



Testimony of Denelle Dixon, CEO and Executive Director, Stellar Development Foundation

**Before the United States House of Representatives
Committee on Financial Services**

Regarding “Digital Assets and the Future of Finance: Understanding the Challenges and Benefits of Financial Innovation in the United States”

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Good morning Chairwoman Waters, Ranking Member McHenry, and members of the Committee.

Thank you for inviting me to testify today. I’m honored to be here to speak with you about digital assets and the future of finance and to share the meaningful ways that blockchain technology is creating new avenues for financial inclusion and greater access to financial services.

My name is Denelle Dixon, and I am the CEO and Executive Director of the Stellar Development Foundation. I took on this role and joined the blockchain industry about two and a half years ago. Prior to that I was the Chief Operating Officer of Mozilla - the maker of the Firefox browser where I spent my time focusing on the intersection of business, technology and public policy, and more specifically the importance of privacy, net neutrality, encryption and the need for openness and interoperability in technology.

It’s those same policy priorities that actually drew me to blockchain — an industry that I believe can learn from the past mistakes made in other areas of web development, an industry that can help us move beyond walled gardens and closed innovation to open, interoperable technology that inspires developers to build solutions to real-world problems. When it comes to something as important as financial access, we are compelled to remove barriers and friction and create simplicity and interoperability.

I’d like to use my time with you today to cover three topics: first, to share more about the Stellar Development Foundation and the Stellar network to give you an understanding of what we do and our role in the blockchain industry; second, to share some of the use cases that are being built on the Stellar network today that rely on stablecoins and why these financial innovations are important; and third, to comment on the recommendations from the President’s Working Group on Financial Markets’ (“PWG”) Report on Stablecoins and its implications for our ecosystem.

The Stellar Network and the Stellar Development Foundation

Our organization, the Stellar Development Foundation or SDF, is a non-stock, non-profit corporation with no shareholders, no owners, and no profit motive. We are not a charity. We generate revenue and we pay state and federal taxes, but our structure requires us to use our assets to support only our mission of creating equitable access to the global financial system and to do so using the Stellar network. To achieve this mission, we focus our work on a few top priorities: we shepherd the code base for the Stellar network, participate in the ecosystem surrounding Stellar, support the growth of the ecosystem and the use cases built on top of Stellar, in addition to supporting global public policy and education around Stellar and blockchain.

What is Stellar? Stellar is an open, permissionless, decentralized ledger — or blockchain network — that is optimized for payments. There is no single entity, including SDF, that controls the codebase of the network or its growth. You don't need permission to use the technology; just like the underpinnings of the Internet, it is open and ready for use.

Importantly, especially in the context of this hearing, Stellar was designed for asset issuance, making it possible to create, send and trade digital assets backed by nearly any form of value — and also was designed with compliance tools built in to help those asset issuers meet their own compliance obligations. The network interoperates with the traditional financial system to leverage the benefits of blockchain technology to enhance, not supplant existing financial infrastructure. The Stellar network has been operating for over six years, and today, there are an average of 6.5 million daily operations, surpassing more than a billion this year alone, with over 6 million accounts.

Stellar Use Cases: A Growing Stablecoin Ecosystem

The Stellar platform pioneered tokenization, designed for fiat-backed asset issuance before stablecoin was even a word — and as such, over the last number of years, an ecosystem of businesses and users have built use cases around Stellar-based stablecoins, due to their incredible utility to solve many of the problems we see in today's payment landscape.

Especially the current cross-border payment system, which is slow, costly, and fragmented¹ — a problem that has been acknowledged not just by blockchain networks like ours but across the international spectrum from the G20 to the World Bank — and hurts businesses and individuals alike.

We aim to improve the existing cross-border payment system for the businesses and individuals that utilize such services, for example, the 800 million people² — about one in nine globally — who are supported by funds sent home by migrant workers. Or the rapidly growing number of gig workers who struggle to expand their work opportunities across borders. Or the small businesses upon which our global economies rely who face barriers to accessing even basic financial tools. Stablecoins are crucial for these use cases because they do not suffer

¹ Bank of International Settlements, Committee on Payments and Market Infrastructures Report: [Enhancing cross-border payments: building blocks of a global roadmap](#), July 2020

² United Nations, [Remittances matter: 8 facts you don't know about the money migrants send back home](#), June 2019

from the same volatility that cryptocurrencies do - meaning a sender knows when she sends a \$1 fiat-backed asset, the recipient will receive a \$1 fiat-backed asset.

A lot of times we focus on the promise of blockchain. I would like to shift that narrative and use my time with you to share some concrete examples about use cases that are either live or in development on the Stellar network today that demonstrate how blockchain technology — and more specifically tokenized assets like stablecoins — drives us towards a more equitable financial system, delivering greater access to financial services for these underserved and marginalized populations. Despite all of the headlines, what's happening in the world of blockchain with cryptocurrency and stablecoins is not just lending, trading, and borrowing.

Let me start with MoneyGram International. You may think of MGI as the definition of traditional finance, but I have found them to be financial innovators, looking for ways to provide new, efficient payment options for the nearly 150 million people around the world that they serve.

They are building a solution on Stellar that enables seamless conversion between cash and digital assets. MoneyGram's leading global network integrates with the Stellar blockchain to enable cash funding and payout in different currencies of the consumer's choice, using a stablecoin, Circle's USD Coin (USDC) — issued by my fellow witness Jeremy Allaire's company. In real terms, consumers will be able to send value in the stablecoin and easily convert to local fiat currency for instant pickup at participating MoneyGram locations globally. With near-instant settlement flows and an accelerated collection of funds, consumers, some of whom may have been limited to using cash for various payments, will be able to use the blockchain network after going through appropriate compliance checks by MGI and its agents. Their transactions with USDC are traceable on the network, safer and more secure than transacting in cash. It provides consumers with options for improved efficiency, reduced risk, and strong competitive pricing pressure.

This is already in the pilot phase here in the U.S.; it's gone from idea to pilot in a matter of months this year, and is expected to be widely available in 2022. There is so much work to be done to improve interoperability between traditional and digital financial rails, but this is a meaningful example of what can be accomplished when we do.

New players are developing innovative solutions for financial services, too — many designed specifically for underserved populations. For example, Leaf Global Fintech has built a solution for refugees that also demonstrates a strong use case for stablecoins.

On average, refugees remain in exile for 17 years before they find permanent homes. New African countries become their temporary residences for a long time — so the ability to easily and affordably send money across borders is essential. The founders of Leaf saw a powerful opportunity to build a product for people with cross-border financial needs, whether they are refugees bringing their money to a new country or cross-border goods traders who are vulnerable to theft while carrying cash across borders.

With Leaf's wallet, these users can save their money in multiple currencies, benefit from free Leaf-to-Leaf wallet cross-border transfers, and pay for goods and services. That functionality is only possible because they leverage Stellar's ability to issue stablecoins and exchange value

with low transaction fees and high speeds. That allows them to keep remittance costs down, and ultimately make these payments more accessible to those who need it most.

Their product is uniquely accessible because you don't even have to use a smartphone. They've designed their wallet with USSD technology so that even those with basic phones are able to access all of their services. This use case is live and operational today.

The last use case I'd like to touch on is one that is in development but positioned to make a big impact on financial inclusion. Currently operational in Kenya, Mexico, India, and the Philippines, Tala, based in California, aims to provide the unbanked access to financial services that they do not have via traditional means. Tala is best known for its mobile lending app, powered by advanced data science, which enables its customers to apply for a loan and receive an instant decision, regardless of their credit history. If the loan is approved, then the borrower receives the money (ranging from \$10-500) in their mobile money account in a matter of minutes.

Tala is now working to expand their offerings by using blockchain technology, specifically, Stellar assets and stablecoins, to help their current customers with credit by allowing borrowing, spending, saving, investing, and sending/receiving. Since 2014, Tala has delivered more than \$2.7 billion in credit to more than six million customers across emerging markets, with thousands of new users joining daily. Now that it plans to harness the Stellar network to expand its product offerings, Tala is set to help even more people – the people that need financial services the most.

There are many more valuable use cases across the Stellar ecosystem that I could share today, but recognizing my time is limited, I would just like to briefly mention the numerous use cases being developed for Micro, Small and Medium Enterprises (MSMEs). World Bank data shows MSMEs in emerging markets create 7 out of 10 jobs – however, lacking access to finance is cited as a major barrier to growth.³ In a recent report from the G20 and International Finance Corporation on MSME Digital Finance, there were FIVE Stellar ecosystem companies named for their innovative solutions in digital finance supporting MSMEs: ClickPesa, Tribal, Airtm, Flutterwave, and Tala.⁴

Use cases like these are in varying states of maturity but their current and potential value to financial inclusion is undeniable. Financial inclusion is a right, not a privilege, and stablecoins are a foundational building block to achieve true financial inclusion.

None of these use cases would be possible without stablecoins. Stablecoins are a core technological component – and by extension that means stablecoins are essential to delivering on financial inclusion. SDF is not the issuer of any stablecoin. The Stellar network is the underlying blockchain infrastructure on which more than 20 stablecoins pegged to fiat currencies from around the world are issued – and it is these ecosystem companies that are using stablecoins to expand financial inclusion and empowerment for marginalized communities.

³ World Bank, Small and Medium Enterprises, <https://www.worldbank.org/en/topic/sme/finance>

⁴ GPFI, [MSME Digital Finance: Resilience and Innovation during COVID-19](#), November 2021

A Post-PWG Future for Stablecoins

That brings me to the President's Working Group on Financial Markets' (PWG) Report on Stablecoins. Let me start by saying that we appreciate being consulted by the PWG, along with several of my co-panelists today, prior to the release of the report. Like we have done with you today, we shared with the PWG a real world example of stablecoins improving the lives of their users, and we were pleased to see some acknowledgement of stablecoin benefits reflected in the report. Second, I want to be clear that we agree with many of the conclusions in the PWG report, particularly around several of the identified risks in today's stablecoin market. For example, the PWG report noted that "there are no standards regarding the composition of stablecoin reserve assets, and the information made publicly available regarding the issuer's reserve assets is not consistent across stablecoin arrangements as to either its content or the frequency of its release." While there are industry standards, such as those adopted by the Centre consortium for USDC, admittedly, they are not legal standards. The PWG report also notes that there is considerable variation in the contractual terms of use applicable to stablecoin holders with respect to things like a holder's right to redeem. We agree that risks such as these should be addressed, and that clear regulation in these areas will benefit both the consumers using these products as well as the innovators building them.

However, while we agree with the PWG on a number of stablecoin risks, we disagree with the PWG report's recommendations to address them. For example, the primary recommendation of the PWG report is to limit stablecoin issuance to insured depository institutions. However, this is not narrowly tailored to the actual risk identified — run risk — because of a fundamental difference between bank and stablecoin business models: banks hold fractional reserves while stablecoin arrangements are predominantly intended to be fully reserved. In short, we believe the recommended solution targets the wrong risk. Moreover, U.S. insured depository institutions have shown little interest in issuing stablecoins and requests by some stablecoin issuers to become banks have, thus far, gone unrequited. As we lay out below, the actual run risk faced by stablecoin arrangements could be more accurately addressed in a manner less disruptive to those actually building stablecoins and without handing a monopoly to the banks.

The PWG report's other major recommendation to subject "any entity that performs activities critical to the functioning of the stablecoin arrangement" to federal supervision similarly misses its target. By way of analogy, banks rely on countless vendors and technology providers critical to their provision of banking services — internet service providers for example — which are not subject to federal prudential regulation. Despite making this recommendation, the PWG report failed to articulate why the entire stablecoin value chain should be made subject to federal banking regulation when the entire banking value chain is not, or what consumer benefits of stablecoins would necessarily be sacrificed by such an approach. And while we agree that the PWG report identified risks that should be addressed, we believe the PWG report's recommendations are overbroad and would not provide any marginal consumer or systemic benefit over a smarter and more narrowly tailored regulatory framework.

Instead, we advocate for a regulatory approach that focuses more on stablecoin reserves than on stablecoin issuers. Stablecoin arrangements based on a reserve-backed model should be required: (1) to be fully reserved, and (2) those reserves should be held at insured depository institutions in bankruptcy remote segregated accounts. The law should specify that stablecoin

holders have the highest claim on reserve assets. Pass-through deposit insurance for stablecoin holders would also be welcome, and we are encouraged to hear that the FDIC is actively researching ways to achieve it. A regulatory framework should also set standards for the regular audit and public disclosure of stablecoin reserves as well as establishing eligibility parameters for stablecoin reserve assets. For example reserve assets could be limited to cash, cash equivalents, and other high quality, highly liquid assets like short dated U.S. Treasuries and investment grade debt securities. Alternatively, a tiered structure of capital buffers could be applied to classes of reserve assets based on their quality and liquidity profiles. Additionally, we believe that some standardization of key contractual terms between stablecoin issuers and stablecoin holders, such as around redemption, would benefit the market. Finally, we agree with the apparent conclusion of the PWG report that “payment stablecoins” are not securities, and this should be made clear in the law.

Of course, there must be some regulatory body empowered to oversee these requirements, and we could envision an optional framework where issuers could choose state banking supervision or opt into a narrow stablecoin charter administered by the Office of the Comptroller of the Currency. A regulatory framework such as this would, in our view, promote the safety and soundness of stablecoin arrangements and enhance protections for stablecoin holders while providing U.S. stablecoin innovators the space, clarity and flexibility they need to extend America’s lead in global competitiveness.

We’ve started to see how innovation can be hampered in other parts of the world when regulators and lawmakers react quickly, and arguably prematurely, to address perceived risks around cryptocurrency. When I had the privilege of briefing this Committee’s FinTech Task Force in September 2020, I described a company in Nigeria that was leveraging stablecoins to enable Nigerians to meet the high demand for global currencies, particularly in trade, and transact in the global marketplace efficiently and cost-effectively. In underserved markets like Nigeria, where the local currency is not globally traded, cross-border payments and foreign exchange are exceptionally slow and expensive due to high-operating costs, technical inefficiencies of legacy systems, and reliance on multiple intermediaries. Stablecoins and blockchain technology were eliminating costly foreign exchange and transaction fees and slow processing times associated with traditional banking rails for businesses and individuals alike until the Central Bank of Nigeria abruptly ended that business model due to concerns over the use of cryptocurrency for illicit purposes— a concern wholly unrelated to this solution. The challenges persist, but the solutions are more challenging because of the sweeping action taken by the Central Bank. And many innovators have consequently been stopped in their tracks.

Let’s not hamper innovation here in the United States which would have a real impact on the ability to make full use of this technology elsewhere. Let’s learn from the past, let’s take down the walled gardens, let’s get rid of the friction, and let’s create an open loop for innovation here in the U.S. We’ve seen firsthand the challenges when we leave access to innovation in the hands of a few; consider the existing banking infrastructure that relies on technology decisions made decades ago. Open networks, like Stellar, allow for continuous innovation, making sure our systems are more interoperable and adaptable. Financial inclusion, innovation, and integrity are not trade-offs.

The international community is calling for leadership on this front. A recent BIS report⁵ suggested that the path forward requires policymakers to work together to develop a consistent, comprehensive regulatory framework for stablecoins. Let's work together to ensure that US policymakers are the ones that set the stage for a productive, smart, regulatory roadmap for this technology around the world.

As we walk away from this hearing, I hope that we can all agree that crypto and stablecoin shouldn't be buzzwords, thrown around to incite fear of the unknown. I urge you all to look at this industry and technology beyond the narrow lens of applications that often dominate the news. That approach risks putting us back where we started, repeating our past mistakes.

Instead, let's move forward looking at the meaningful financial innovation that can result from us working together, public and private sector leaders, to help citizens and businesses benefit from a more accessible, affordable, efficient financial system.

Thank you again for having me here today. I look forward to taking your questions.

⁵ Bank of International Settlements Working Paper No 973, [What does digital money mean for emerging market and developing economies?](#), October 2021