Twitter Thread by George Selgin



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The debate about stablecoin regulation is at bottom part of a broader debate about regulatory classification of fintech payment service providers (PSPs). But it is, IMHO, wrong to reduce this debate to the question, "Is it a 'bank' or not?"

> This thread is as predictable as you\u2019d expect: lots of replies handwaving about \u201cinnovation\u201d and \u201cblockchain\u201d, while ignoring that \u2018stablecoin\u2019 is just another word for payments infra.
> People get so caught up in the tech they don\u2019t realise the ultimate result is the same. https://t.co/OC2auSh0uX
>
> — Angus Champion de Crespigny (@anguschampion) December 4, 2020

Posing the question that way implies that there are only two options: (1) Fintech PSPs aren't banks, and therefore shouldn't have to get stnd. bank charters or abide by the reg's that go w/ such to gain access to public settlement facilities. That's what many stablecoin fans say.

(2) fintech PSPs are banks; and therefore must be get bank charters and be subject to the same regulations ordinary banks must abide by. That's the answer offered by the STABLE Act https://t.co/Xz3caqsPVo

The second answer relies, not unreasonably, on the standard regulatory definition of a bank as a "deposit taking" institution. But IMHO it's that definition that's problematic, and that renders the conventional bank-nonbank dichotomy so.

For conventional banks aren't just "deposit taking institutions." They combine deposit taking with lending. It's this combined set of activities, not deposit taking per se, that (rightly or wrongly) supplies the rationale for many bank regulations, including deposit insurance.

According to many, a similar but broader combination of services--the use of overnight funding of any sort to finance longer-term investments--supplies a similar rationale for like regulation of "shadow" banks.

But not all stablecoins or fintech PSPs can be said to resemble either ordinary or shadow banks in taking part in such risky "maturity mismatching." Subjecting such fintech PSPs to all "bank" regulations, as requiring ordinary bank licenses would, makes little sense.

That's why I think the right solution is to get away from the one-size-fits-all federal banking charter, and to come up with special charters specifically suited to PSPs that don't engage in risky maturity mismatching, granting them bank-like access

to Fed settlement facilities.

That's the spirit of the OCC's special charter approach. There may be a better one; but I strongly believe that regulators should be thinking along these lines. https://t.co/FGYR2FXuJB

Not to do so is to risk missing-out on some of fintech's valuable--and potentially stabilizing rather than destabilizing--payments-system innovations. @NathanTankus @BrianBrooksOCC @FintechDiego @CaitlinLong_ @MorganRicks1

Addendum: Many established banks will naturally fight tooth-and-nail against alternative charters, just as they fought tooth-and-nail against money market funds some decades ago. This has given rise to a "bootleggers and Baptists" coalition against such charters, 1/2

where the banks are primarily (but not necessarily exclusively) anxious to squelch potential competition Baptists are (mostly) sincerely worried about risk. For that reason, unless some Baptists get on board, the special charter solution faces a tough uphill battle!