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National Association of Federally-Insured Credit Unions

February 14, 2022

The Honorable Sherrod Brown
Chairman
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Patrick Toomey
Ranking Member
Committee on Banking, Housing, and
Urban Affairs
United States Senate
Washington, DC 20510

Re: Tomorrow's Hearing Examining the President's Working Group on Financial Markets Report on Stablecoins

Dear Chairman Brown and Ranking Member Toomey:

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 President's Working Group (PWG) Report on Stablecoins. NAFCU advocates for all federally-insured not-for profit credit unions that, in turn, serve over 127 million consumers with personal and small business financial service products.

NAFCU appreciates the continued work of the Committee in examining the integration of digital assets into traditional financial products. Recent years have seen increased interest in cryptocurrencies, 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.

The PWG on Financial Markets Report on Stablecoins (the Report) was an important first step towards bringing rules and regulation to emergent stablecoin adoption. The Report recommended Congress enact legislation requiring all payment stablecoin issuers to be insured depository institutions. In later describing American depositors' access to federal deposit insurance and their financial institutions' access to emergency liquidity and Federal Reserve services, the Report adopts and cites the limited *Federal Deposit Insurance Act* definition of an insured depository institution that does not include credit unions. By adopting this narrow definition, which includes banks and savings associations but not credit unions, the Report risks legislators and other regulators interpreting the Report as recommending that Congress enact legislation requiring a

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stablecoin issuer have a bank charter – not either a bank charter or a credit union charter. We hope that this was just an oversight by the PWG.

This arbitrary approach, if left unchecked, will result in competitive disadvantages, market distortions, and reduced innovation by excluding an entire class of federally insured and comprehensively supervised depository institutions from new markets for innovative products and services. 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. Accordingly, 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. We urge you to ensure the needs of credit unions are considered in any legislative approach you consider in the future.

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 Associate Director of Legislative Affairs, at (703) 258-4981 or lplush@nafcu.org.

Sincerely,

A handwritten signature in cursive script that reads "Brad Thaler".

Brad Thaler
Vice President of Legislative Affairs

cc: Members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs