ICBA

One Mission. **Community Banks.**

Stablecoin Regulation: The Community Bank Perspective

The Independent Community Bankers of America, representing community banks across the nation with nearly 45,000 locations, appreciates the opportunity to provide this statement for the record for today's hearing: "A Golden Age of Digital Assets: Charting a Path Forward." ICBA looks forward to working with Chairman Hill, Ranking Member Waters, and the members of this Committee on stablecoin legislation, including the Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act, to ensure economic stability without community bank disintermediation.

Community banks have a strong interest in ensuring that stablecoins issued by non-bank entities do not do harm to investors, consumers, or the financial system. Currently, stablecoin arrangements are not subject to comprehensive consolidated supervision and lack many critical consumer and anti-money laundering protections. This regulatory gap allows risks to the financial system to multiply, provides opportunities for illicit actors to engage in financial crimes, poses risks to consumers, and creates an unequal playing field with highly regulated community banks.

From the community bank perspective, stablecoin legislation should establish a clear federal regulatory framework that addresses gaps in existing regulatory authority. Moreover, as we expand upon below, regulatory frameworks must effectively address risks associated with stablecoins and not create opportunities for regulatory arbitrage. We appreciate the ongoing dialogue with this Committee to address any concerns throughout the legislative process.

ICBA will evaluate any stablecoins regulatory framework against four broad principles:

- Potential for regulatory arbitrage
- Preserving the integrity of Federal Reserve Master Accounts
- Risks posed by commercial and "Big Tech" private currencies
- Community bank disintermediation

Regulatory Arbitrage

Consistent standards of regulatory and supervisory oversight and prudential requirements should be applied to similar activities. This is a longstanding principle of financial regulation and should be applied regardless of the nature of the firm conducting an activity or the technology used. Any regulatory or supervisory regime applicable to stablecoins should be comparable to a functionally similar product offered by a bank or other traditional financial services provider. This will ensure risks created by loosely regulated nonbank firms do not spill over into the traditional banking system.

In particular, ICBA would be concerned with any state pathway or opt-in state regime that would establish a regulatory race to the bottom ripe for exploitation by bad actors to take advantage of loopholes and lax oversight. Without a strong federal floor, nonbank stablecoin issuers would be

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incentivized to seek approval from the state with the least regulatory requirements and oversight. Further, it is unlikely that many states are prepared to regulate stablecoins at the level necessary to mitigate risk, especially given stablecoin issuers' capacities to quickly scale into global stablecoins that facilitate international payments.

Federal Reserve Master Account Access

ICBA has strong concerns about nonbank-stablecoin-issuers' access to Federal Reserve master accounts and other Fed programs. Highly regulated depository institutions are given access to Fed master accounts, as well as discount window and borrowing privileges, because they are subject to rigorous and comprehensive federal supervision and examination. Granting this access to nonbank payment stablecoin issuers, which are not subject to the same stringent regulatory oversight, would create systemic risk and put highly regulated community banks at a significant regulatory disadvantage.

Commercial and "Big Tech" Control

ICBA has strong concerns about the entrance of Big Tech and other commercial firms into the banking system, as this would erode the long-standing principle of the separation of banking and commerce on which the American system has flourished. The issuance of stablecoins by Big Tech and other commercial firms would create numerous conflicts of interest and give these firms significant economic power.

This would be a radical change in economic policy carrying far reaching and unintended consequences for consumer security and privacy and American commerce. Such a change warrants rigorous examination.

Community Bank Disintermediation

Digital assets of all kinds, including stablecoins, create a risk of disintermediating community banks. Community banks rely on both business and consumer deposits to fund local lending, including consumer loans such as mortgage and auto loans, as well as small business and small farm loans which undergird local economies. If these deposits migrate to digital assets, they will not be available to fund this lending, and local economies and consumers will suffer reduced access to credit and less favorable borrowing terms. Disintermediation poses a significant threat to local prosperity, particularly in smaller communities. ICBA strongly urges this Committee not to pass legislation that would lead, intended or not, to disintermediation.

Closing

Thank you for convening this hearing. As this committee considers any digital assets legislation, including stablecoins legislation, we urge you to be mindful of the serious risks outlined above.

We remain grateful for the opportunity to review draft legislation and provide the community bank perspective.