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National Association of Federally-Insured Credit Unions

April 18, 2023

The Honorable French Hill
Chairman
Committee on Financial Services
Subcommittee on Digital Assets,
Financial Technology, and Inclusion
United States House of Representatives
Washington, DC 20515

The Honorable Stephen Lynch
Ranking Member
Committee on Financial Services
Subcommittee on Digital Assets,
Financial Technology, and Inclusion
United States House of Representatives
Washington, DC 20515

Re: Tomorrow's Hearing: "Understanding Stablecoins' Role in Payments and the Need for Legislation"

Dear Chairman Hill and Ranking Member Lynch:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our thoughts on issues of importance to credit unions ahead of tomorrow's hearing on the role of stablecoins in the payments ecosystem. NAFCU advocates for all federally-insured not-for profit credit unions that, in turn, serve over 135 million consumers with personal and small business financial service products.

NAFCU appreciates the continued work of the Subcommittee in examining the integration of digital assets into traditional financial products, including the creation of stablecoins – digital assets pegged to the value of another asset. Recent years have seen increased interest in cryptocurrencies and stablecoins, with prices reaching new highs as well as experiencing pullbacks. Notwithstanding these fluctuations, distributed ledger technology and other technologies that support a broad ecosystem of digital assets offer an array of potential operational efficiencies. For example, the ability to facilitate payment transactions that support smart contracts, either through use of stablecoins or other digital assets, may help members with specific business needs and potentially reduce credit unions' operational costs. Most importantly, digital asset technologies can be designed with strong auditability features, which can enhance regulatory compliance and reduce instances of human error, fraud, and other misconduct. However, the absence of a clear regulatory environment and appropriate supervisory framework poses risks to the adoption of these otherwise promising technologies.

In November of 2021, the President's Working Group on Financial Markets (PWG) issued a stablecoin report making several recommendations, including a proposed federal regulatory regime for stablecoins. While the report called for Congressional action and urged a new law that stablecoins may only be issued by insured depository institutions (IDIs), it unfortunately did not use a definition of IDI that included credit unions. This was a failing of the report.

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However, the draft legislation noticed for this hearing is a step in the right direction. NAFCU appreciates that the draft uses the Federal Reserve definition of an IDI instead of other definitions that exclude credit unions. Establishing barriers to credit union engagement with digital assets would also undercut many of the financial inclusion benefits that may be realized through related technologies given that the credit union industry has a long history of prioritizing the needs of underserved and low-income communities. NAFCU also supports enforcement and examination being left up to existing regulators – in the case of credit unions, the National Credit Union Administration (NCUA) – as well as establishing a basic framework for oversight of non-depository stablecoin issuers. We look forward to engaging with you on this proposal as it moves through the legislative process.

We thank you for the opportunity to share our thoughts and look forward to continuing to work with you on including emerging technologies into financial services. Should you have any questions or require any additional information, please contact me or Lewis Plush, NAFCU's Senior Associate Director of Legislative Affairs, at (703) 258-4981 or lplush@nafcu.org.

Sincerely,

A handwritten signature in black ink that reads "Brad Thaler". The signature is written in a cursive, flowing style.

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the Subcommittee on Digital Assets, Financial Technology, and Inclusion