Stablecoins are digital assets that are designed to maintain a stable value relative to a national currency or other reference assets. Today, stablecoins are primarily used in the United States to facilitate trading, lending, or borrowing of other digital assets, predominantly on or through digital asset trading platforms. Proponents believe stablecoins could become widely used by households and businesses as a means of payment. If well-designed and appropriately regulated, stablecoins could support faster, more efficient, and more inclusive payments options.

The purpose of the PWG report is to identify regulatory gaps related to stablecoins with the potential to be used as a means of payment, and to present recommendations for addressing those gaps.

**Risks.** Failure of stablecoins to maintain a stable value could expose stablecoin users to unexpected losses and lead to stablecoin runs that damage financial stability. Disruptions to the payment chain that allow stablecoins to be transferred among users could lead to a loss of payments efficiency and, depending on the extent to which stablecoins are used, undermine functioning in the broader economy. The potential for stablecoin arrangements to rapidly scale raises additional issues related to systemic risk and concentration of economic power. Stablecoins also pose illicit finance concerns and risks to financial integrity, including concerns related to compliance with rules governing anti-money laundering (AML) and countering the financing of terrorism (CFT) and proliferation. Further, digital asset trading activities present risks related to market integrity and investor protection.

**Recommendations.** There are key gaps in prudential authority over stablecoins used for payments purposes. To address these risks, the agencies recommend that Congress act promptly to enact legislation to ensure that payment stablecoins are subject to a federal prudential framework on a consistent and comprehensive basis.
• **To address risks to stablecoin users and guard against stablecoin runs**, legislation should require stablecoin issuers to be insured depository institutions, which are subject to appropriate supervision and regulation, at the depository institution and the holding company level.

• **To address concerns about payment system risk**, in addition to the requirements for stablecoin issuers, legislation should require custodial wallet providers to be subject to appropriate federal oversight, and should provide the federal supervisor of a stablecoin issuer with the authority to require any entity that performs activities that are critical to the functioning of the stablecoin arrangement to meet appropriate risk-management standards.

• **To address additional concerns about systemic risk and economic concentration of power**, legislation should require stablecoin issuers to comply with activities restrictions that limit affiliation with commercial entities. Supervisors should have authority to implement standards to promote interoperability among stablecoins. In addition, Congress may wish to consider other standards for custodial wallet providers, such as limits on affiliation with commercial entities or on use of users’ transaction data.

Given the significant and growing risks posed by stablecoins, the federal financial agencies are committed to taking action to address risks falling within each agency’s jurisdiction, and to continued coordination and collaboration on issues of common interest. This also includes promotion of investor and market protection measures, such as requiring clear and useful disclosures, protecting against fraud, manipulation, and other risks, and continuing engagement in international fora – such as the FATF, FSB, and CPMI-IOSCO – to promote comprehensive and consistent oversight.

In the absence of urgently needed Congressional action, the agencies recommend that the Financial Stability Oversight Council consider steps available to it to address the risks outlined in the report. Such steps may include designation of certain activities conducted within a stablecoin arrangement as, or as likely to become, systemically important payment, clearing, and settlement activities.
The rapid growth of stablecoins increases the urgency of this work. Failure to act risks growth of payment stablecoins without adequate protection for users, the financial system, and the broader economy.

While the scope of this report is limited to stablecoins, work on digital assets and other innovations related to cryptographic and distributed ledger technology is ongoing throughout the Administration. The Administration and the financial regulatory agencies will continue to collaborate closely on ways to foster responsible financial innovation, promote consistent regulatory approaches, and identify and address potential risks that arise from such innovation.

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