MEMORANDUM

To: Crypto Task Force Meeting Log
From: Crypto Task Force Staff
Re: Meeting with Representatives of Columbia Business School and University of Chicago Booth School of Business

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On March 24, 2025, Crypto Task Force Staff met with representatives from Columbia Business School and University of Chicago Booth School of Business.

The topic discussed was approaches to addressing issues related to regulation of crypto assets. The Columbia Business School and University of Chicago Booth School of Business representatives provided the attached documents, which were discussed during the meeting.

Agenda

Discuss comments regarding the regulation of U.S. dollar stablecoins. Specifically, we would like to provide feedback on

- how investment returns generated by stablecoin reserve assets should be distributed to stablecoin holders
- the design of redemption and creation policies
- other measures that enhance stablecoin resilience

Please see attached letter for our detailed comments. Please see attached paper on *Stablecoin Runs and the Centralization of Arbitrage* for our analysis of stablecoin markets.

Attendees

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Yao Zeng
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Anthony Lee Zhang
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March 1, 2025

Securities and Exchange Commission
Attn: Crypto Task Force

Thank you for the opportunity to provide input to the Crypto Task Force. The authors of this letter are Yiming Ma, Regina Pitaro Associate Professor of Business at Columbia Business School, Yao Zeng, Assistant Professor of Finance at the Wharton School of the University of Pennsylvania, and Anthony Lee Zhang, Associate Professor of Finance at the University of Chicago Booth School of Business. We write in our individual capacities as financial economists, not on behalf of our institutions.

Our feedback focuses on U.S. dollar stablecoins and their regulatory treatment. U.S. dollar stablecoins are blockchain assets that attempt to maintain a stable trading price of $1. This price stability is achieved by backing each stablecoin token with at least $1 in U.S. dollar-denominated assets, such as bank deposits and U.S. Treasury securities. As stablecoins have grown significantly in scale, their potential to become a widely accepted means of payment has intensified discussions around the optimal regulatory framework. Recently, the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act has been introduced in the Senate, and the Stablecoin Transparency and Accountability for a Better Ledger Economy (STABLE) Act of 2025 has been proposed in the House of Representatives.

We fully support the proposals' objective of establishing a transparent and comprehensive regulatory framework for payment stablecoins, with a focus on accountability, financial stability, and market confidence. We also broadly support the key provisions outlined in the proposals, including strong regulatory oversight, well-defined reserve requirements, and enhanced consumer protection.

However, we believe that several critical considerations are missing from the current proposals—considerations that are essential to fostering a fair, efficient, and stable stablecoin market. Our primary recommendation is to address how investment returns generated by stablecoin reserve assets should be distributed to stablecoin holders. Under current practices, issuers retain all asset returns, providing no yield to holders, which limits consumer welfare. This approach should be reconsidered to ensure a more equitable outcome for stablecoin users. Additionally, redemption policies must be carefully designed, as there is a trade-off between stablecoins' stability and their ability to maintain a $1 trading price. Finally, while the proposals' high-quality liquid asset requirements help reduce financial stability risks, they do not eliminate them. Thus, the introduction of capital buffer requirements would be a prudent measure to enhance resilience. We elaborate on each of these points in the sections that follow.

Distribution of Investment Returns to Investors

U.S. dollar stablecoins are typically issued against a portfolio of reserve assets, including U.S. Treasury securities, repurchase agreements (repos), and bank deposits. These reserve assets generate income—Treasuries yield the Treasury rate, repos earn the repo rate, and bank deposits receive the deposit rate. Currently, stablecoin issuers retain all income generated by these assets, while stablecoin holders receive no interest or dividend payments.

For stablecoin issuers, the rationale behind retaining all investment returns is clear: it maximizes their profitability. However, this practice comes at the expense of stablecoin holders, depriving them of any income from holding stablecoins. This forgone income is especially pronounced in high interest rate and high inflation environments, when the real value of a nominal $1 erodes more quickly over time.

This practice also differs significantly from other non-bank financial institutions that invest in similar assets. Money market mutual funds (MMFs), for instance, maintain a stable $1 net asset value (NAV) while holding a comparable portfolio of high-quality liquid assets. Unlike stablecoins, MMFs distribute their investment returns as dividends to investors, ensuring that holders benefit from the returns generated by the underlying assets. Similarly, mutual funds and exchange-traded funds (ETFs) pass through investment gains to shareholders. The fact that stablecoin holders are excluded from receiving any return raises fairness concerns, particularly when comparable financial products provide returns.

One key challenge to distributing income to stablecoin holders lies in regulatory uncertainty. There is concern that providing interest or dividends might reclassify stablecoins as securities, thereby subjecting them to Securities and Exchange Commission (SEC) oversight. While we recognize that multiple factors must be considered when determining the appropriate regulatory framework—and we do not advocate for one agency over another—we strongly believe that explicit guidance is essential.

We recommend that any regulatory framework clearly outline how income from reserve assets can be legally distributed to stablecoin holders. In particular, if stablecoins are not regulated as securities, will they be allowed and expected to pass through investment returns to holders? Will these payments be structured as dividends or interest payments? How does this align with MMFs, which distribute all investment returns as dividends? Both the GENIUS Act and the STABLE Act of 2025 currently lack provisions addressing these critical issues. Resolving

regulatory uncertainty and raising awareness of the importance of distributing income to stablecoin holders are essential steps toward ensuring a fair and equitable stablecoin market.

Design of Redemption Policies

The design of redemption and creation mechanisms is critical to both price stability and financial stability in stablecoin markets. We support disclosure requirements for redemption policies and the timely processing of redemption requests for approved stablecoin holders, as outlined in both the GENIUS Act and the STABLE Act.

In addition, we recommend careful consideration of the approval process for stablecoin holders seeking to redeem and create stablecoins directly with issuers. At present, the vast majority of stablecoin holders do not transact directly with the issuer. Instead, they trade stablecoins on secondary exchange markets at the prevailing market price. Only a small group of institutional investors is authorized to redeem and create stablecoins directly with the issuer at a fixed $1 in cash. This system closely resembles the structure of ETFs, where most investors trade ETF shares on secondary markets, while only designated authorized participants (APs) can create and redeem shares with the fund issuer.

As with ETFs, the optimal redemption structure for stablecoins may not necessarily involve every stablecoin holder directly redeem and create with the issuer. The ideal stablecoin should maintain a secondary market trading price close to $1 (ensuring price stability) while minimizing the risk of destabilizing runs (promoting financial stability). Expanding direct redemption access to more stablecoin holders would enhance price stability in secondary markets, as more efficient arbitrage would help keep prices anchored to $1. However, it could also increase run risk, as greater selling pressure in secondary markets could more readily translate into mass redemptions and forced asset sales by the issuer. [1] Thus, we recommend the design of the stablecoin primary market for redemptions and creations to carefully consider the tradeoff between price stability and financial stability.

Requirements for Reserve Assets

Both the GENIUS Act and the STABLE Act require “1-to-1 backing” of stablecoins with reserve assets such as cash, deposits at insured depository institutions, short-term U.S. Treasury bills, and repos. We support the use of liquid and safe assets as reserves, as they reduce the likelihood of runs on stablecoins by enhancing market confidence.

[1] Ma, Yiming, Yao Zeng, and Anthony Lee Zhang. "Stablecoin runs and the centralization of arbitrage." *Available at SSRN 4398546* (2023).

However, it is important to note that these reserve assets are not entirely liquid or risk-free at all times, so financial stability risks are reduced but not eliminated. On the credit risk side, only deposit accounts up to $250,000 are insured by the FDIC, leaving deposits above this amount exposed. This risk became evident during the Silicon Valley Bank (SVB) crisis in March 2023, where Circle (issuer of USDC), a major U.S. dollar stablecoin issuer, held significant uninsured deposits. Regarding liquidity, not all deposits are immediately accessible without penalties, and the liquidity of Treasury securities can vary depending on the issue and market conditions, particularly during periods of stress.

In light of these risks, we support the inclusion of capital buffer requirements to cover potential liquidity and credit shortfalls during crises. The GENIUS Act rightly incorporates capital requirements, providing a crucial cushion against losses, but the STABLE Act omits such provisions. Another viable approach to protect against liquidity and credit risks would be overcollateralization, where stablecoin issuers hold reserves exceeding the value of outstanding stablecoins. Requiring capital buffers or overcollateralization would improve the resilience of stablecoins and prevent stablecoin runs from endangering the stability of financial markets.

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