

Amit Seru — Stanford & Hoover Institution | EPWG, Oct 8

Stablecoins: GENIUS + Clarity ≠ Safety

Why Bother? The Pro Case

24/7, faster, cheaper
esp. cross border,
better reach

**Safer store vs local
volatility** in EM; 'dollar
saving' option

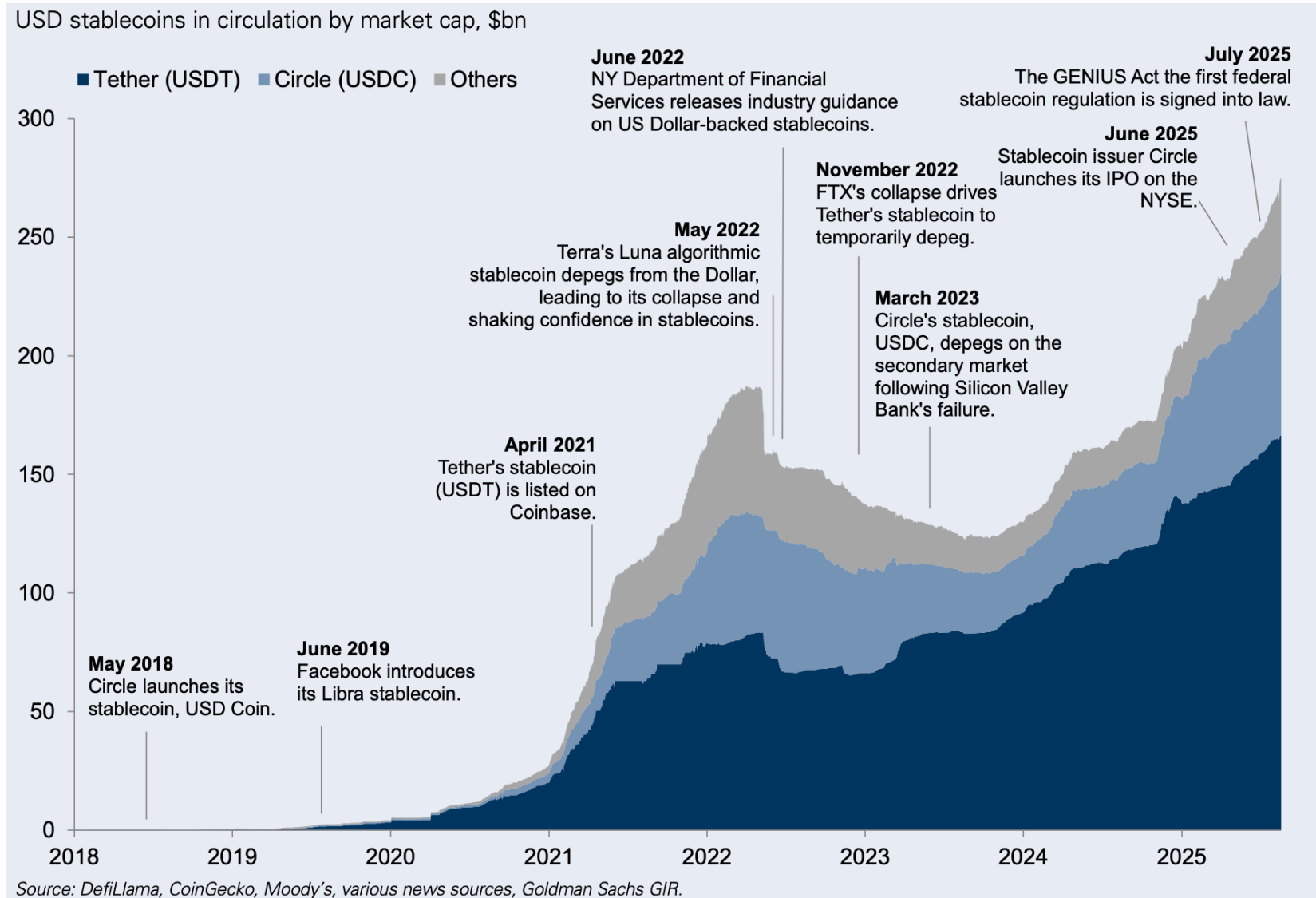
**On-chain settlement
asset** for tokenized
invoices/securities

**Programmable
commerce** (smart
contracts, payouts,
escrow, revenue-share)

Private competition →
better rate/reward
pass-through

Innovation critical mass

Been Around with Moderate “Market Share”



Step Back: The Economics (Narrow Bank Logic)



Stablecoins \approx narrow banks:
safe, liquid reserves; no
maturity transformation



**“Centralized”
supervision/regulation:**
resolution, audit, liquidity

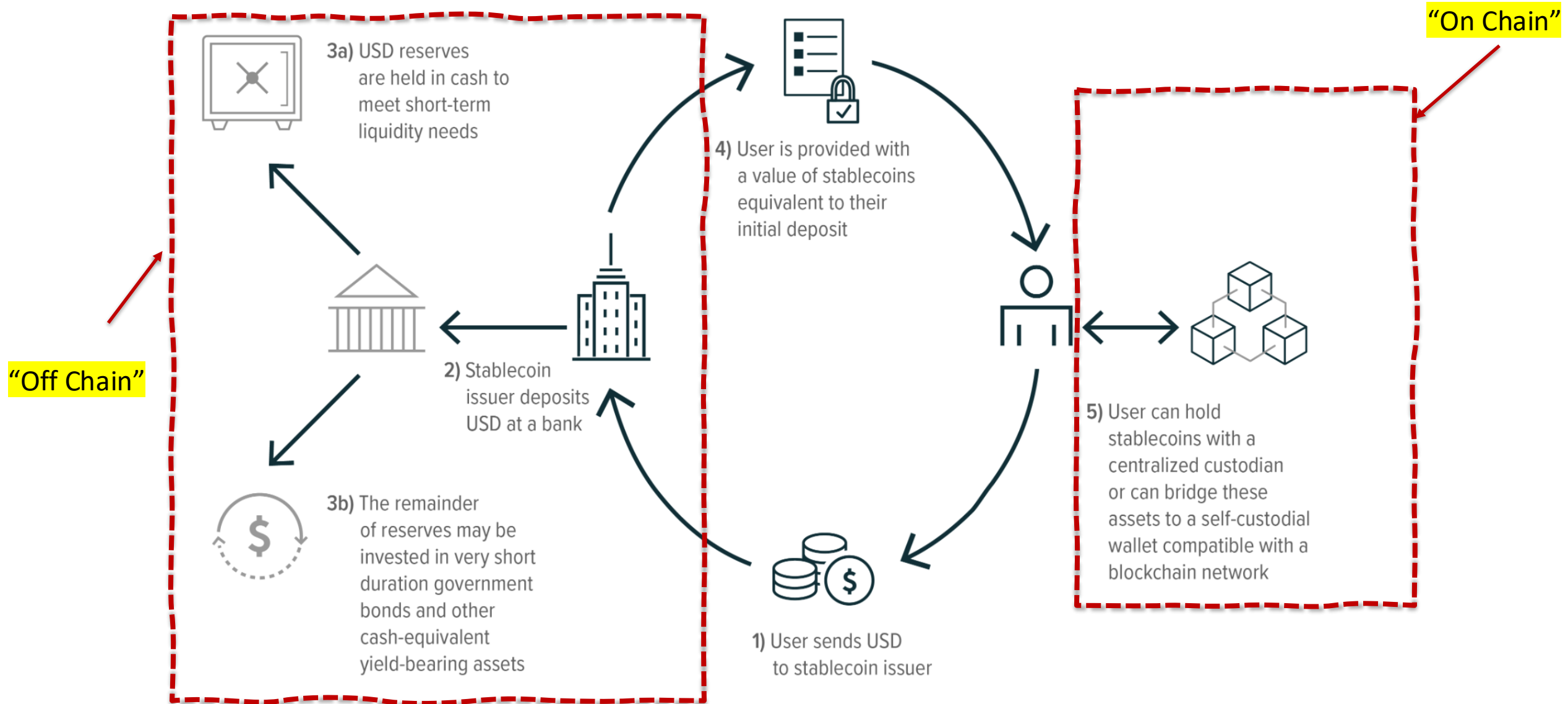


Historic debate:
stability/transparency vs.
foregone bank credit creation



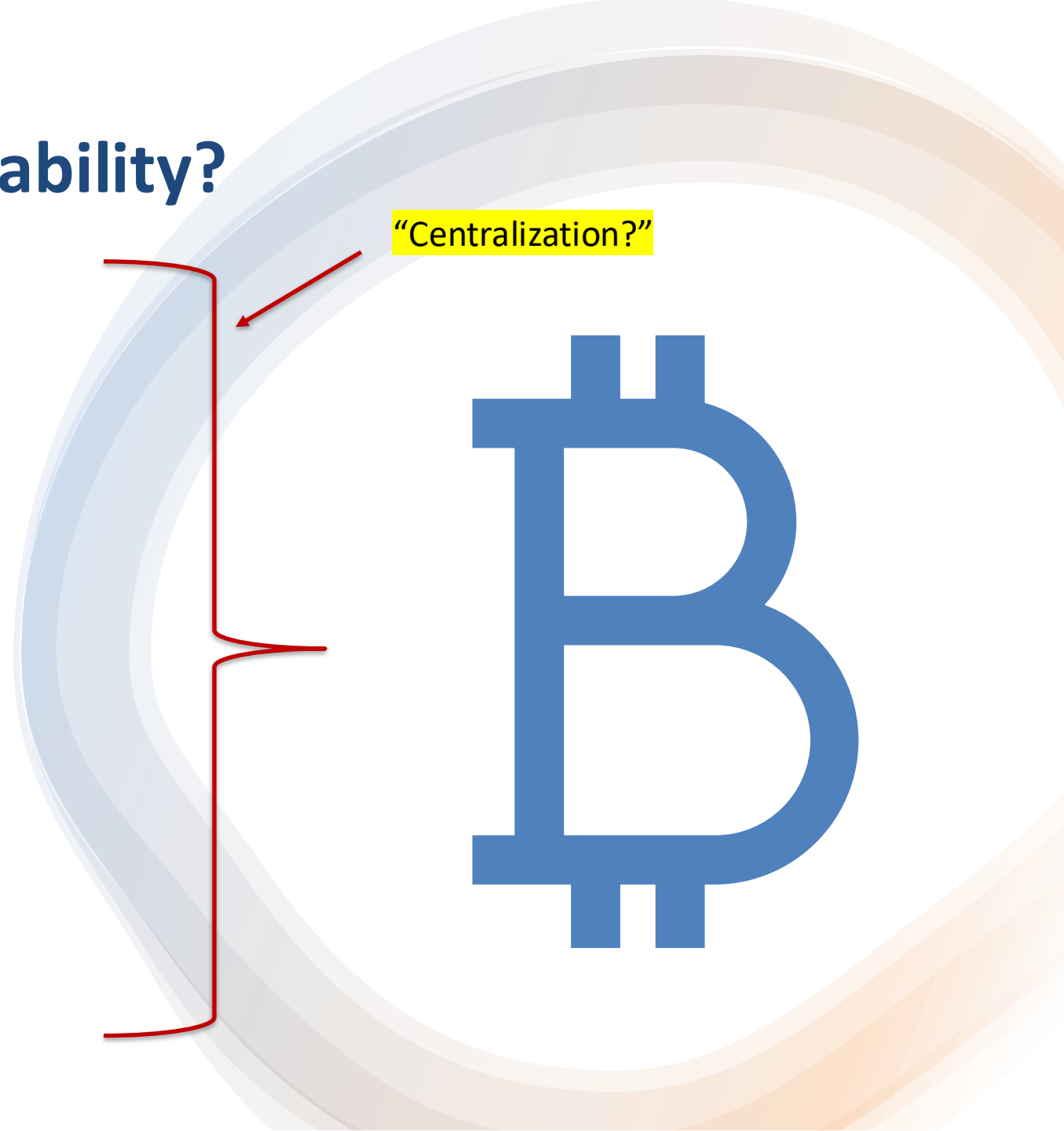
**Same debate as before;
different wrapper. Who bears
the credit intermediation role
if deposits migrate?**

Step Back: The Economics (Narrow Bank Logic)



What Must Be True for Stability?

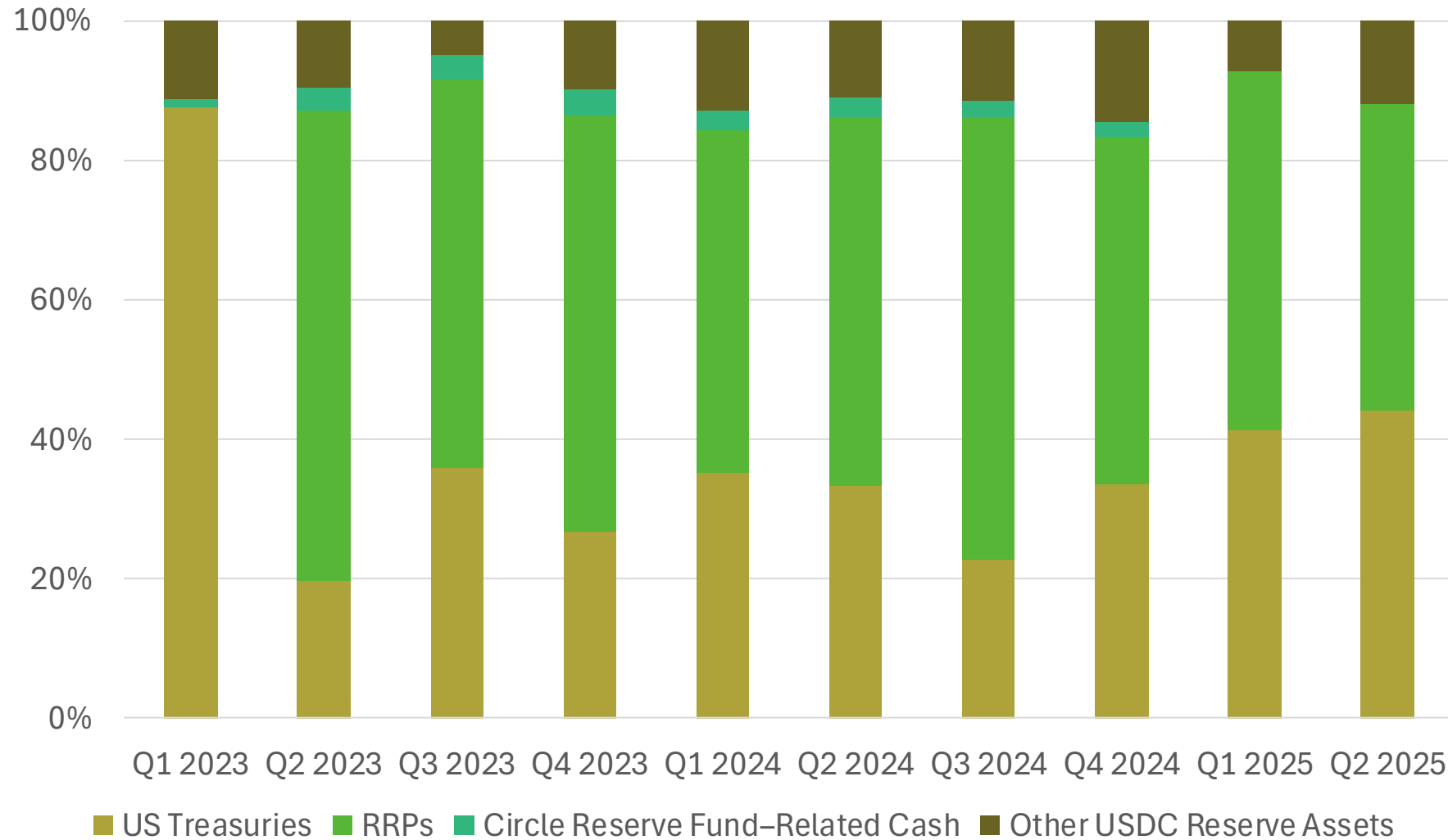
- ❑ Uniform reserves: T-bills/overnight Treasury repo/cash only
 - ✓ Attestations, audit of off chain
- ❑ Anti fraud: KYC/AML perimeter
 - ✓ Coordination across chains/platforms
- ❑ Anti-risk taking: Banks, hedge funds...
- ❑ Orderly “resolution”
 - ✓ Segregated, bankruptcy-remote custody
 - ✓ Par redemption with SLAs (T+0/T+1)
 - ✓ Liquidity backstop
 - ✓ Interoperability across chains, platforms



“Centralization?”

Chain shows *tokens*; only an attester sees *reserves*

Reserves Are Off-Chain (USDC)

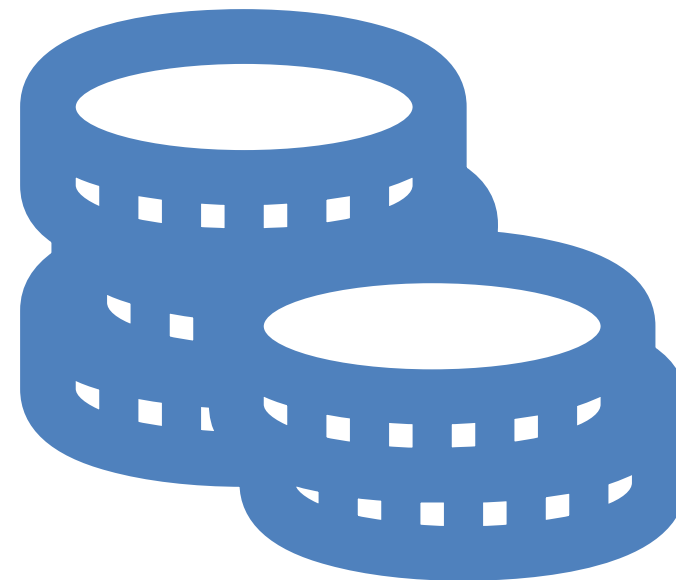


Reserves Are Off-Chain

USDC reserve holdings are fully disclosed on a weekly basis, along with associated mint/burn flows.

Additionally, a Big Four accounting firm provides monthly third-party assurance that the value of USDC reserves are greater than the amount of USDC in circulation.

The reports are prepared according to attestation standards set out by the American Institute of Certified Public Accountants (AICPA).



Attestation (point-in-time) ≠ full audit (financial statements)

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Reserves Are Off-Chain: Who Monitors Off-Chain?

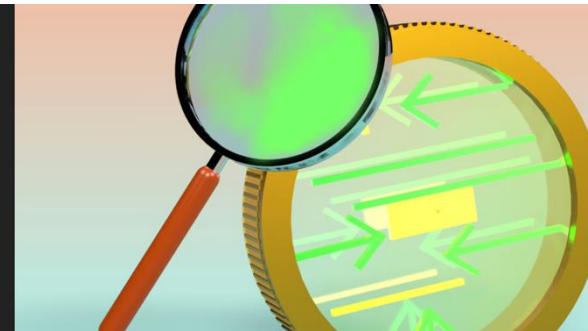
MARKETS

Bitfinex Used Tether Reserves to Mask Missing \$850 Million, Probe Says

New York attorney general alleges cryptocurrency-exchange operator drained popular coin's reserves to conceal missing funds

Tether Says Audit Is Still Months Away as Crypto Market Falters

Many crypto companies lack basic financial guardrails; 'Tether needs an audit that's akin to a corporate colonoscopy'



REGULATORY ENFORCEMENT

BDO fined \$2M by PCAOB for estimate evaluation lapses

On Chain Risks & Regulatory Arbitrage → Compliance and Supervision?

- ❑ Bad actors → freeze/lists
 - ✓ Monitoring (gas)
- ❑ KYC/AML: hopping to other tokens
 - ✓ Rules? Policies?

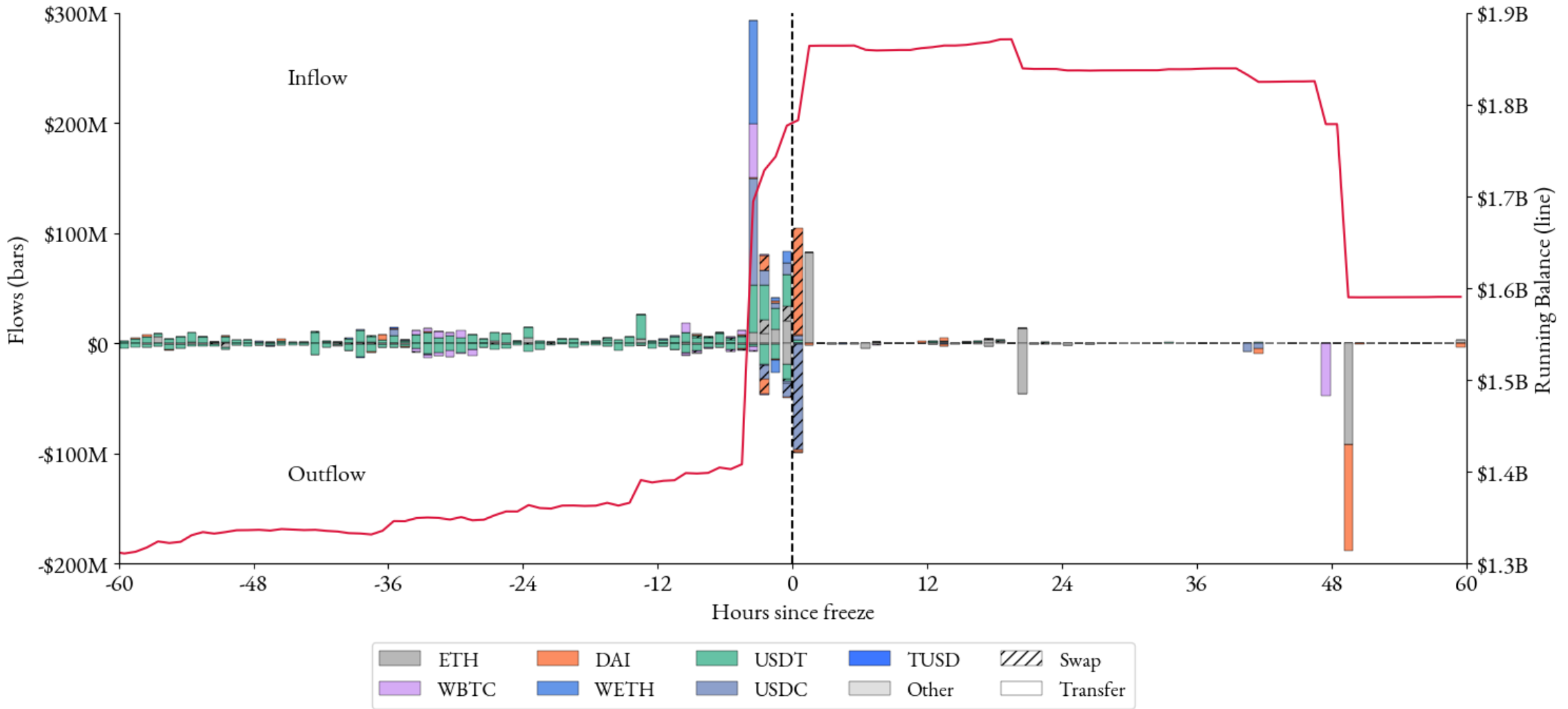
Transparency doesn't self-enforce

→ need eyes, rules, and budget.



Transparency doesn't self-enforce: need eyes, rules, and budget.

Swapping into "DAI" (exempt in GENIUS)



Financial Stability: No Backstop → Old Story

1

Shock → Depeg on
CEX/DEX..

Network congestion
(gas spikes)

2

Queues at par
window; retail
dumps at discounts

3

Issuer monetizes
reserves

4

Spillovers to
front-end rates
(**yields on Treasury
bills**) when dealer
B/S are tight

Financial Stability: No Backstop → Old Story **with Code (faster)**

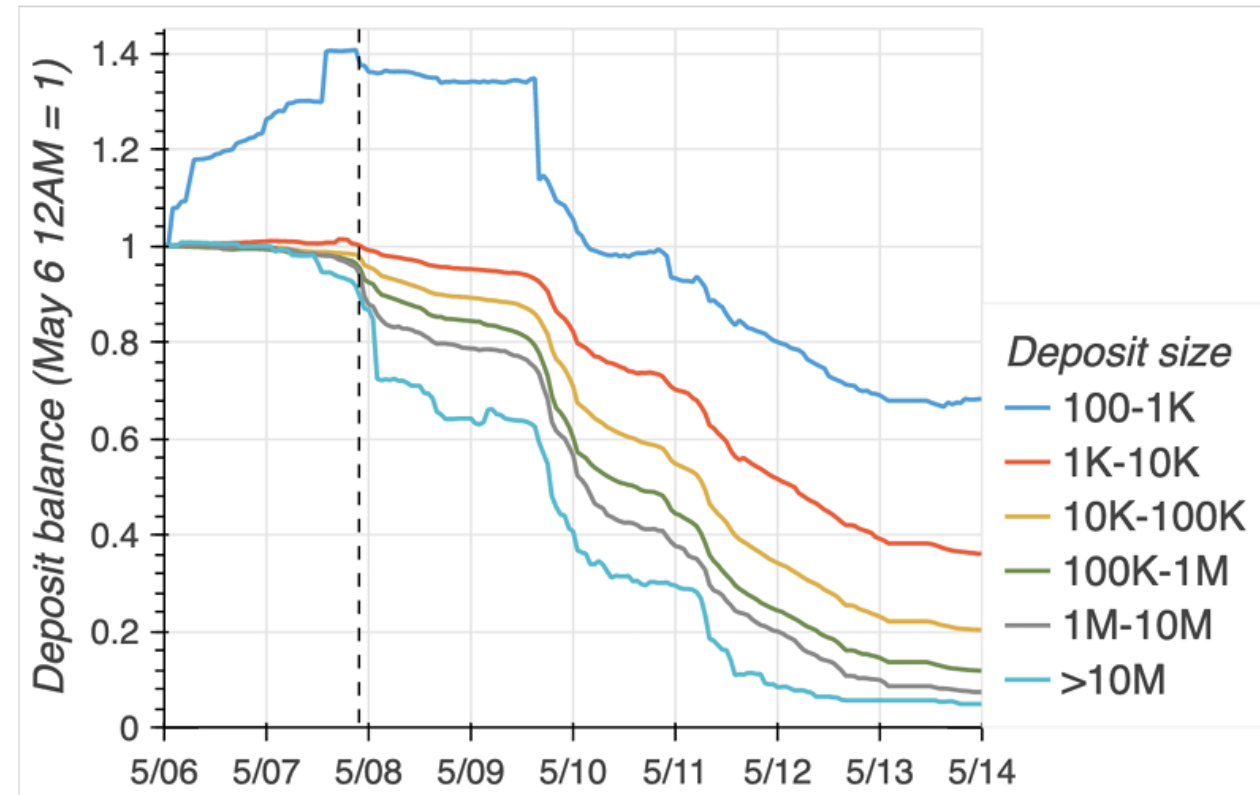
CURRENCIES | CRYPTOCURRENCY

Circle's USDC Stablecoin Breaks Peg With \$3.3 Billion Stuck at Silicon Valley Bank

Spooked investors cashed out over \$2 billion worth of USD Coin, knocking the dollar-pegged token below 87 cents

By [Vicky Ge Huang](#) [Follow](#), [Hannah Miao](#) [Follow](#) and [Caitlin Ostroff](#) [Follow](#)

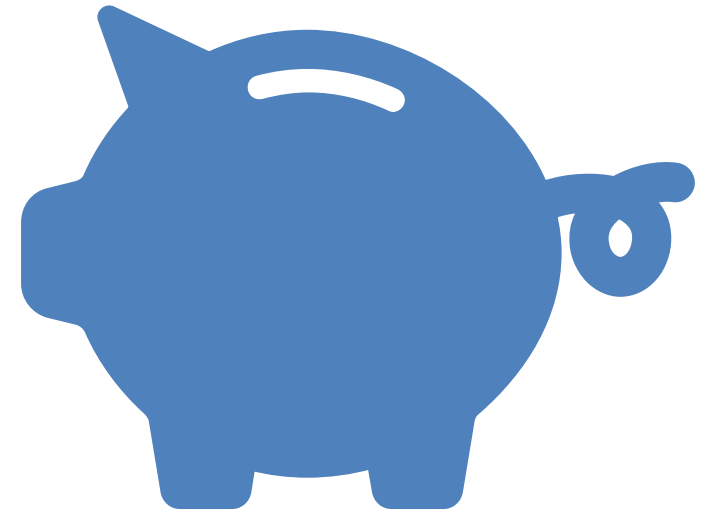
Updated March 11, 2023 7:21 pm ET



Financial Stability: Backstop and Rules?

Backstops and rules are “centralized” by design

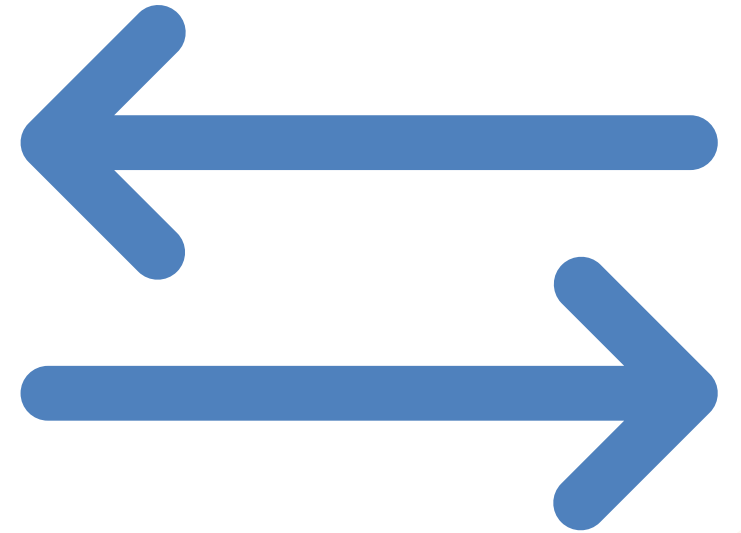
→ Safety is not decentralized.



Fragmentation vs. Singleness & Trust in \$

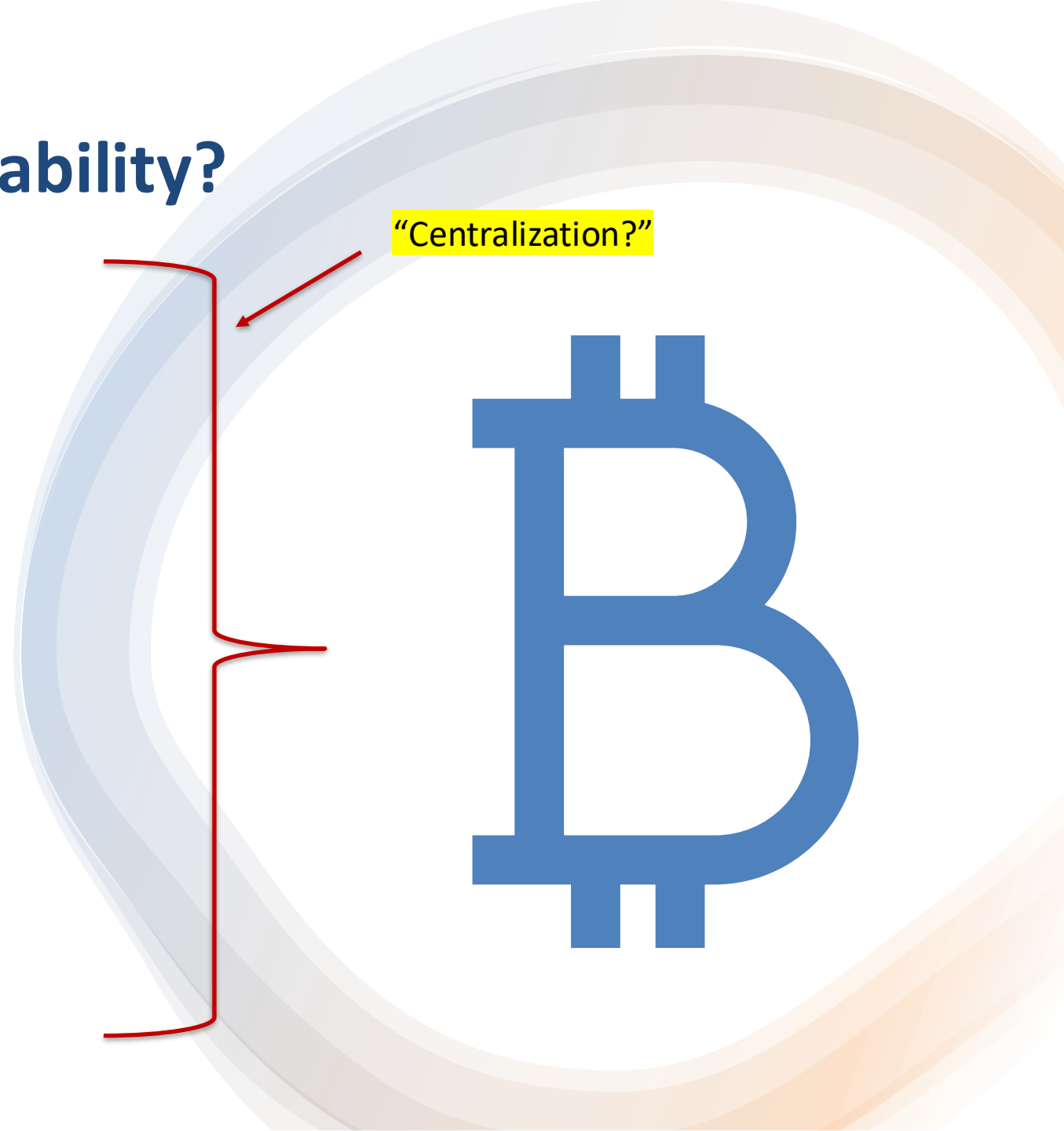
- ❑ Issuer: limited par access/gates → discounts
 - ✓ Chain: cross-chain bases for 'same' coin; bridge risk
 - ✓ Platform: walled gardens/KYC mismatches → non-par acceptance
- ❑ History rhymes: 19th-century note discounts → par + clearing fixed it

Cure is par + clearing + standards



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“Centralization?”

What Do Stablecoins Replace?

- ❑ MMFs → little change (same assets: bills/repo)
- ❑ Cash → seigniorage shifts public → private
- ❑ Cross-border → broader \$ reach
- ❑ Deposits → bank funding costs ↑; lending margins compress



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- ❑ Deposits → bank funding costs ↑; lending margins compress
 - ✓ Banks reprice funding
 - ✓ NBFIs/capital markets step in



Policy: GENIUS Act Gaps

01

Uneven reserve
assurance;
attestations ≠ audits

02

Loopholes/platform
routing;
privacy/telemetry
concerns

03

Run mechanics &
fragmentation left
largely to markets

04

Interest restrictions
blunt competition;
**gas/throughput
costs scale with use**

Rule of law, strong network effects, clear backstops, and real interoperability in the limit

→ a well-designed public core (including CBDC rails) may be most efficient.

Clarity Act & CBDC Ban

Monetary Sovereignty:

- The Act reinforces private control over money issuance and seigniorage

Ban on Fed-Issued Retail CBDCs:

- Restricts a potential tool that could give safe, stable digital money under public control.
- Increases reliance on private stablecoins as digital dollar substitutes.

Why this matters?

- Dollar's global dominance and monetary policy control?
- Systemic risk and weakening public oversight?

Summarizing

- ❑ GENIUS + Clarity ≠ Safety
- ❑ Private Stablecoins could deliver 24/7 programmable dollars—if we preserve singleness, transparency, and backstops...
- ❑ ...but might not be the most efficient way of doing so...
- ❑ Law, scale, backstops, interoperability → the case for a public core/CBDC.

