Statement for the Record

On Behalf of the

American Bankers Association

before the

House Financial Services Committee

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The American Bankers Association (ABA) appreciates the opportunity to share our perspective on the proposed payment stablecoin legislation, H.R. 2392, the Stablecoin Transparency and Accountability for a Better Ledger Economy Act of 2025 (STABLE Act). The ABA has engaged with the Committee on this topic for several years now, and we thank Chairman Hill, Ranking Member Waters, and their staff for their diligent work on this topic. A durable regulatory framework for payment stablecoin 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.

However, payment stablecoin has the potential to significantly disintermediate core commercial bank activity like deposit taking, and we are keenly focused on ensuring the regulatory framework mitigates that risk. Despite the name, payment stablecoin will also serve as a store of value, drawing deposits out of the banking system. 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. These funds likely moved from Tether holders' bank deposits to Tether. As nonbank payment stablecoin scales, we can expect similar dynamics - an outflow of funds from bank deposits to stablecoin reserves. This example suggests a critical question of where and how these reserves should be kept. A clear solution that mitigates the risk of bank disintermediation is that reserves, or at least some portion of them, should be held at US banks. To that end, bank deposits must be a practical option for payment stablecoin reserves, and bank regulators must allow banks of all asset sizes to safely and soundly accept these reserves as deposits.

Several provisions in the bill work to mitigate this disintermediation risk, and we thank the Committee for including these concepts. For example, the bill prohibits payment of interest or yield on payment stablecoin; confirms the bill's intent is not to change eligibility for master accounts at the Federal Reserve; codifies the repeal of SEC Staff Accounting Bulletin 121; offers a path for banks to issue payment stablecoin; 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 stablecoin and its reserves. Importantly, the bill goes further on the latter point and calls on banking regulators to review and amend, as necessary, relevant regulations and guidance to make clear that banking institutions may engage in the payment stablecoin activities contemplated in the Act. In addition, the bill makes it clear that FDIC deposit insurance does not apply to payment stablecoin, and that fact must be disclosed with penalties identified for misrepresenting the insured status.

We have noted several other positive changes in H.R.2392 relative to earlier discussion drafts, and we thank the Committee for including these changes:

- Made it unlawful for "custodial intermediaries" to offer or sell a payment stablecoin not issued by a permitted payment stablecoin issuer with certain exceptions for issuers regulated in comparable payment stablecoin regimes.
- Specified additional requirements of payment stablecoin issuers that will be subject to regulatory rulemaking, including reserve asset diversification; interest rate risk management; and operational, compliance, IT, and cyber risk management standards.
- Clarified that the OCC may examine a Federal qualitied nonbank payment stablecoin issuer for compliance with this Act and with requirements of the BSA.
- Added requirements for entities providing custodial services for payment stablecoin reserves.

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

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.

Two important ways to control this incentive structure are to prohibit payment of interest or yield on payment stablecoin and to prohibit nonbank payment stablecoin issuers access to Federal Reserve master accounts. In addition, bank deposits must be a viable option for payment stablecoin reserves. Reserves held as demand deposits at insured depository institutions (IDI) should be treated as regular deposits and not subject to lending or rehypothecation limitations at the IDI where they are placed. Finally, non-financial commercial companies should be prohibited from owning or controlling payment stablecoin issuers. This separation of commerce and payment stablecoin issuance is critical to avoid conflicts of interest and concentration of economic power.

Control for the known risks – ensure robust, consistently applied regulation, supervision, and enforcement. 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.

It is critical that a regulatory regime mitigate financial stability risk, and we believe the regulatory framework must reduce the likelihood of this bad 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. Trust in the ecosystem and its participants is reinforced when the public has confidence that all payment stablecoin issuers are being appropriately supervised against the common set of rules. Like the dual banking system, state payment stablecoin issuers should have a primary federal regulator and be subject to joint (federal and state) regulation, supervision, and enforcement. Payment stablecoin issuers that do not meet the established requirements should not be permitted to issue payment stablecoin 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 reserve composition.

In addition, the potential use of payment stablecoin for financing illicit activities is a known risk. Payment stablecoin issuers should be required to have the technical ability the "freeze" and "burn" payment stablecoin in response to lawful orders. Further, 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 mostly 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.