The Annual Report of the Financial Stability Oversight Council
House Financial Services Committee
May 12, 2022

**Legislation**

- H.R. 3571, the "Climate Change Financial Risk Act of 2021." (Rep. Casten)
- H.R. 5419, the "Bank Merger Review Modernization Act of 2021." (Rep. Garcia)
- H.R. 7022, the "Strengthening Cybersecurity for the Financial Sector Act of 2022." (Rep. Foster)
- H.R. ____, the "Systemic Risk Mitigation Act."
- H.R. ____, the "Treasury Market Transparency Act of 2022." (Rep. Quigley)
- H.R. ____, the "Improving Prudential Standards for Nonbank Mortgage Servicers Act."

**Opening Statements**

**Chairwoman Waters (D-CA)** stated that prior to 2008, there was no government entity entirely focused on financial stability and in the aftermath of 2008, FSOC was created and took important steps to address the turmoil. She continued that the Trump Administration undermined FSOC by minimizing staff, holding fewer meetings, and removing safeguards. Waters was happy to see FSOC address climate-related financial risk and also encouraged FSOC to monitor fintechs, crypto, and shadow banks. She was proud of the Committee securing emergency rental assistance but added that the housing market needs more help. Waters said that even with the heightened interest rates, the housing prices are still high. She referred to the leaked draft of the Roe v. Wade decision and believed that the reversal would impact women's impact on the economy.

**Ranking Member McHenry (R-NC)** thought that the Committee should be focused on Russia, China, going after bad actors, and protecting against cyber risk. Instead, he said, FSOC is focused on climate which is part of the liberal agenda. McHenry pointed to the peaking inflation as a result of Democratic spending. He turned to the stability of the US economy and referred to digital assets. McHenry referred to a particular stablecoin that has had a recent volatility and stated that not all digital assets are the same and therefore should not be regulated the same. He added that we should take the time to understand these digital assets before regulating them but believed that it is important to legislate and provide clarity to the digital asset industry.

**Rep. Perlmutter (D-CO)** focused on climate risk and stated that we must ensure that our financial system is a source of strength as we address climate change.

**Witness Testimony**

**The Honorable Janet Yellen*, Secretary, Department of the Treasury,*** highlighted a few topics from FSOC's 2021 annual report. First, she addressed vulnerabilities in the nonbank financial sector and pointed to the establishment of the Hedge Fund Working Group and the Interagency

Working Group on Treasury Market Surveillance (IAWG). Next, Yellen noted the FSOC's work to ensure that financial institutions better understand their climate-related financial risks, including its staff-level Climate-related Financial Risk Committee, which will serve as a coordinating body for the Council to share information. She then briefly touched on digital assets and related financial stability risks and regulatory gaps. Yellen then pointed to the potential for continued volatility and unevenness of global growth as countries continue to grapple with the pandemic and the war in Ukraine. She closed by noting that the Council continues to monitor other threats and vulnerabilities, including short-term wholesale funding markets, central counterparties, alternative reference rates, cybersecurity, corporate credit markets, and real estate markets.

**Member Questions**

**Chairwoman Waters (D-CA)** referred to a study by the Gates Foundation on family planning and also noted a study from UC San Francisco and asked how the Supreme Court reversal of Roe v. Wade would impact economic stability and the success of women. Yellen thought that there is a link between success and the ability to get an abortion and thought that the overturning of Roe would prevent women from managing their reproductive lives. She added that this would have a profound impact on more economically vulnerable women. Yellen noted a brief that a group of economists recently submitted that indicated the illegalization of abortion will have significant impacts to birth rates, job opportunities, and educational attainment for women. Waters referred to the most recent FSOC report pointing to financial innovation and that many digital aspects are volatile. She continued that the report noted that stablecoins could become a risk if the stablecoin is not backed. Waters appreciated the PWG calling on Congress and said FSOC has tools to address the systemic risks and concerns to digital assets as well and asked what FSOC is doing to ensure that digital assets do not pose a risk to the financial system. Yellen answered that FSOC has been called on through the EO to produce a report that looks at financial stability risks and said that FSOC is working on this and will address the risks these assets pose. On stablecoins, Yellen specifically said that the PWG on Financial Markets regarded it as urgent for Congress to legislate on this in a bipartisan way and come up with a framework for stablecoins. She referred to the issue with Terra coin this week as well as the Tether briefing breaking the buck.

**Ranking Member McHenry (R-NC)** continued the conversation on digital assets and asked if there is a distinction between an asset backed coin and an algorithm-based coin. Yellen said that of course there is a distinction. McHenry appreciated the PWG report and encouraged Congress to work here. He asked how limiting stablecoin issuances to only banks promotes innovation. Yellen replied that creating a framework appropriate to the risks stablecoins could present allow for clarity that the industry needs. She continued on regulatory uncertainty and said that if Congress issued a framework, it would be easier for the industry to react. McHenry followed up saying that runs cannot occur with 1:1 backing. Yellen replied that money market funds are very similar to stablecoins and that they have been a source of instability in the financial system.

McHenry countered that Dodd Frank is about de-risking and asked if it is a viable path to have a 1:1 stablecoin and it not be domiciled to a bank. Yellen replied that the PWG looked at various paths and came to the conclusion of the establishment of a bank framework for regulating stablecoins. Yellen said that it's a flexible framework that involves appropriate capital and liquidity requirements and is a framework where payment system risks can be addressed. McHenry stated that inflation is raging with stagnant growth and asked what the Administration is doing to take on this challenge. Yellen answered that inflation is the number one economic issue right now and that inflation is having an impact on many vulnerable households. She continued that the Fed plays an important role here and said that it is the Fed's responsibility to make the appropriate judgments. Yellen pointed to the wide-ranging steps the Administration is taking to curb inflation.

**Rep. Himes (D-CT)** continued the conversation on stablecoins but wanted to reflect on Dodd Frank and what it meant. He remembered how Dodd Frank was the 'ugly stepchild' of 2009 and that the Republican fears during that time never came true. Himes went back to stablecoins and other cryptocurrencies and felt the pain of those who lost money but also thought this was education for investors. He worried about the point in which we see systemic risk developing in the crypto sector and what that looks like. Yellen replied that FSOC is analyzing in current time potential financial stability risks from digital assets writ large and also pointed to the PWG report on stablecoins. She added that right now she did not think stablecoins were a financial stability risk presently despite Terra coin and Tether coin but added that these coins are growing rapidly. She also added that these coins are carrying the same sort of risk that have been around for centuries in bank runs. Himes asked when this Committee should be concerned. Yellen could not provide a numerical cut off but saw the use of digital assets rising and the possible presentation of run risks and payment system risks and said that we need a comprehensive framework to close any gaps in regulation. Himes asked about CBDC (Central Bank Digital Currency) and asked if it would do away with a lot of the concerns, we were seeing with stablecoins. Yellen agreed and said this is a reason why we should have a CBDC but that there are some tradeoffs which will be addressed in the upcoming Treasury report.

**Rep. Wagner (R-MO)** asked if it is Yellen's belief that excessive government spending is not a root cause of inflation. Yellen replied that there are many contributors to the current inflation and stated that there were substantial governmental spending programs to address the most significant risk the economy had faced during the pandemic. Wagner went on that the Fed has acted too late. Yellen said that it is true that government spending addressed demand. Wagner asked what the Administration is doing to lower inflation. Yellen replied that Russia's unprovoked attack on Ukraine has had a profound impact on the global economy. Wagner completely disagreed with Yellen saying that inflation is an offspring of the Biden Administration's massive spending and asked what else is being done beyond the petroleum exchange. Yellen discussed the backlogs at the ports and unclogging them. Wagner asked about energy independence and said that there are so many things the Administration could be doing.

**Rep. Lynch (D-IL)** made a comparison between stablecoins and when coal companies were issuing their own script and what happened with those privately issued currencies, when the greenback came out, all of the privately issued currencies went away. He stated that there are 200 stablecoins and asked how many stablecoins would survive in the result of a CBDC. Yellen replied that a CBDC would diminish the proliferation of these stablecoins and saw this as a benefit but said that it depends on the design of the CBDC. She added that privacy is an issue here and the need to protect against CFT-AML considerations and privacy considerations with the Fed amassing that data. Yellen thought that a possibility is to have financial institutions deal with consumers to avoid the privacy issue. Lynch worried that many of these stablecoins are issued with just a white paper and looked at the asymmetry between the issuer and the consumer and asked if there is a way to have a basis of judgment for the viability of the stablecoin. Yellen hoped for a regulatory framework to be in place to help provide this judgment and opined to comment on the CFTC and SEC regarding cryptocurrencies.

**Rep. Sessions (R-TX)** emphasized that the Treasury and FSOC need to stick to science and thought that this Administration and Congress is making friends with inflation. He asked Yellen to defend this. Yellen thought that the ARP played an important role in getting people back to work and helped Americans keep food on the table and a roof over their heads. Sessions asked about the job vacancies. Yellen replied that the labor market is very tight right now.

**Rep. Torres (D-NY)** asked how high the risk is for stagflation. Yellen replied that we clearly have high inflation which the Fed is addressing right now, and that the Administration is doing what it can to address supply chain issues and other contributors to inflation. She discussed the health of household balance sheets as well as the tight labor market. Yellen said that all of this suggests that the Fed has the tools to avoid a recession. Torres moved to improper payments and referred to the Payment Integrity Center of Excellence and asked if it is well resourced to address improper payments. Yellen replied that different agencies have different authorities to look into improper payments and some of this does reside with the Treasury. She said that the Treasury has an IG and fraud prevention programs that address this. Torres touched on the shortage of baby formula. Yellen answered that the Administration is looking into this. Torres turned to stablecoins and a 1:1 basis and asked if the stablecoin issuer has no lending authority it would seem that the stablecoin issuer is not a bank and therefore should be regulated differently from a bank. Yellen replied that a slightly different model should be put in place then in regard to stablecoins.

**Rep. Posey (R-FL)** discussed interest rates and the impact on the national debt. He asked Yellen about this. Yellen replied that she thinks it's important for financial institutions to be prepared to have adequate capital liquidity to address various risks. She referenced the pandemic as an example and said the Dodd Frank rules put in place ensured resilience of the financial and banking sector to be able to survive and meet the credit needs of the economy. Posey referred to the October 2021 FSOC report on climate change and stated that the consistent position is that the FSOC wants to rely on scenario analyses to assess climate risk. He believed that we have to recognize that regulators and forecasters can make errors as well. Posey asked if the scenarios provide for assessing the potential adverse impacts of regulatory decisions if they turn out to be ill-advised or are based on overly pessimistic climate scenarios. Yellen thought that it was important for financial institutions to have adequate capital liquidity prepared to address a variety of risks, shocks that can hit the economy. She said scenarios are widely used across the world to examine the level of threat climate change poses to banks and evaluating how other regulators respond in those scenarios. Posey asked who these foreign regulators were she was referring to. Yellen explained that the Bank of England is most advanced in advising scenarios and using them to evaluate the soundness of their banking organizations and there is a network of central banks that have worked on designing scenario analysis for the use of this sort and she said that this is certainly a resource for the United States as they come up with a system to analyze these risks.

**Rep. Gonzalez (D-TX)** talked about expanding L&G exports and asked how the FSOC looks at this as a risk to the global financial system. Yellen replied that the necessity of helping our European allies reduce their dependence on Russia's natural gas is a critical priority. She said that this is not really a financial stability risk that the FSOC has looked into but is an important economic issue. On the war in Ukraine, Yellen said that the FSOC meets about this regularly to monitor potential shocks to the US.

**Rep. Luetkemeyer (R-MO)** asked if Chopra is a member of the FSOC. Yellen said yes. Luetkemeyer went on saying that Chopra has recently recommended removing deposit insurance from financial institutions as an enforcement action. In his proposal, he specifically named financial institutions that have 27% of the U.S deposits combined and proposed that these institutions should have harsher enforcement actions placed upon them such as revoking their FDIC insurance or placing them into receivership. He then asked Yellen whether or not she agreed with removing deposit insurance as an enforcement action. Yellen replied that deposit insurance plays a critical role in the financial system but has not looked into what Chopra has done on this specifically. Luetkemeyer asked if Chopra is a worthwhile member of the FSOC and asked if she thinks that Chopra should have actions taken against him for making a statement that could endanger the financial market. Yellen was not prepared to comment on his proposals and agreed with Luetkemeyer that deposit insurance is important, but also remarked that every institution doesn't automatically get deposit insurance and that deposit insurance must be granted and the FDIC must review how banks are operating and decide whether or not they are deserving of deposit insurance. Luetkemeyer thought that a member of FSOC making an inflammatory remark can send shock waves to the financial system and thought that the comment was unacceptable. He thought that if he was in Yellen's position, that this should be addressed and thought that members of the FSOC need to be aware that their comments matter to the stability of the financial system. Luetkemeyer turned to the congressional mandate for Yellen to appear in front of the House and Senate Small Business Committees but said that she has yet to appear in front of the House Small Business Committee. He added that Yellen has also ignored Luetkemeyer's letters on this and was concerned about her lack of appearance. Yellen appreciated the role Congress plays in oversight and in regard to Small Business, Congress has allowed Yellen to delegate other officials to testify and hoped that Luetkemeyer would accept that.

**Rep. Adams (D-NC)** discussed the rising cost of home prices and asked if Yellen agreed that the rapid cost of housing presents a risk to economically insecure Americans. Yellen agreed and said that the lack of affordable housing is a huge problem. Adams continued that PE firms have been snapping up single family homes and turning them into rentals. She asked Yellen to describe why PE firms are a danger to the housing market. Yellen replied that Congress and the Administration need to do everything in its power to increase the supply of homes. Adams stated that Congress should have passed the housing provisions in the Build Back Better Act but promoted her bicameral and bipartisan legislation, *the Lifeline Act,* that would address affordable housing.

**Rep. Huizenga (R-MI)** discussed Iranian sanctions and asked how involved Yellen is on these sanctions. Yellen replied that she has been periodically updated on this situation. Huizenga turned to digital assets and asked about any coordinated efforts with the SEC. Yellen replied that she would get back to him. Huizenga thought that the SEC should not be issuing one-off staff bulletins and guidance on digital assets instead of following the proper rulemaking process. Yellen replied that the SEC and CFTC have authorities over digital assets to address this independently. Huizenga turned to inflation and asked about Yellen's economic expectations. Yellen answered that inflation is very serious and said that other countries are experiencing inflation as well.

**Rep. Dean (D-PA)** acknowledged that inflation is painful but also wanted to explore the health of the economy beyond inflation. She asked Yellen to discuss the recovery of the economy in light of the pandemic in comparison to the economic recovery in 2008. Yellen replied that the ARP deserves substantial credit for the low-unemployment rate, confidence in the job market, the eviction rate that is below pre-pandemic levels, the substantial decline of child poverty, the strength of families' balance sheets, etc. She emphasized that we have a strong labor market and said that it took a decade to recover from 2008 whereas the economy recovered much faster from the pandemic shocks. Dean asked for an update on Russian sanctions and the Russian economy. Yellen replied that inflation is expected to reach double digit levels in Russia and reaffirmed that

Russia’s economy is reeling as a result of sanctions. She added that Russia’s technology and defense industries will be damaged for decades to come.

**Rep. Barr (R-KY)** focused on the FSOC’s climate report and asked what evidence FSOC has found to show that banks have mispriced weather events so substantially that it is a risk to the economy. Yellen stated that climate change is an existential threat. She continued that the FSOC and other agencies are not telling banks what to do. Barr believed that the overregulation of the fossil energy sector had undermined financial stability specifically concerning high gas prices and historic inflation. Barr said the termination of the KeyStone Pipeline, the constraint on energy, and blocking lease sales on federal land all played into this. Yellen responded by saying that is owed to the failure of our domestic industry to ramp up production to pre pandemic levels. Barr interjected that he has heard that they cannot get approval and when they can't ship through the Keystone Pipeline and when they can’t access capital because of ESG disclosure mandates that's why we have a shortage of energy. Barr asked if FSOC considered that the SEC’s ESG disclosure proposal designed to redirect capital away from fossil fuels will increase the cost of energy creating a greater risk to economic stability. Yellen responded saying that investors with over a hundred trillion dollars in assets have said they need disclosures pertaining to risks on climate in order to properly evaluate investments. Barr asked if Yellen would engage with Gensler in FSOC to assess the risks on the energy markets exacerbating the inflation crisis posed by politicizing the allocation of capital through ESG and will FSOC consider the risk of steering investors towards green or ESG firms that could make them riskier by inflating their asset values. Yellen asked Barr to note that the largest banks in the U.S and around the world joined an alliance to form their portfolios by 2050. Barr interjected that he is asking about the financial risk in stocks of many ESG and ETF related investments trading at elevated price to earnings ratios and multiples because investment earnings are sacrificed. Barr asked if she was evaluating the risk to the financial system because returns are sacrificed. Yellen responded that they do look at asset evaluations and recognize that significant shifts in them can be a threat to financial stability. Barr asked Yellen if she is ready to commit to not use any time of an FSOC meeting to talk about the topic of abortion. Yellen responded that FSOC has not looked into abortion and FSOC has nothing to do with abortion.

**Rep. Tlaib (D-MI)** discussed climate related effects on the economy and thought it was a huge economic risk. She said that more fossil fuel financing occurred last year compared to 2015 when the Paris Agreement was signed. Tlaib asked as the world's largest financial institutions grow their positions in a carbon-intensive market, will this slow the global shift from fossil fuels to a clean energy market. Yellen replied that the world's largest institutions recognize that they are a huge contributor to helping attain net zero emissions by 2050. Tlaib interjected that these companies are saying they are helping, but not taking action. Yellen said that it’s important for groups to monitor the financial institutions. Tlaib agreed and celebrated the FSOC report on risks posed by climate change and its recommendations, but expressed concern towards financial institutions because they say they want to achieve net zero emissions, but their actions are contradictory. Tlaib asked how better risk modeling and climate disclosures change the behavior of these financial institutions. Yellen answered that it will provide their supervisors with more transparency so they can better analyze potential risks. Tlaib wanted an actual result of reduction and did not think that the US is in line with other countries when looking at climate as a risk.

**Rep. Williams (R-TX)** asked Yellen to admit that government spending is the main contributor to inflation. Yellen answered that there are many contributors to inflation. Williams turned to the energy sector and how he keeps hearing from the Administration that it is the private sector's fault which he saw as insulting. He believed that President Biden has been hostile toward the energy sector since day one and asked why any domestic energy company would want to invest in new technology when the Administration is hostile. Yellen thought that when the pandemic occurred, many of these energy companies reduced investments and did not expect the rapid recovery that occurred and as a result demand rose quickly for oil and energy. She continued that rising energy prices tell us that the US needs to move to renewable sources. Williams thought that the private sector should be incentivized and self-compete. He talked about foreign tax credits and asked if Yellen was willing to reopen this rulemaking. Yellen questioned what rulemaking he was referring to.

**Rep. Garcia (D-TX)** commended the Treasury on the sanctions imposed on Russia and clarified that government spending is not the only factor contributing to inflation. She discussed child poverty and the Child Tax Credit asking about the percentage of reduction in child poverty as a result. Yellen did not have a specific number but said that the impact was substantial. Garcia asked what the Treasury is doing to claw back leftover pandemic aid. Yellen replied that there are clear guidelines for how states can or cannot use the money and added that the Treasury will claw back any misuse of money.

**Rep. Hill (R-AR)** stated that FSOC has met 9 times under Yellen’s tenure and noted that cyber has only been mentioned in 2 of those meetings. He continued that FSOC has spent a lot of time on climate and asked if cyber incidents are a risk to the US financial system. Yellen replied that cyber is one of the key threats to the financial system which the FSOC has identified as a serious concern. She added that the Treasury is very focused on this especially due to the war in Ukraine and added that the Treasury and FSOC has long recognized cyber threats. Yellen said that the FSOC has never before addressed climate change and stated that the issues of cyber and climate are both important. Hill turned to the reverse repurchase market that the Fed runs and said that over the last couple years, we have $9 trillion in the reverse repurchase market and asked if the agreement is a challenge to financial stability as we are going through a tightening phase at the Fed. Yellen refrained from commenting on the Fed but said that FSOC is concerned about the Treasury market and is looking at reforms to ensure that this market functions well and has the liquidity needed. Hill invited Yellen to look closely into what Gensler has said about the primary dealer market and urged Gensler to be cautious about injecting any uncertainty in our primary treasury dealers at this time of tough conditions as we tighten and want to maintain that liquidity.

**Rep. Auchincloss (D-MA)** wanted to discuss what more the Treasury can do to sanction Russia and was concerned about Russia making money off oil to fund its war. He asked what the US is doing to help countries bar the purchase of Russian oil and was particularly concerned about Hungary as they have vetoed barring Russian oil. Yellen replied that she has not worked with Hungary directly and deferred to her NEC colleagues. Auchincloss thought that if the EU fully blockaded Russia, it would give the US and EU a lot of leverage here. Yellen had not thought about this specifically but has been focused on causing as much economic harm to Russia as possible. Auchincloss asked if a special payments authority be involved in buying Russian oil and only allowing Russia to keep the cost of production and the rest of revenue be directed to Ukrainian relief. Yellen replied that she would be happy to talk about this more with Auchincloss. Auchincloss asked about the withdrawal of foreign oil companies from Russia. Yellen replied that this withdrawal has negatively impacted Russia.

**Rep. Emmer (R-MN)** asked if the FSOC takes direction from the White House on what to investigate. Yellen defended that the FSOC is a group of independent regulators and does not take direction from the White House. Emmer referred to the PWG stablecoin report and asked if the FSOC has officially designated stablecoins and digital assets as systemic risks. Yellen said no. Emmer asked if Yellen thought that the FSOC should act in the absence of Congress acting. Yellen encouraged Congress to act here and, in the absence, she thought that the FSOC should look at it. She was not sure if it was appropriate but that it would be something to investigate. Emmer thought that it was clear that the FSOC is perhaps prepared to designate certain stablecoin activities as systemically risky as a result of the White House agenda and said that there is nothing riskier than the government acting to regulate quickly. Simply, Emmer thought that the White House was ready to weaponize FSOC to regulate digital assets and thought that this would hinder FSOC's independence. As a result, Emmer thought that the FSOC should be subject to the congressional appropriations process.

**Rep. Garcia (D-IL)** discussed the ILC loophole and believed that it has caused financial stability concerns in the past. He asked if Yellen still agrees with the past recommendation of the Fed to close the ILC loophole. Yellen had not looked into it recently but saw no reason to change her position on this. She continued to believe that closing the loophole is likely to be appropriate. Garcia asked why it is important to maintain the separation between banking and commerce and asked about the risk of allowing non-financial companies like tech companies to enter into the banking services space. Yellen explained that there are a number of reasons that this seems to be dangerous and said that one reason that the Fed has always worried in the past is that credit decisions could be influenced due to incentives that come from the commercial part of the business and that this tends to diminish competition and create monopoly power. She continued that if commercial power became a part of the financial system there could be significant risk. Garcia referred to his legislation, *the Bank Merger Review Modernization Act of 2021*, to ensure that bank mergers are in the public interest by clarifying and strengthening the public interest aspect of the merger review and require regulators to use a quantifiable metric to evaluate systemic risk. He asked if Yellen supported this. Yellen was happy to look into this and work with him on this. She thought this was an important area. Garcia asked what other reforms Congress can enact into law that would promote competition and financial stability in consideration of bank mergers. Yellen would look into it and believed that it is important to have competition in banking and appropriate regulation there. Garcia said that today, FSOC can only make nonbinding recommendations to financial regulations to take actions to address systemically risky activities. He said that the *Systemic Risk Mitigation Act*, which he has previously introduced, would give FSOC rulemaking authority to better address systemically risky activities and asked if Yellen would support giving FSOC that authority. Yellen thought this was worth looking at.

**Rep. Loudermilk (R-GA)** asked if FSOC member agencies are open to innovation and asked what Yellen is doing to foster new innovation. Yellen replied that we should want to promote innovation but added that we need to have an appropriate economic framework to ensure that innovation does not cause harm. Loudermilk felt a resistance to innovation in Congress and in the agencies and worried about lagging behind which would put the US financial system at risk. Loudermilk asked Yellen about her previous comments about the activities-based approach to nonbank financial risks and if she still stood by these comments. Yellen replied that both designation and activities-based tools are both useful and said that the FSOC is focused on nonbank financial risks like MMFs, open end funds, and hedge funds and that an activities based approach is appropriate. She said that there could be circumstances in the future where designation is more appropriate. Loudermilk stated that one of the bills included in this hearing ignores the statement Yellen made to the Senate and said that in 2018 during the reform on Dodd Frank, they recognized that designating companies as systemically risky based on an artibriaty threshold is unworkable and hoped that these lessons would be remembered. He turned to the PWG report and the recommendation that Congress pass legislation to apply bank regulatory regimes to stablecoins. He said that as everyone understands, stablecoins are primarily used for trading crypto and payments and that there are many significant differences between stablecoin issuers and banks. He said that stablecoins are not used for lending so it would not make sense to apply lending laws and regulations to stablecoins. Loudermilk asked if it makes sense to not apply the entire banking regulatory regime to stablecoins and that a more nuanced approach would be more appropriate. (QFR)

**Rep. Sherman (D-CA)** stated that there was no perfect way to get through the pandemic and thanked the Treasury for its work on LIBOR and said that it is now up to the Fed to write the regulations and hoped that Yellen would inspire the Fed to do so. Yellen appreciated Congress passing LIBOR legislation to deal with legacy contracts. Sherman stated that in 2021, the US produced more oil than 2020 and that we will produce a record number of oil next year. He thought stablecoins were the definition of oxymorons. He touched on Terra coin dropping from $18 billion of investments down to about a value of a billion. Sherman said that Tether is much larger with an $83 billion cap and claims to be tied to the dollar. He was told that Tether has not issued any audited financial statements despite Tether promising these audits. He added that Tether has allegedly invested in Chinese commercial paper which may or may not have value at various times and has also invested in cryptocurrencies which have lost over half their value in just the last few months. Sherman said that these do not look like his father's money market fund or his grandfather's bank. He observed that their assets do not look very liquid and asked what the implications for the US economy are if Tether, who just broke the buck, goes all the way to Terra incognita. Yellen replied that Sherman illustrated the issue and noted that just this last week, Terra and Tether have illustrated the risks associated with stablecoins, that there can be runs and that we have seen this historically with private monies. She said that we invented a good regulatory framework for dealing with this through the insurance depository institutions. Sherman stated that through our tax system we provide subsidies for those who have pensions and 401ks and do so to ensure a stable retirement and investment money in operating companies that provide jobs and would say that investments in cryptocurrencies do neither.

**Rep. Davidson (R-OH)** referred to Yellen's comments on student loan forgiveness in the Senate Banking Committee hearing and pointed to where she said she would support whatever the President did. He was concerned with her answer. Yellen clarified that she said that the President was weighing his options on student loan forgiveness. Davidson turned to crypto and the markets being down at an alarming rate and asked about the fear of runs on stablecoins. Yellen replied that it depends on the backing of a stablecoin saying that Terra is algorithmic and does not really have a backing as such. Davidson said that Tether is a timebomb and operates directly outside of US markets and said that it is fair to say that it is an unregulated money market fund. He said that others are regulated like New York Trust and asked if Yellen saw New York Trust and other regulated stablecoins at the same type of risk and regulatory approach. Yellen thought that there needs to be a comprehensive and consistent regulatory approach to stablecoins because of the risks they can pose to the financial system and thought that on a bipartisan basis, Congress should work together with the agencies to make sure that stablecoins that are introduced have a regulatory framework. Davidson emphasized that algorithmic stablecoins should not be treated the same. Yellen said that nothing has been proposed to do that. Davidson had a number of members who wrote to Yellen on Sec. 60-50-I provisions and pointed to a rulemaking for 80603 of the infrastructure act and said that this was a reporting requirement to the IRS on transactions in crypto that were supposed to mimic things that are cash transactions. He said this was a very complicated rulemaking and one that is not technologically feasible for digital assets. Davidson said that the Treasury issued some opinion about it and asked about the current process of the rulemaking. Yellen said that she would get back to him.

**Rep. Green (D-TX)** asked Yellen about how the ARP prevented the US from going into a recession. Yellen explained the high unemployment rate at the start of the pandemic at rates we had not seen in decades, cars lining up at food banks, keeping people in their homes, child poverty, etc. Green appreciated what the Treasury did and said that pandemics are unpredictable. He believed that the ARP saved a lot of lives.