Statement for the Record

On Behalf of the

American Bankers Association

before the

House Financial Services Committee

March 11, 2025

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The American Bankers Association (ABA) appreciates the opportunity to provide a Statement for the Record for this hearing, *Navigating the Digital Payments Ecosystem: Examining a Federal Framework for Payment Stablecoins and Consequences of a U.S. Central Bank Digital Currency*. ABA is the voice of the nation's $24.1 trillion banking industry, which is composed of small, regional and large banks that together employ more than 2.1 million people, safeguard $19.2 trillion in deposits and extend $12.7 trillion in loans.

Stablecoin is an area of particular interest to our members, given the token's similarity in use to commercial bank money. We applaud the Committee's efforts to establish a regulatory framework for payment stablecoin. A regulatory framework that balances the potential for improving a customer's payment experience with the need to limit negative economic consequences, as well as financial stability and consumer protection risks, has potential to spur innovation, and the banking industry is ready to participate. We appreciate that the bill codifies the repeal of SAB 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.

ABA remains strongly opposed to a consumer-facing or retail central bank digital currency (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. It's worth noting that the deposit substitution risk we identified relative to CBDC is also a risk as we think about the impact of a scaled payment stablecoin market. Despite their name, there is strong evidence that payment stablecoins will 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 TBills 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 non-bank payment stablecoins scale, it is reasonable to expect the same dynamic to occur in the US – an outflow of funds from bank deposits to the issuers to 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.

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. These issues come up regarding the robustness of the regulatory framework; the degree of supervision and mechanism for enforcement; the limits placed on nonbanks, including commercial activities restrictions, master account access, and the ability to pay interest on tokens; and the application of the Bank Secrecy Act (BSA) to the payment stablecoin ecosystem. We have identified three principles that guide our thinking about what the proposed legislation should accomplish to mitigate risk:

Avoid a negative economic impact. 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.

Control for the known risks. 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. 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.

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. 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 regulators to establish appropriate rules and supervise market participants.

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 continuing to work with the Committee and other policymakers on this important topic.