September 14, 2026

The Honorable John Thune
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Charles Schumer
Minority Leader
United States Senate
Washington, D.C. 20510

RE: Clarity Act "Circuit Breaker" Amendment Would Fail to Address Fundamental Concerns Over Community Bank Deposit Loss

Dear Majority Leader Thune and Minority Leader Schumer:

On behalf of the Independent Community Bankers of America, representing thousands of community banks across the country, **I write to express our ongoing concern with Section 10404 of the Clarity Act. In particular, any proposed "regulatory circuit breaker" amendment would be an inadequate solution to the problem of community bank deposit flight to stablecoins and would result in a significant loss of credit to America's small businesses, farmers, and families.**

The proposed temporary regulatory circuit breaker would provide that if, within 18 months following enactment of the Clarity Act, the Secretary of the Treasury, in consultation with the other federal banking regulators, finds that depositors at community banks with assets of less than $10 billion have transferred deposits to payment stablecoins resulting in a "substantial detrimental impact" to community bank deposits, the Secretary shall promulgate regulations to limit payment stablecoins entities to payment of yield or interest in a manner that is "similar to the payment of interest or yield on an interest-bearing bank deposit."

This proposal is totally inadequate for a number of reasons. Loopholes in the prohibition on stablecoin payment of interest and yield must be closed up front before the damage occurs. A wait-and-see approach would allow irreversible flight of community bank deposits before triggering any response. Most fundamentally, even if the circuit breaker is tripped, it would result in the same, inadequate regulations already included in the base text of the Clarity Act. **In short, the regulatory circuit breaker fails to address our strong, ongoing concerns over the Section 10404 prohibition on stablecoin payment of interest, yield and rewards. Section 10404 must be strengthened to preserve community financial institution deposits and local lending to small businesses, farmers, and families.**

Stablecoins Are a Payment Tool, Not a Store of Value – This Critical Distinction Must Be Clarified

Congress's longstanding and clearly stated intent is that payment stablecoins serve as transactional tools rather than store-of-value products. However, in its current form, Section 10404 does not provide sufficient clarity and certainty to distinguish payment stablecoins from “store-of-value” products and substitutes for bank deposits. Without amendment, this ambiguity could result in a flight of deposits to stablecoins with real-world consequences. Communities cannot afford that risk.

Deposits Undergird Local Lending and Must Be Preserved

For community financial institutions, the consequences of deposit flight are not theoretical. Deposits gathered in cities, towns, and rural communities are reinvested through mortgage lending, small-business financing, agricultural credit, and other forms of relationship banking that support local economic growth. Ensuring that stablecoin regulations draw clear and enforceable boundaries around interest- and yield-like incentives is therefore essential to preserving the flow of credit that local communities depend upon.

Recommendations

We urge the following amendments to the Clarity Act:

<u>Amend Section 10404(c)(1) to clarify the scope and meaning of the prohibition</u>

To clarify the scope and meaning of the prohibition on interest and yield and ensure that the prohibition cannot be evaded through creatively structured incentives, we recommend the following targeted revisions to Section 10404(c)(1)

- We urge that “solely” be removed from (1)(A) and that “on a payment stablecoin balance” and “on an interest-bearing bank deposit” be removed from (1)(B).

- In addition, we recommend replacing the functional and economic equivalence standard with one evaluating substantial similarity in (1)(B).

The prohibition in amended Section 10404 would thus read as follows:

(1) IN GENERAL. --No covered party shall, directly or indirectly, pay any form of interest or yield (whether in cash, tokens, or other consideration) to a restricted recipient--

(A) ~~solely~~ in connection with the holding of such recipient’s payment stablecoins; or

(B) ~~on a payment stablecoin balance~~ in a manner that is ~~economically or functionally equivalent~~ substantially similar to the manner in which banking organizations pay~~ment of~~ interest or yield ~~on an interest bearing bank deposit~~.

For consistency, the “substantially similar” test would replace the “functional and economic equivalent” test where it appears elsewhere in Section 10404.

Remove Section 10404(3)(B) to ambiguity that contradicts the objective of the prohibition

Section 10404 requires joint agency regulations that allow digital asset service providers and their affiliates to pay consideration, rewards, or benefits calculated by reference to duration, balance and tenure. Given that interest payments are often calculated by reference to duration, balance and tenure, this subsection appears to contradict the initial prohibition. It would tie rewards directly to how much and for how long customers hold payment stablecoins in wallets or exchanges. The Clarity Act should not incentivize the idle holding of payment stablecoins for extended periods of time.

Recommendation: We urge that the subsection (3)(B) be removed in its entirety.

> ~~(B) For the avoidance of doubt, payments to restricted recipients of consideration, rewards, or benefits that are permissible pursuant to paragraph (2) and subparagraph (A) may be calculated by reference to a balance, duration, tenure, or any combination of the foregoing.~~

As the Senate considers final passage, we respectfully encourage lawmakers to strengthen the legislation by first incorporating the changes described above.

Clarifying these provisions would help establish durable rules of the road and support responsible innovation. Importantly, these recommendations provide the clearest path to achieving Congress' stated objective of preserving local lending by reducing the risk of unintended consequences for local economies.

We appreciate your consideration and remain committed to working constructively with policymakers to resolve this issue.

Sincerely,
/s/
Rebeca Romero Rainey
President & CEO

CC: Members of the United States Senate