As a major crypto bill advances, skeptics see ‘a slow moving car crash’

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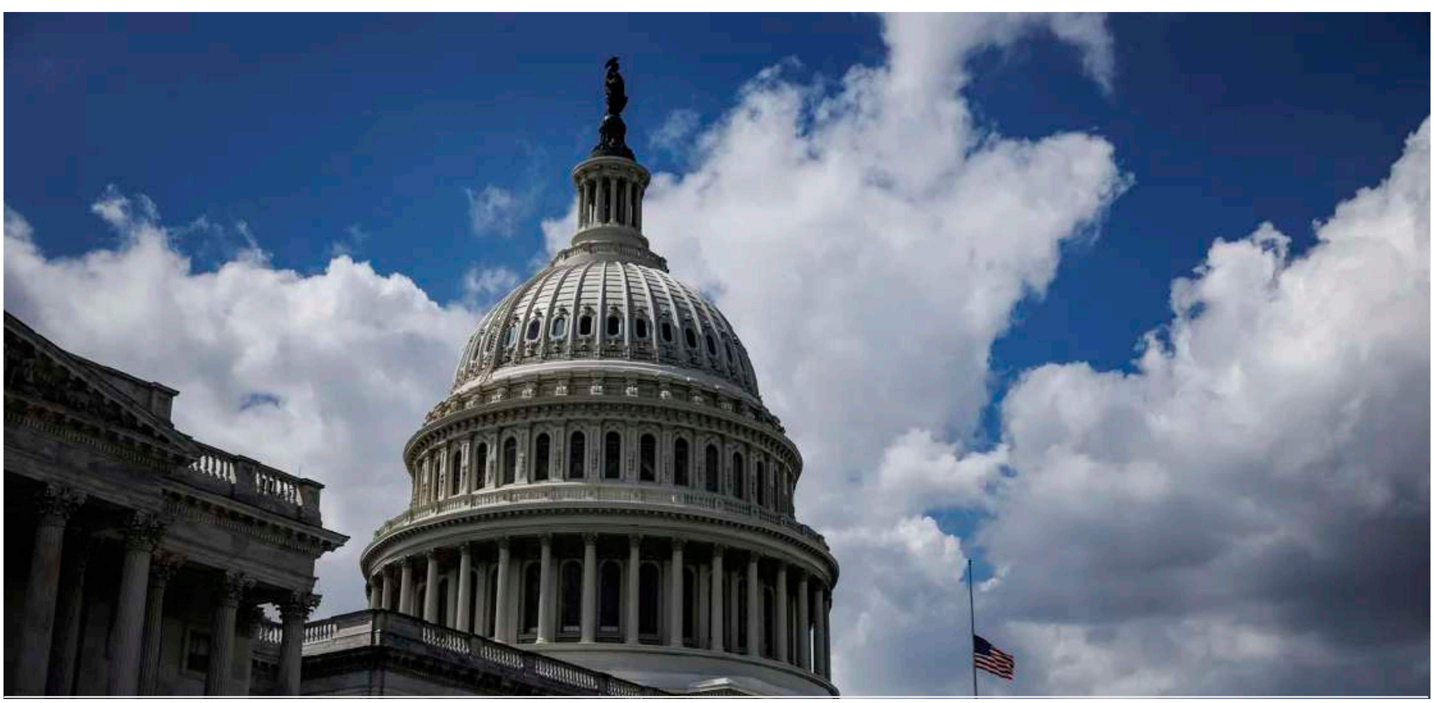

The crypto industry wants the "Genius" bill because it would lay down, for the first time in the industry’s 16-year history, rules of the road for a key sector of their business. And make them a lot more money.
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New York (CNN) — There is a “first of its kind” crypto bill making progress through the Senate that you’re going to be tempted to snooze on because a) it’s about “stablecoins,” which is a subcategory of crypto – a parallel financial system almost no one understands, and b) opponents are focusing their criticism on corruption, which may be accurate but perhaps you’re tired of reading all the news about the Trump

But there’s a big planting-seeds-for-the-next-financial-crisis kind of reason why you should understand what this bill is.

So let’s get into it.

Some key background

The crypto industry-backed bill is called GENIUS, or “Guiding and Establishing National Innovation for US Stablecoins.”

Stablecoins are a digital asset designed to maintain a 1-to-1 peg with the dollar (or other traditional, "stable" currency). One stablecoin should always equal one dollar, forever and ever. They are essentially a way for crypto investors to keep their cash in the crypto universe, where tokens like bitcoin and ether and solana tend to swing wildly in value.

They aren't nearly as well known as bitcoin, the biggest crypto by market value. But in terms of trading volume, stablecoins are by far the biggest players.

What's in the bill (in English)?

The crypto industry wants the Genius bill because it would lay down, for the first time in the industry's 16-year history, rules of the road for a key sector of their business. Which, of course, encourages greater adoption of crypto and thus makes them more money.

The bill would require stablecoins to, among other things, hold reserves of safe, liquid assets like US dollars and Treasury bills, and publicly disclose those holdings monthly.

It would also place some light restrictions on publicly traded companies that want to issue their own stablecoins (more on that in a moment).

But "the bill is light on consumer safeguards and limitations to corporations' ability to issue their own stablecoins," said Eswar Prasad, a Cornell University professor of international trade and the author of the 2021 book "The Future of Money."

"Moreover, the Trump administration's boosterism of crypto and light-touch approach to regulation suggests that any such safeguards and limitations will not be enforced with much force," Prasad added.

What's the issue?

Well.

There's the potential for corruption, as Democratic Sen. Elizabeth Warren and other critics have been shouting from the rafters. In fact, Democrats initially refused to vote for the bill in part because of Trump’s out-in-the-open crypto schemes, such as the private dinner taking place this week among the biggest holders of his $TRUMP memecoin, a kind of token whose only purpose is to attract money for its issuer. The White House has repeatedly pushed back on any questions about the president’s potential ethical conflicts, from his interest in accepting a luxury jet from Qatar to his family’s crypto holdings. (“This White House holds ourselves to the highest of ethical standards,” press secretary Karoline Leavitt said earlier this month.)

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Not much has changed in the bill between then and now. But some Democrats dropped their opposition anyway, likely because they’re just accepting the “apparent inevitability of blockchain-based finance and of crypto more generally,” Prasad said.

One of those Democrats was Sen. Mark Warner of Virginia who defended his reversal on the bill Monday.

“Many senators, myself included, have very real concerns about the Trump family’s use of crypto technologies to evade oversight, hide shady financial dealings, and personally profit at the expense of everyday Americans,” Warner said in a statement. “But we cannot allow that corruption to blind us to the broader reality: blockchain technology is here to stay. If American lawmakers don’t shape it, others will – and not in ways that serve our interests or democratic values.”

The Trump family owns a crypto platform called World Liberty Financial, which issues a stablecoin called USD1. A few weeks ago, an Abu Dhabi investment firm called MGX chose USD1 to finance a $2 billion investment in crypto exchange Binance (see related crimes). That is “essentially giving Trump a cut of this enormous financial deal,” Warren said Monday in prepared remarks.

So, yeah, it sure looks like once again Trump could get richer off an industry he directly oversees through a regulatory apparatus he is rapidly working to defang. Meanwhile, the crypto industry has plowed millions of dollars into industry Super PACs that gave heavily to both Republican and Democratic campaigns last year.

Is that it?

No, there’s more!

A lot of the focus on corruption is merited, said Hilary Allen, a law professor at American University who has been studying stablecoin policy, in an interview Tuesday. But that’s not what’s keeping her up at night.

She referred to the GENIUS bill as “a car crash in slow motion.“

“The thing that makes me lose the most sleep is that this bill would allow the largest tech platforms to essentially become the functional equivalent of banks,” said Allen, who was part of the commission appointed by Congress to study the causes of the 2008 financial crisis. “The last crisis was caused by ‘too big to fail" financial institutions. The size of some of these tech platforms makes that look quaint."

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The bill provides almost no resistance for a tech giant like Meta or Amazon or Google to issue its own stablecoin. (In short, companies would have to get approval from a regulatory triad representing the Treasury, the FDIC and the Federal Reserve. As Prasad notes, that isn't much of a hurdle under Trump's broadly pro-crypto administration.)

Meta already tried to get in on the crypto biz back in 2019 with a project called Libra (later renamed Diem), but abandoned it in 2022 in response to opposition from lawmakers and regulators. Now, according to a report in Fortune this month, Meta is once again testing the stablecoin waters, discussing various ways to introduce stablecoins as a means to manage in-app transactions.

The benefits for Meta (or whomever) are clear: Stablecoin transactions keep users in the app, and the company then gathers all kinds of valuable information about its users and how they spend their money.

But what happens when there's a run on stablecoins, or some other financial shock that causes those financial businesses to fail?

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Proponents say there's no reason to think there'll be a run on stablecoins if they've got 100% cash reserves backing them. Of course, that thinking is premised on a "ridiculously optimistic assumption" that there will never be a run on a stablecoins, Allen says.

She notes that money-market mutual funds are "almost identical in structure," and are not immune from the kind of panic that causes bank runs.

"Money-market mutual funds experienced runs that required bailouts in 2008 and again in 2020, so "I think runs on stablecoins are likely."

In fact, she notes, the government has already had to bail out a stablecoin when Silicon Valley Bank failed in 2023. The lender has more than $3 billion worth of a stablecoin called USDC among its vast uninsured deposits.

"We may be setting ourselves up to essentially have to bail out these large tech platforms," Allen says.

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