Crypto

Crypto's Win on Landmark Legislation Reshapes Rivalry With Banks

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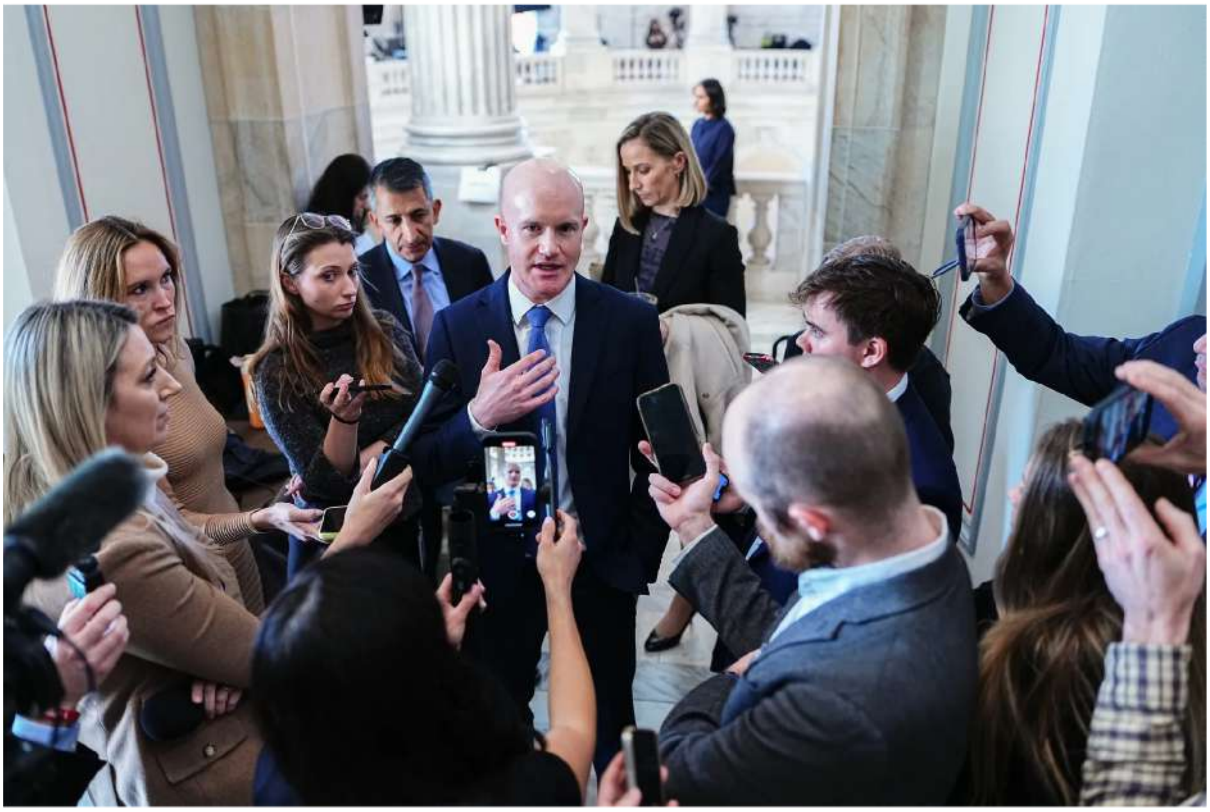
Takeaways by Bloomberg AI

For years, big banks worked to keep crypto out of mainstream finance, citing everything from money laundering and fraud to stability risks, and arguing the industry could not enjoy bank-like privileges without bank-equivalent oversight.

Now, after the Senate Banking Committee advanced landmark crypto legislation despite a late push from banking groups, the first phase of the fight is over. Crypto firms are no longer arguing over whether they belong in regulated finance at all, but over the terms on which they will compete with banks for deposits, payments and customer relationships.



Brian Armstrong, chief executive officer of Coinbase Global Inc., speaks to members of the media on Capitol Hill in January *Photographer: Aaron Schwartz/Bloomberg*

The key Senate panel moved forward Thursday with the so-called Clarity Act even as bank associations said the bill “falls short.” At the center of the clash is a deceptively technical question: whether crypto exchanges should be allowed to offer customers rewards tied to stablecoins.

Banks called for stricter limits, warning that anything resembling yield could pull deposits from traditional lenders and threaten a key funding source for loans. Lawmakers instead backed a compromise that would prohibit returns on idle balances – a concession to banks worried about deposit flight – while still allowing certain activity-based rewards, preserving what crypto firms had fought hardest to keep.

The fight matters far beyond a single provision. It has become a broader test for how Washington interacts with influential bank associations and the nascent crypto industry. And after months of negotiations, key lawmakers and the White House were quick to rebuff bank groups, with GOP Senator Bernie Moreno saying earlier this week the “banking cartel is in full panic mode.”

“It is clear that the political winds in Washington have shifted in favor of the crypto sector while sidelining the once all-powerful traditional banking industry,” said Eswar Prasad, a professor at Cornell University. “Passage of the Clarity Act will further legitimize cryptocurrencies in their various forms as well as decentralized finance, while weakening many of the advantages enjoyed by commercial banks.”

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Coinbase Global Inc.’s Brian Armstrong, who has been meeting with lawmakers this week to drum up support for the bill, credited a political effort that began years ago for the industry’s recent wins.

“We took something that was politically popular, and we asked our customers to go sign up and elect pro-crypto candidates, and so it’s now a very powerful political force,” he told reporters Wednesday.

That is backed up by the numbers: the industry won big after pouring millions of dollars into the 2024 election and now some crypto-focused super political action committees are building up a war chest ahead of the midterm elections.

Polymarket bettors have put the odds of the crypto market structure bill becoming law this year at about 70% after the Senate Banking Committee vote.

Stablecoin Yield Fatigue

Behind the scenes, some Trump administration officials have viewed some of the bank lobby's objections as an effort to unravel a separate stablecoin framework that passed last year rather than a narrow push for technical fixes, said a person familiar with the meetings, who asked not to be identified discussing confidential matters.

Even as people close to the banks said the industry largely supported the bill and were close to agreement on its language, trade groups including the American Bankers Association and the Bank Policy Institute told lawmakers the compromise still contained loopholes.

Senators Thom Tillis from North Carolina and Angela Alsobrooks of Maryland, who helped broker the bipartisan deal, rejected that argument.

"Our goal was to make sure that we put in the kind of language that would prevent the mass deposit flight that we were concerned about," Alsobrooks told Bloomberg News after the committee vote.

Senator Angela Alsobrooks, a Democrat from Maryland *Photographer: Graeme Sloan/Bloomberg*

The crypto industry now believes the compromise on yield won't be "relitigated" as the bill progresses, said Cody Carbone, CEO of crypto lobbying group The Digital Chamber.

"People are fatigued on stablecoin yield," he added.

Crypto advocates say the threat to banks is overstated. Austin Campbell, an adjunct professor at NYU Stern School of Business, said stablecoin issuance would largely reallocate deposits within the financial system rather than drain them outright, since reserves backing the tokens would themselves be held as bank deposits or in Treasury securities.

A number of US banks, like Citigroup Inc., are also already involved with stablecoin-like products.

"All of the big banks have stablecoin initiatives and they will benefit from stablecoin innovation," said Campbell Harvey, a finance professor at Duke University.

Still, even cautious readings of the compromise see crypto gaining ground.

“The May compromise is better seen as a partial crypto victory with real guardrails for banks,” said David Krause, an emeritus associate professor of finance at Marquette University. “But yes, if this goes through markup and finds the floor for a vote and passes, then crypto came out ahead on balance.”

The legislation still faces challenges, like hashing out an ethics provision as Democrats continue to raise concerns about the Trump family’s crypto ties. Two Senate bills will now need to be reconciled and gain enough support to pass the Senate before heading to the House for a vote.

Bank groups said Thursday after the committee vote they would continue to push to tighten the prohibition in these latter stages.

Even if Congress ultimately passes the legislation, regulators would still need to define where legitimate customer rewards end and deposit-like interest begins. The bill’s key phrase – payments “economically or functionally equivalent” to bank deposit interest – could become the focus of years of rulemaking fights, enforcement actions and litigation. If crypto firms push too aggressively to replicate yield products through technical workarounds, lawmakers and regulators could end up revisiting the issue.

“The current debate shows that legislative clarity is not the same thing as regulatory consensus. The final shape of the bill will determine whether Congress has created a durable framework or simply postponed the next round of conflict,” Krause wrote in a recent paper.

– With assistance from Steven T. Dennis and Yash Roy