Stablecoin Working Group Policy Priorities

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Payment Stablecoin Recommendations

At a Minimum Must:

- Provide for robust consumer protections, including transparent and timely disclosures and pathways for recourse;
- Promote and protect the primacy of the U.S. dollar in the global payment stablecoin ecosystem.
- Recognize certain stablecoins, including interest-bearing stablecoins, as payment mechanisms and avoid designating payment stablecoins as securities;
- Promote competition by enabling certain non-banks, including trust companies, and insured depository institutions and their affiliates to issue payment stablecoins;
- Preserve a payment stablecoin issuer's ability to charter with a state or federal regulatory body (if federal, ideally through the Office of the Comptroller of the Currency);
- Protect and enhance financial stability by requiring payment stablecoin issuers to hold high quality, highly liquid reserves, appropriately segregated, protected, attested to by qualified and regulated third-parties, and transparent to all;
- Allow state or federally chartered stablecoin payment issuers to be granted access to a Fed Master Account to reduce run risk, ensure prompt redemptions, and limit broader market volatility;
- Encourage robust and innovative anti-money laundering (AML) and sanctions due diligence processes and monitoring processes to ensure stablecoin transactions comply with applicable AML and sanctions requirements without undue and unworkable compliance burdens placed on financial institutions.

Payment Stablecoin Recommendations

At a Glance

1. Protect and promote U.S. dollar dominance in the payment stablecoin ecosystem.
2. Payment stablecoins, including yield-bearing payment stablecoins, must not be classified as securities.
3. Preserve state pathways for certain stablecoin issuers, while providing for a viable federal alternative.
4. Avoid including broad, overly expansive terminology in any payment stablecoin framework that could affect the viability of state pathways for payment stablecoin issuers.
5. Oppose codifying arbitrary quantitative caps or qualitative thresholds in legislation without conducting a thorough analysis and consulting with industry stakeholders.
6. Require the U.S. Government Accountability Office to conduct a study on state implementation of the Money Transmission Modernization Act.
7. Allow payment stablecoin issuers to hold an account at the Federal Reserve.
8. Oppose legislative efforts to enable the Fed to issue a retail central bank digital currency (CBDC) or create an outsourced CBDC.
9. Protect and preserve the permissioned/pseudonymous structure of the current financial services system.
10. Ensure issuers maintain appropriate reserve composition and effective guardrails around the segregation of assets.
11. Require issuers to provide robust disclosures to inform consumers and promote transparency and competition within the payment stablecoin ecosystem.
12. Federal and State regulators should require issuers to develop and maintain appropriate governance and risk management frameworks tailored to the unique models and risks presented by payment stablecoin issuers.
13. Under a federal payment stablecoin regime, market integrity and stability within the payment stablecoin ecosystem is essential.
14. Promote the use of innovative know-your-customer and transaction monitoring solutions.

Payment Stablecoin Recommendations

The Rundown

1. Protect and promote U.S. dollar dominance in the payment stablecoin ecosystem. Roughly 99 percent of the global stablecoin ecosystem references the U.S. dollar. Attempts to restrict or cut-off foreign issuers' ability to issue USD-linked stablecoins could significantly jeopardize the U.S. dollar's current prominence within the payment stablecoin ecosystem.

The development of bilateral or reciprocal arrangements between the U.S. and other jurisdictions with substantially similar payment stablecoin regulatory regimes is crucial to ensuring stablecoins can operate frictionlessly across borders and to maintaining the U.S. dollar's role within the stablecoin ecosystem under right-sized regulatory frameworks embedded with democratic values. To aid this effort, lawmakers should also support U.S. engagement in multilateral forums to ensure jurisdictional alignment, to the extent possible, that would also serve to protect against the development of alternative forms of value and financial architectures by our adversaries.

Furthermore, there is growing evidence that suggests the use of stablecoins, internationally, is moving beyond speculative investment purposes to facilitating payroll, offering savings vehicles, enabling less expensive and faster international money transfer, among a variety of other use cases that increase the demand for and access to U.S. dollars globally.[1]

A recent blog post sponsored by the Payments Forum of the Federal Reserve Bank of Atlanta further exemplified this trend by exploring how multiple U.S. retailers are increasingly accepting and/or utilizing stablecoins as a means of payment. As the post correctly states:[2]

> Once seen as a hedge against crypto volatility, stablecoins are establishing themselves as a new, innovative payment type. These digital currencies are influencing the future of payments such as purchasing a coffee with a gift card purchased with stablecoins or buying a ticket for a movie at a discount.
>
> One thing is certain: the future of payments looks a lot more stable.

[1] Castle Island Ventures, Stablecoins: The Emerging Market Story. Available at: https://castleisland.vc/wp-content/uploads/2024/09/stablecoins_the_emerging_market_story_091224.pdf
[2] Chris Colson, Here a Coin, There a Coin, Everywhere a Stablecoin, Federal Reserve Bank of Atlanta. Available at: https://www.atlantafed.org/blogs/take-on-payments/2025/01/13/here-a-coin-there-a-coin-everywhere-a-stablecoin

2. Payment stablecoins, including yield-bearing payment stablecoins, must not be classified as securities. To ensure continued utilization and growth in alternative use cases for payment stablecoins and ensuring widespread acceptance of the U.S. dollar across emerging payment rails, TDC recommends policymakers prevent payment stablecoins, including yield-bearing stablecoins, from being treated as securities in any forthcoming legislation. Currently, especially in the case of yield-bearing stablecoins, we continue to see issuers deploy outside the U.S. given the real challenges to usage in the U.S. under current regulatory constructs.

If we are to position the U.S. as the leader in the global payment stablecoin ecosystem, it is imperative that policymakers protect against classifying such forms of payment as securities, and instead view and treat them as payment instruments.

3. Preserve state pathways for certain stablecoin issuers, while providing for a viable federal alternative. Preservation of existing and forthcoming state regimes, while also allowing for a federal option that correctly distinguishes non-banks from banks, is encouraged. Furthermore, at the Federal level, the Office of the Comptroller of the Currency (OCC), not the Federal Reserve, should oversee payment stablecoin issuers given the Fed's lack of historical regulatory treatment and legitimacy of oversight of certain non-bank entities. Similarly, the OCC has the expertise and capabilities to regulate and supervise trusts and other non-depository institutions.

4. Avoid including broad, overly expansive terminology in any payment stablecoin framework that could affect the viability of state pathways for payment stablecoin issuers. TDC previously raised concerns about several payment stablecoin bills introduced in the 118th Congress. While these proposals technically allowed for state oversight of state qualified payment stablecoin issuers and non-depository trust companies, they risked unintentionally subordinating state oversight to the primary federal regulator of federally chartered payment stablecoin issuers.

TDC echoes several of the concerns expressed in commentary from the Cato Institute [3] on this very issue, where the authors state:

[3] Cato Institute, Stablecoin Legislation Must Respect the Dual-Banking System, April 29, 2024. Available at: https://www.cato.org/commentary/stablecoin-legislation-must-respect-dual-banking-system

> While a federal floor for basic stablecoin operating requirements – e.g., disclosure and reserve obligations – is one thing, federal approval standards for otherwise state-chartered issuers are quite another, particularly where they involve nebulous concepts that give regulators broad discretion and create room for abuse....
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> In the words of banking law scholar Arthur E. Wilmarth, Jr., the dual-banking system generally provides "a 'safety valve,'" for the payment system "to escape from arbitrary, inflexible or outdated regulation."
>
> This safety valve involves both horizontal (state v. state) and vertical (state v. federal) competition among regulators. Diverse jurisdictions can play the roles of laboratories of innovation, improving frameworks to support new technologies and consumer benefits, vying to attract new businesses, and even residents.

Without appropriate checks and balances in place, broad terms such as "exigent circumstances" or "reasonable cause to believe" could diminish the viability of state-based supervisory frameworks for certain payment stablecoin issuers.

5. Oppose codifying arbitrary quantitative caps or qualitative thresholds in legislation without conducting a thorough analysis and consulting with industry stakeholders. Several payment stablecoin bills introduced in the 118th Congress proposed a $10 billion "total market capitalization" threshold or "total nominal value of all outstanding payment stablecoins" threshold that would require state-regulated payment stablecoin issuers to convert to a federal framework.

Inserting a quantitative cap into legislation that is inflexible and unable to adapt to evolving market practices or market developments could negatively affect the competitiveness of U.S.-based issuers and force Congress to have to continually revisit and amend the cap.

Rather than inserting quantitative or qualitative thresholds into legislation that would force certain payment stablecoin issuers to have to adhere to new regulatory oversight and restructure existing regulatory responsibilities and requirements, TDC recommends the primary federal regulator, in conjunction with state regulatory bodies, consult with industry stakeholders prior to any quantitative or qualitative thresholds being imposed which will allow for more flexible adjustments and right-sized requirements.

6. Require the U.S. Government Accountability Office to conduct a study on state implementation of the Money Transmission Modernization Act. The Money Transmission Modernization Act (MTMA) is designed to provide for a "common regulatory baseline" for U.S. states across the country to harmonize the licensing, regulation and supervision of money transmitters operating across state lines. The Conference of State Bank Supervisors (CSBS) released this model law in 2021 after a two-year process.

As of this month, 27 states have enacted the MTMA in full or in part.[4] The MTMA, however, only sets a floor and this has continued challenges for various entities trying to navigate inconsistent licensing and oversight regimes across the U.S.

As former U.S. Treasury Under Secretary for Domestic Finance Nellie Liang acknowledged in remarks late last year:

> (T)here are practical challenges to establishing the same standards in every state and limits as to how well those standards can address risks of business models that extend well beyond state borders.... A federal framework for nonbank payment service providers may be better able to address these concerns.

To ensure that stablecoin issuers wishing to operate under a State regulatory regime can do so in the least burdensome manner, TDC recommends that any forthcoming payment stablecoin legislation incorporate a requirement for the U.S. Government Accountability Office (GAO) to conduct a study examining the challenges involved in implementing the MTMA consistently across the nation. Furthermore, particular attention should be spent on developing a state-by-state comparison of regulatory approaches, including differences between the various approaches, as well as other considerations. This study would identify obstacles and variances in the regulatory landscape that may impact the efficiency and feasibility of state-level compliance for stablecoin issuers and provide recommendations for alternative regulatory constructs that could address inconsistent and disparate state regimes by instituting a national, consistent set of rules.

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[4] Conference of State Bank Supervisors, Money Transmission Modernization Act Adoption Status (Updated January 29, 2025). Available at: https://www.csbs.org/csbs-money-transmission-modernization-act-mtma

7. Allow payment stablecoin issuers to hold an account at the Federal Reserve. To substantially reduce, if not eliminate, credit risk in the U.S. stablecoin market, payment stablecoin issuers should be able to hold their reserve assets in an account with the Federal Reserve, providing issuers with immediate access to cash and ability to respond to redemptions promptly.

TDC congratulates Congressman Frank Lucas (R-OK) on recently being appointed as Chair of the Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity. As was made clear during TDC's conversation with Congressman Lucas in late January 2025, the Task Force will examine Section 13 of the Federal Reserve Act as well as the Federal Reserve's mandate. Congressman Lucas also stated that the Task Force aims to develop legislative proposals to pass on to the full committee. TDC encourages the Task Force to investigate the role(s) the Federal Reserve can play in mitigating the run risk of payment stablecoins and broader market volatility by enabling issuers to hold an account at the Federal Reserve.

8. Oppose legislative efforts to enable the Fed to issue a retail central bank digital currency (CBDC) or create an outsourced CBDC. In past recommendations, TDC has called on lawmakers to prohibit the Federal Reserve from directly issuing a retail CBDC or indirectly issuing a digital asset that shares similar characteristics through a financial intermediary or other intermediary. As we previously noted, both direct and indirect issuance could give the Federal Reserve far too much control and oversight, posing severe risks to financial privacy and limiting private stablecoin issuance and growth.

TDC welcomes the Trump Administration's recent Executive Order[5] (EO) to promote U.S. leadership in digital assets and financial technology. Specifically, Section 5 of the EO prohibits agencies from undertaking any action to establish, issue, or promote CBDCs within the jurisdiction of the U.S. or abroad.

TDC remains concerned, however, with broad definitions of "CBDC" in the EO and select legislation introduced in the 118th Congress. These expansive definitions could unintentionally restrict ongoing research and focus on wholesale CBDC issuance and use as well as other Federal Reserve functions.

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[5] Executive Order, Strengthening American Leadership in Digital Financial Technology. https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/

For instance, in a May 2024 cost estimate[6] of H.R. 5403, the CBDC Anti-Surveillance State Act, the Congressional Budget Office (CBO) stated:

> In particular, the bill's prohibition on the Federal Reserve's use or issuance of a central bank digital currency could apply to bank reserves, which are a unit of value and a liability of the Federal Reserve. The approximately $4 trillion in currently outstanding bank reserves constitute a key tool in the implementation of monetary policy. At this time, CBO cannot determine how the Federal Reserve and financial markets would respond to the bill's prohibitions or whether the prohibitions would substantively affect the conduct of monetary policy.

As such, TDC recommends that any forthcoming legislation or agency actions targeting CBDCs focus solely on retail CBDCs and avoid any disruption to current Fed practices and ongoing exploratory work involving wholesale CBDCs.

9.Protect and preserve the permissioned/pseudonymous structure of the current financial services system. Ensure Know Your Client (KYC) requirements are only applied to initial issuance, not to subsequent transactions that follow initial issuance, thereby protecting a user's right to initiate secondary transactions of stablecoins without having to undergo continuous KYC/AML checks on each subsequent transaction post-initial issuance by the issuer.

10.Ensure issuers maintain appropriate reserve composition and effective guardrails around the segregation of assets. Chief among our recommendations:

a. All USD-denominated stablecoins should be backed 1:1 with cash or cash-equivalent liquid assets.

b. Reserve assets should also include tokenized representations of eligible reserve assets (e.g., tokenized Treasury securities, money market funds etc.) and private-issued credit that has higher ratings than T bills (CDOs).

c. Reserve attestation should be conducted at least monthly through independent third-party audits conducted by qualified firms that adhere to U.S. accounting standards.

d. Issuers should ensure reserves are properly segregated from corporate assets and held in a bankruptcy-remote vehicle for enhanced security and user protection.

[6] CBO Cost Estimate: https://www.cbo.gov/system/files/2024-05/hr5403.pdf

11. Require issuers to provide robust disclosures to inform consumers and promote transparency and competition within the payment stablecoin ecosystem. Chief among our recommendations:

a. Identify and publicly display the regulatory authority that chartered the issuer and what regulatory agencies they are supervised by.

b. Disclosure of any enforcement actions or sanctions-related investigations.

c. Enforce public disclosures of stablecoin reserve holdings, including their composition, valuation methodologies, and custodian regulatory status and locations, to maintain 1:1 backing and enhance user confidence.

  a. Proof of reserves should include real-time on-chain verification mechanisms where technologically feasible.

d.Publish the monthly composition of the issuer's reserves on the website of the issuer, containing –

  a. Total number of outstanding payment stablecoins issued by the issuer; and

  b. The amount and composition of the reserves

e. Redemption policy is publicly disclosed.
f. Issuers should adhere to prompt redemption standard

  a. CEO and CFO of the issuer, each month, must submit a certification as to the accuracy of the monthly report to –

  b. The primary Federal payment stablecoin regulator; or

  c. The State payment stablecoin regulator

12. Federal and State regulators should require issuers to develop and maintain appropriate governance and risk management frameworks tailored to the unique models and risks presented by payment stablecoin issuers. At a high level, issuers should be required to:

  a. Implement comprehensive governance structures, risk management frameworks, conflicts of interest, and issuer accountability.

  b. Establish robust legal and operational frameworks for addressing disputes related to stablecoin fraud, redemption failures, or service disruptions, ensuring user recourse in the event of issuer misconduct

  c. Implement robust framework(s) that require issuers to detail, in the event of insolvency, the process to wind-down operations to protect against abrupt fire-sale scenarios that could cause broader instability in both the payment stablecoin market and broader markets depending on the composition of reserve assets and the protection surrounding those assets.

13. Under a federal payment stablecoin regime, market integrity and stability within the payment stablecoin ecosystem is essential. As such, issuers should, at the very least, be subject to:

a. Capital requirements applicable to permitted payment stablecoin issuers, which may not exceed what is sufficient to ensure a payment stablecoin issuer's ongoing operations;

b. Liquidity requirements applicable to permitted payment stablecoin issuers, which may not exceed what is sufficient to ensure the financial integrity of the permitted payment stablecoin issuer and the ability of the issuer to meet the financial obligations of the issuer – including redemptions; and

c. Risk management requirements applicable to payment stablecoin issuers, tailored to the business model and risk profile of the payment stablecoin issuer.

14. Promote the use of innovative know-your-customer and transaction monitoring solutions. Lawmakers should encourage regulators and market participants to deploy innovative, fit-for-purpose regulatory technology (RegTech) solutions for digital assets that utilize the blockchain's transparency to enhance financial crime detection, risk monitoring, and regulatory compliance in the stablecoin ecosystem.

Technological advancements, including machine learning and artificial intelligence, have the potential to significantly evolve current (and archaic) know your customer obligations and practices to a new paradigm of Know-Your-Ecosystem (KYE).

Such advancements – already in use by a wide range of market participants – can enable and assist stablecoin issuers in:

- Identifying, mapping, and monitoring key participants in their operational ecosystem, including custodians, validators, liquidity providers, and on/off-ramp service providers.
- Conducting rigorous due diligence on counterparties, service providers, and liquidity sources to mitigate operational, compliance, and reputational risks.
- Enabling proactive detection of illicit activity, emerging threats, and anomalous trading behaviors within the ecosystem; and
- Developing predefined risk thresholds, implementation of early-warning indicators, and adoption of real-time escalation protocols when ecosystem-wide risks are detected.

The evolution from KYC to KYE is critical to safeguarding stablecoin market integrity and national security, addressing key risks while ensuring a more resilient and transparent stablecoin market ecosystem.