Credit Union National Association
CUNA

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

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

Dear Chairman Hill and Ranking Member Lynch,

On behalf of America's credit unions, I am writing regarding your hearing entitled, "Understanding Stablecoins' Role in Payments and the Need for Legislation." CUNA represents America's credit unions and their more than 135 million members.

We thank the Committee for exploring this important issue as digital assets and the platforms that the underlying blocking technology has created are showing signs of creating major disruptions in the delivery of financial services. The continued operation of these financial platforms has created an unregulated financial sector that could have major repercussions to the United States economy.

As you know, our member credit unions are highly regulated in their operation and credit union members are protected by a plethora of consumer protection laws. The digital assets sector currently operates in a largely decentralized environment outside of the traditional financial safeguards and generally without financial intermediaries where the role of stabilizer and protector generally rest. In fact, like fintech, once one wades through the novel technology, the fundamental innovation of cryptocurrency is the elimination of the financial intermediary. Unfortunately, when there is no financial intermediary, the functions they provide are also lost.

Digital ledger technology (DLT) underpins digital currency and allows many industries to innovate. Nonetheless, we see no reason why innovation should change the government's role in overseeing an industry that uses DLT. The fundamental issue with DLT, as applied to the delivery of financial services, is that it disintermediates financial services providers—the very place where the government regulates the provision of financial services. Eliminating or weakening the backbone of the U.S. and world economies will have consequences and we think that these consequences should be understood before further harm occurs.

The Presidential Working Group on Financial Markets (PWG) recognized these risks and rightly directed Congress to promptly enact legislation to subject payment stablecoins to a federal prudential regulatory framework. This legislation should direct that insured depository institutions, that are subject to stringent regulations and oversight, and their subsidiaries serve as the sole issuers and conduit for payment stablecoins to ensure the safety, security, and continuity of the market. Moreover, there must be parity amongst all depository institution charters—both bank and credit union—as approved stablecoin issuers. We appreciate that the Committee's proposed legislation takes this into account and we ask the committee to continue to include credit unions as an equal part of the solution as legislation moves forward.

The risks to the financial system must also be considered as payment stablecoins gain legitimacy. Payment stablecoins holdings would not be liabilities of the financial institution and would be unable to be utilized for the lending and investment operations of the institution, thus reducing the credit supply, increasing the cost of credit, and causing a slow-down of the economy. This deposit substitution risk and its cascading effects would be compounded by the money supply multiplier effect. When financial institutions have lower liquidity levels and are unable to led at their current rate, the money supply reserve multiplier decreases, thus limiting the overall benefit to the economy. Financial institutions play a key role in the creation of money through their intermediate role between savers and borrowers. Decreased lending power by financial institutions would be particularly acute for community financial institutions like credit unions that are not-for-profit financial institutions and rely on deposit accounts to accumulate necessary capital to support their members.

For the reasons stated above, we think Congress should take their cue from the PWG and protect consumers and the financial system by subjecting payment stablecoins to a regulatory framework that limits stablecoin activity to insured depository institutions and their subsidiaries.

On behalf of America's credit unions and their more than 135 million members, thank you for holding this hearing and considering our views.

Sincerely,

Jim Nussle
President & CEO