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National Association of Federally-Insured Credit Unions

March 8, 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: "Coincidence or Coordinated? The Administration's Attack on the Digital Asset Ecosystem"

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, "Coincidence or Coordinated? The Administration's Attack on the Digital Asset 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. We would like to thank you for this opportunity to share some thoughts regarding digital assets and stablecoins.

Recent developments in the digital asset and stablecoin space have proven both the enormous potential of these innovations and the need for regulation. 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 integrated with 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 assets 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. NAFCU supports a competitive framework for digital assets that preserves credit unions' ability to compete with other financial institutions and companies on a level playing field.

A digital assets framework aimed at fostering equitable growth should seek to mitigate the potential for regulatory arbitrage by emphasizing the applicability of transparent prudential oversight, robust safety and soundness protections, and the application of consumer and investor protection laws to entities engaged in providing digital asset services or products to consumers. We urge Congress to explore ways to provide regulatory certainty and parity across the financial services system and ensure a level playing field for all with new and emerging financial technology. As you do so, we urge you to ensure the needs of credit unions and their unique structure as member-owned cooperatives are considered in any legislative approach you undertake in the future.

As the Subcommittee examines recent turmoil in markets for digital assets, NAFCU would like to reiterate its opposition to a central bank digital currency (CBDC), which some have called for as an alternative to unregulated digital assets. Introducing a CBDC is not the appropriate solution for addressing the risks of stablecoins, cryptocurrencies, or other digital assets. The best tool for addressing stablecoin risk is an appropriate regulatory framework developed with the input of relevant federal banking regulators, including the National Credit Union Administration (NCUA). Furthermore, NAFCU believes the vast federal administrative resources needed to develop a CBDC could be put to better use, particularly in the domain of financial inclusion, by prioritizing existing financial sector infrastructure and community development programs. A CBDC could, theoretically, yield greater payments efficiency in a country that currently lacks mature payment systems; however, American consumers already have access to numerous options for making fast, safe, and affordable payments. In this regard, hypothesized improvements to domestic and cross-border payments would likely be marginal, especially when real-time payments can already be made, and the improvements needed to reduce international remittance costs are largely reliant upon legal harmonization efforts which do not depend on the technical infrastructure of a CBDC. Additionally, a direct-to-consumer CBDC would be impossible to implement without some form of consumer accounts being offered at the Federal Reserve, which NAFCU has consistently opposed.

We thank you for the opportunity to share our thoughts and look forward to continuing to work with you on this important issue. 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,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

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