

Stablecoin issuers seek bank licenses to reassure customers

April 5 2022, by Sarah Wynn



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Firms that issue or trade stablecoins are looking to secure banking licenses, largely as a signal to customers that the coins are safe as bank deposits.

It's a [new development](#) in the world of cryptocurrency, which hasn't enjoyed the best reputation for investor protection. And the companies are doing it without waiting to see whether Congress will follow a recommendation to require it.

The President's Working Group on Financial Markets, a group of regulators, in November recommended legislation to require stablecoin issuers to be insured depository institutions—banks whose deposits are covered by the Federal Deposit Insurance Corporation and therefore subject to bank rules. That would protect depositors' money in case the bank fails.

The Working Group warned that "runs" on the [digital assets](#) could spread contagiously to others, posing a risk to the broader financial system.

Stablecoins typically are tied to the value of a national currency, such as the U.S. dollar, unlike other, highly volatile cryptocurrencies. Stablecoins make up only about 5 percent of the value of the cryptocurrency ecosystem but are used to facilitate three-quarters of trades on digital asset trading platforms, according to a December memo from the House Financial Services Committee.

They are unregulated in the U.S.

They've been around for several years and may come with various assurances that they are backed by currency. But rarely are they directly tied to the heavily regulated banking industry.

According to observers, the move by issuers toward banking is partially driven by the market itself.

"I think it's probably safe to say that everyone who is or wants to be a stablecoin issuer is thinking about this," Sheila Warren, CEO of the

Crypto Council for Innovation industry group, said in an interview. "Eventually there are likely to be some new rules that come down about this stuff that are either symmetrical to banking rules or are analogous."

She said the transition of these companies into banking requires internal discussion on [business strategy](#) and how the companies want to be seen in the market, such as their level of customer safety.

Boston-based Circle Internet Financial LLC, a blockchain-focused financial services company and stablecoin issuer, announced in August it was preparing an application to become a federally chartered, full-reserve national commercial bank.

Circle and companies like it are looking to differentiate themselves, Warren said.

The Diem Association, which had backing from Facebook parent Meta Platforms Inc. to launch a stablecoin, announced in February it would sell its intellectual property to Silvergate Capital Corp., the parent company of Silvergate Bank.

Silvergate plans to issue a stablecoin this year, CEO Alan Lane said in an earnings call in January, according to a transcript.

"Notably, the report on stablecoins issued by the President's Working Group in November confirms our belief that as an insured depository institution, Silvergate can play an important role as stablecoins are brought within a federally regulated prudential framework," Lane said.

Partnering up

San Francisco-based Figure Technologies Inc., a blockchain holding company, in January launched what's called the USDF Consortium,

composed of eight FDIC-insured banks that united to create a stablecoin.

USDF is an acronym for United States Dollar Finly. Finly is an automated business payments platform on which the stablecoin will run.

Figure began working on the consortium about a month before the Working Group report was released, said Ashley Harris, general counsel at the company.

"When the President's Working Group report came out, it was entirely consistent with what we're building," Harris said.

She said that of the various financial services businesses available to consumers, banks are well trusted, offer the most consumer protections and are the most regulated. For Figure, partnering with banks was a faster option than getting a bank charter of its own.

"We think this is going to be a growing area," she said. "What we're seeing with a lot of banks, large and small, is that they're viewing USDF as a foothold into a larger digital asset strategy, and this is one that really takes advantage of the things that they're best at."

Consumers will accept currency such as stablecoins only if they trust it, said Oonagh McDonald, a former British politician and author of "Cryptocurrencies: Money, Trust and Regulation." McDonald said she doesn't expect a trend of stablecoin issuers looking to become banks because of hefty compliance costs.

"Trust is exemplified in the recipient simply accepting it, without question, for payment," McDonald said.

That trust is evident from some consumers who dove headfirst into stablecoins that lack bank backing. Stablecoin issuer Tether Ltd., for

example, holds the largest market value among such issuers, at \$81 billion, according to CoinMarketCap.

Tether has had run-ins with regulators. It paid \$41 million in October to settle charges with the Commodity Futures Trading Commission for making misleading statements on whether the coin was fully backed by currency such as the dollar. Tether, alongside its operator Ifinex, also settled with the New York attorney general's office last year for \$18.5 million after the office found the stablecoin wasn't fully backed.

"While Tether has no plans of becoming a bank, it will always prioritize a structure that assists its consumers, follows local ordinances, and enhances the future of financial freedom," a Tether spokesperson said.

Arthur Wilmarth Jr., a law professor at George Washington University, called Tether a "a very shadowy operation."

"It would be very hard for them to restructure to bring themselves into the kind of scrutiny and oversight that any FDIC-insured bank would have to undergo," Wilmarth said. "That's my impression based on what I've read about them."

Tether pushed back on the comments, citing reports and noting that the value of its reserves are published daily.

"Our customers continue to place their trust and confidence in Tether, as exhibited through our growth and market cap," a spokesperson said. "In doing so, they are telling us and the market that our disclosures are sufficient to make well-informed decisions."

Cryptocurrency exchange operator Kraken Digital Asset Exchange doesn't issue stablecoins but offers trading of them on its platform. It is seeking a Federal Reserve master account, which would allow it to

deposit funds with the Fed and access the global payments system.

Kraken and Circle each seeks a full bank license, said former CFTC Chair Christopher Giancarlo. A full license allows banks to fund long-term loans with money from short-term deposits.

"You could assume that having a full bank license is no disadvantage, whatever the outcome of the congressional legislation," Giancarlo said. "Ultimately, Congress will have the final word" on whether a full bank license is necessary, as the President's Working Group says.

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Citation: Stablecoin issuers seek bank licenses to reassure customers (2022, April 5) retrieved 25 April 2024 from
<https://techxplore.com/news/2022-04-stablecoin-issuers-bank-reassure-customers.html>

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