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Welcoming Remarks

"Conference on the Financial Stability Implications of Stablecoins"

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The views expressed today are my own, not necessarily those of my colleagues on the Federal Reserve Board of Governors or the Federal Open Market Committee.

Good morning. It is a great pleasure to welcome you to today's *Conference on the Financial Stability Implications of Stablecoins*, a gathering co-hosted by the Federal Reserve Banks of Boston and New York. This event brings together researchers, regulators, and industry practitioners to better understand a rapidly evolving financial technology, including its costs and its benefits to the financial system and the economy.

As always, I'll first mention that my comments today do not necessarily reflect the views of my colleagues in Washington at the Board of Governors or at other Federal Reserve Banks.

Here at the Boston Fed, working with the Fed's Board of Governors, we have led – and are currently leading – quite a few technological innovations on behalf of the Federal Reserve System, including innovations related to payments. I like to say that the Fed's overarching mission is to foster conditions supporting a vibrant and inclusive economy that works for everyone. And, today, I very much look forward to hearing about how developments in the stablecoin industry impact this important goal.

As many of you know, stablecoins are crypto assets that seek to maintain a stable value – usually one dollar – through several mechanisms. Currently, the largest type of stablecoin, typically called fiat-backed stablecoins, maintain their one-dollar "peg" by investing the cash they receive from stablecoin holders primarily into traditional financial assets, such as U.S. Treasury securities and commercial paper.

One can think of stablecoins as a form of private money. Therefore, they should be of interest, if not concern, to central banks, because, in all advanced economies, central banks are the "ultimate source of credibility in money," as Chair Powell noted in remarks last year.[1] However, stablecoin issuers are not prudentially regulated or supervised. This highlights the importance of policymakers and market participants understanding and considering key features of stablecoins – including their rapid

[1] Jerome Powell, June 2023. House Financial Services Committee Hearing Entitled: "The Federal Reserve's Semi-Annual Monetary Policy Report." Testimony.

growth, as well as their interconnections to the traditional financial system, implications for financial stability, and the potential role for regulatory safeguards.

With that context, I'll now say just a bit about each of the papers being presented today. Together, this research provides useful insights into how stablecoins interact with the traditional financial system and the real economy.

- The Liu et al. paper describes the collapse of TerraUSD in 2022, which at the time was the third largest stablecoin.[2] One interesting finding is that less sophisticated investors experienced larger losses than their more sophisticated counterparts – raising material questions about investor fairness and protection.

- Anadu et al. investigate the similarities and differences between stablecoins and money market funds.[3] Their paper documents that, during periods of crypto market stress, investors tend to redeem stablecoins they perceive as risky and purchase those they view as less risky. These runs exhibit flight-to-safety dynamics that are remarkably similar to those observed in the money market fund industry.[4]

- Ma et al. study the arbitrage mechanism through which stablecoins can be redeemed for currency, noting that the operation resembles that of an Exchange-Traded Fund, and its "authorized participants."[5] The paper illustrates the value of delving into such intricacies by showing that the technical details can have important implications for financial stability.

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[2] Liu, Jiageng, Igor Makarov, and Antoinette Schoar, 2023. Anatomy of a Run: The Terra Luna Crash. MIT Sloan Research Paper No. 6847-23.
[3] Anadu, Kenechukwu, Pablo Azar, Marco Cipriani, Thomas Eisenbach, Catherine Huang, Mattia Landoni, Gabriele La Spada, Marco Macchiavelli, Antoine Malfroy-Camine, and J. Christina Wang, 2023. Runs and Flights to Safety: Are Stablecoins the New Money Market Funds? Federal Reserve Bank of Boston Working Paper No. 23-02.
[4] For past runs on money market funds, see, examples, McCabe, Patrick, 2010. The Cross Section of Money Market Fund Risks and Financial Crisis. FEDS Working Paper; Anadu, Kenechukwu, Marco Cipriani, Ryan Craver, and Gabriele La Spada, 2022. The Money Market Mutual Fund Liquidity Facility. Economy Policy Review 28, No. 1.
[5] Ma, Yiming, Yao Zeng, and Anthony Lee Zhang, 2023. Stablecoin Runs and the Centralization of Arbitrage. Working paper.

- Francesca Carapella's theoretical paper proposes a mechanism to enhance stablecoins' stability that is incentive-compatible and self-enforcing.[6] Interestingly, this mechanism includes a voluntary loss mutualization fund that resembles deposit insurance for banks.

- D'Avernas et al. study the "optimal design" of stablecoin arrangements by examining the tradeoffs between a stablecoin issuer's price-stability-mechanism and its profitability.[7] Among other findings, their paper illustrates the vulnerability of partially collateralized stablecoins to demand shocks.

- Finally, the Gorton et al. paper suggests that, to lower the risk of failure, stablecoins facing reduced speculative demand must either shift their portfolio to "safer" assets or reduce the stablecoin supply by allowing redemptions.[8] The authors note that either action can disrupt the macroeconomy and the markets in which the stablecoins are invested – so their analysis identifies a key risk-transmission channel.

In addition to these six research papers, our event features a discussion with William Birdthistle – head of the Security and Exchange Commission's investment management division until just one month ago – and keynote remarks by John Schindler. A former Fed colleague, he is now Secretary General of the Financial Stability Board, which issued high-level recommendations for a global regulatory and supervisory framework for stablecoins, last year.[9]

I have mentioned just a few highlights of today's program – and am looking forward to a wide-ranging, insightful set of discussions. My special thanks to the

[6] Carapella, Francesca, 2024. Stablecoin (Self-)Regulation. Working paper.
[7] D'Avernas, Maurin, and Vandeweyer, 2022. Can Stablecoins be Stable? University of Chicago Working Paper No. 2022-131.
[8] Gorton, Gary, Elizabeth Klee, Chase Ross, Sharon Ross, and Alexandros Vardoulakis, 2022. Leverage and Stablecoin Pegs. NBER Working Paper No. W30796.
[9] Financial Stability Board, 2023. High-Level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements: Final Report.

organizers, both here in Boston and in New York, for putting together such timely conference about an important and quickly evolving topic, and also to all of our presenters. Thank you all for joining us today.

Now, I invite my colleague Ken Anadu to get us started.

Thank you.