and is redeemable on demand. A worst-case scenario would be one in which that trust falters, the stablecoin price drops, token holders rush to redeem their tokens, the issuer cannot meet its obligation fast enough, and the issuer is forced into a fire sale of reserve assets. Under this scenario, fear surrounding the stablecoin's depeg would likely spread to other stablecoin issuers, even if – on their own – nothing indicates their tokens' value is at risk. This scenario is potentially compounded in a situation where a payment stablecoin issuer is owned or controlled by a nonfinancial commercial company, and the activities or financial condition of the parent entity impact the confidence the public has in the payment stablecoin's value.

The need to mitigate this financial stability risk is clear and why we believe the regulatory framework must reduce the likelihood of this outcome by applying a strong and common set of guardrails around reserves, redemption, capital and liquidity, operational risk management, and cybersecurity to all stablecoin issuers, regardless of where they are domiciled and what path they pursue for approval. We believe that payment stablecoin issuers that do not meet the established requirements should not be permitted to issue payment stablecoins for use by a US person. Further, to support confidence in the stablecoin's value, reserve requirements should align with requirements for money market mutual funds and be held functionally away from the payment stablecoin issuer with at least daily disclosure of composition.

In addition, the potential use of payment stablecoin for financing illicit activities is a known risk. The regulatory framework must apply the Bank Secrecy Act (BSA) to all entities engaged in the transmission of value that substitutes for currency (i.e., payment stablecoin). Given that most payment stablecoin transactions will occur in the secondary market via digital asset service providers, like exchanges, the regulatory framework must account for the very real illicit financing risk by extending BSA obligations and associated supervision to these service providers.

Prepare for the unknown risks – allow for regulators to respond as the market develops. Today, the payment stablecoin market is relatively nascent and immature. While proponents of the ecosystem have a vision for low cost and frictionless retail, B2B, and cross-border payments using payment stablecoin, that world is not yet a reality. In fact, payment stablecoin today is predominantly used as an on ramp to other cryptocurrency activities. Many of the risks and unintended consequences are yet to be realized and may not be identified until the market scales and more productive use cases emerge. With those unknowns in mind, the regulatory framework for payment stablecoin must not preemptively limit the ability of federal regulators to establish appropriate rules and supervise market participants, particularly scaled payment stablecoin issuers.

Thank you again for the opportunity to share these perspectives, which we believe are essential to balancing innovation and risk mitigation in the payment stablecoin market. It is critical for Congress and regulators to thoroughly consider the implications – intended or otherwise – of any newly proposed framework. We would be happy to further discuss our perspective and stand ready to support the committee in delivering payment stablecoin legislation that reinforces the United States' position as the leader in global financial innovation.