Statement for the Record

On Behalf of the

American Bankers Association

before the

Subcommittee on Digital Assets

of the

Senate Banking, Housing and Urban Affairs Committee

February 26, 2025

Statement for the Record

On Behalf of the

American Bankers Association
before the

Subcommittee on Digital Assets

of the

Senate Banking, Housing and Urban Affairs Committee

February 26, 2025

The American Bankers Association (ABA) appreciates the opportunity to provide a Statement for the Record for this hearing, *Exploring Bipartisan Legislative Frameworks for Digital Assets*. ABA is the voice of the nation's $24.2 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2.1 million people, safeguard $19.1 trillion in deposits and extend $12.6 trillion in loans.

The digital asset market has been the subject of much attention over the last several years. Congress is right to focus on the ecosystem to better understand how the various entities in the market operate, what risks those operations present, and what regulations and legislation are necessary to ensure consumer and investor protection and financial stability without inhibiting innovation. In addition, Congress has an important oversight role to play in ensuring regulators do not – through guidance, policy, and other actions – inappropriately pressure banks to limit legal and permissible activities they perform safely and soundly. To that end, we appreciate the effort of many members of this Committee to rescind the Securities and Exchange Commission's misguided Staff Accounting Bulletin 121 policy.

As Congress, regulators, and the Administration develop a regulatory framework for digital assets, we urge them to apply the principle of "same activity, same risk, same regulation" and to ensure the resulting ecosystem operates with safeguards that appropriately mitigate financial stability and consumer protection risk. When these objectives are achieved, Congress will ensure all customers are protected equally, regardless of where they engage with the financial marketplace, and that the U.S. financial system remains strong, safe, and competitive.

Stablecoin is an area of particular interest to our members, given the token's similarity in use to commercial bank money. We have appreciated the opportunity to engage with stakeholders on development of a regulatory framework for stablecoin over the last several years, and we look forward to continuing that partnership. As we review proposals like the GENIUS Act, the key issues we are considering include how effectively the legislation applies the principle of "same activity, same risk, same regulation," mitigates financial stability and consumer protection risk, and preserves the foundational value of financial intermediation through the banking system and bank deposits relative to payment stablecoins. These issues come up regarding the robustness of the regulatory framework; the degree of supervision and mechanism for enforcement; the application of the Bank Secrecy Act (BSA) to the payment stablecoin ecosystem; and the limits placed on nonbanks, including commercial activities restrictions, master account access, and the ability to pay interest on tokens. In addition, we want to ensure that banks can issue stablecoin on an equal footing to nonbanks, and that tokenized deposits are not captured in the definition of payment stablecoin.

Through a range of guidance and policy documents, banking regulators have instructed banks to proceed into the digital asset ecosystem with extreme caution, requiring advanced supervisory notice and formal approval[1], which is an atypical standard for many product and technology implementations. Given the regulatory uncertainty and regulators' concern, banks have moved more carefully to market, if at all, than many of the less regulated providers of these services. On February 5, 2025, Acting Vice Chair of the FDIC, Travis Hill, released documents supporting this outcome, and his accompanying statement[2] sums up the obstacles banks have faced well:

> "The documents that we are releasing today show that requests from these banks were almost universally met with resistance, ranging from repeated requests for further information, to multi-month periods of silence as institutions waited for responses, to directives from supervisors to pause, suspend, or refrain from expanding all crypto- or blockchain-related activity. Both individually and collectively, these and other actions sent the message to banks that it would be extraordinarily difficult—if not impossible—to move forward. As a result, the vast majority of banks simply stopped trying."

The documents recently released by the FDIC and recent testimony in Congress[3] demonstrate how guidance and policy statements from prudential regulators over the last four years have discouraged banks from pursuing business in the digital asset market. And while not every bank will choose to engage in the digital asset ecosystem, that decision should be theirs, not their regulator's. Banks specialize in offering diverse products and services, ranging from personal loans and mortgages to financing infrastructure in cities and towns across America such as schools and bridges, and preserving the flexibility to serve legal businesses that fit within their unique business models and risk appetite is critical.

There are ways banks may engage with the digital asset market beyond banking crypto businesses, for example, providing custody and safeguarding of digital assets and tokenizing deposits and real-world assets. It is critical that banks have the legal and regulatory clarity that reaffirms their ability – if they make that decision - to safely and soundly provide a range of digital asset-related products and services.

Banks have long provided safe and well-regulated custody services to investors in securities and other assets. However, the combination of prudential regulators' posture and SAB 121 has resulted in few banks currently offering custody services for digital assets. Rescinding SAB 121, which effectively precluded banks from offering digital asset custody at scale, is an important step toward ensuring customers have access to a safe, well-regulated custody service for digital assets.

Tokenization, an application of distributed ledger technology with potential to enable near real-time transfer of value and exchange of value (asset settlement) that is programmable and transparently recorded on a shared system of record, is another important area of financial innovation in the digital asset market. One application of tokenization is the opportunity to create a digital token representing commercial bank money, or a tokenized deposit. The same regulatory and legal framework that applies to a traditional bank deposit would apply to the tokenized deposit – the primary difference is how the deposit is recorded. The use of tokenized deposits could enable more efficient use of commercial bank money in payments and asset transactions.

ABA remains strongly opposed to a consumer-facing or retail CBDC, which would set the Federal Reserve up as a direct competitor for bank deposits and limit banks' ability to make the loans that power economic growth. In fact, tokenization may address some of the goals proponents of a CBDC seek to achieve, for example by increasing efficiency of payments and supporting near real-time settlement of real-world assets. With tokenization, these goals can be achieved without introducing a fundamental change in consumers' relationship with the Federal Reserve or reducing the availability of liabilities banks can use to support lending, both of which are likely consequences of CBDC.

Banks have a critical role to play in the digital asset ecosystem, which has the potential to be a catalyst for change in traditional financial markets, with significant implications for our financial system, economy, markets, and most importantly for the American consumer. Thank you for the opportunity to express our views, and we look forward to working with the Committee and other policymakers on this important topic.