

GARY GENSLER

Oral Statement

Facebook Hearing Financial Services Committee July 17, 2019

Chairwoman Waters, Ranking Member McHenry, members of the committee, thank you for inviting me to testify. It is so good to back with you again.

I began my finance career in the private sector, with Goldman Sachs. As a Treasury official, I was later witness to the sudden Asian financial crisis. I was later an advisor on what became Sarbanes, Oxley. After the crisis, I served as CFTC Chair helping reform to the \$400 trillion swaps market.

I'm now a Professor of the Practice at MIT teaching fintech and digital currencies.

These experiences have taught me some lessons I bring to considerations of Facebook's.

First, all of finance has one foundation - trust.

Unfortunately for Facebook, for some unexplained reason, they chose to make these bold proposals when trust in their company is not in good supply.

Second, though Facebook's Libra proposal may seem unprecedented for its sheer breadth and scale, we've seen this show before...trust us...to innovate and revolutionize finance.

Enron...trust us to set up sophisticated unregulated electronic energy trading...accounting scandals, manipulated electricity markets, & bankruptcy followed.

Long Term Capital Markets...trust us to set up a new type of algorithmic hedge fund with \$1 trillion in derivatives ... failure and systemic risk followed.

Libor...trust us to set the world's most relevant interest rate...manipulated rates on trillions of home mortgages and consumer loans followed.

These all hurt millions of Americans. They're also personal for me as I lived each one in the official sector.

Third, tech has made big strides. Think PayPal, Square, Stripe, TransferWise, Venmo, and Zelle. China's Alipay and WeChat Pay leapfrogged big finance and now dominate Chinese payments.

There's Amazon Pay, Google Wallet, Amazon Coin, Apple Pay, and Apple Card, partnering with Goldman Sachs and Mastercard.

Facebook has tried as well...with limited success...Facebook Credits closed in 2013, Facebook Messenger payments closed P2P in Europe this year, Facebook's WhatsApp Pay pilot has stalled in India.

Fourth, Facebook's ambitious proposal needs significant regulatory guardrails:

First - The Libra Reserve - the place with the money needs to be regulated by the SEC for what it is - in essence a pooled multicurrency ETF investment vehicle. Or regulate Libra Reserve as a bank.

Regulating Libra Reserve like Western Union under state money transmission laws as Facebook has suggested forgets tough lessons of failed shadow banking efforts. It just doesn't make sense.

There needs to be tight investment restrictions, including prohibiting loans & guarding custodied funds.

That's what China and Kenya did when big tech went on to dominate mobile payments.

Second – The Libra Association – as the manager needs to be registered as an investment advisor.

Third – customers' Libra custody – Calibra – needs to be tightly regulated for customer protection ensuring Facebook does not use, lose, or abuse customers' Libra.

The data also must be protected by true firewalls, not just protected by 'customer consent' clauses.

Fourth – the accounting and payment systems - the Libra Blockchain – should adopt payments infrastructure rules consistent with Federal Reserve policies.

Lastly – Libra – will have the same challenges as Bitcoin guarding against illicit activity. Calibra FinCEN regulation won't stop the rest of the Libra network with self-custody transacting in lax jurisdictions. The ground truths...there are no easy solutions for stopping bad actors using tokens.

Trust...so important to finance and innovation... easy to lose...best to verify...critical to be responsibly regulated.

I look forward to your questions.