



September 27, 2021

Board of Directors
National Credit Union Administration
1775 Duke Street,
Alexandria, VA 22314

Re: Request for Information and Comment on Digital Assets and Related Technologies [NCUA 2021-0102]

Dear NCUA Board Members,

The Blockchain Association (the “Association”) appreciates the opportunity to share its views regarding the National Credit Union Administration’s (“NCUA”) request for information and comment¹ (“RFIC”) regarding the current and potential impact of activities connected to digital assets and related technologies on federally insured credit unions (FICUs), related entities, and the NCUA.

The Blockchain Association is a not-for-profit organization dedicated to improving the public policy environment for public blockchain networks to allow them to develop and prosper in the United States. The Association endeavors to educate policymakers, courts, law enforcement, and the public about the inner-workings of crypto networks and the need for regulatory clarity to make way for a more secure, competitive, and innovative digital marketplace. The Association is comprised of industry leaders who are committed to responsibly developing and supporting public blockchain networks fueled by cryptocurrencies. Its diverse membership reflects the range of this dynamic market and includes projects that contribute to cryptocurrency and blockchain networks, cryptocurrency exchanges, and early stage investors that support the entire ecosystem. While the Association does not have as much experience in the credit union ecosystem, we are experts on cryptocurrency and blockchain technology, particularly in the context of how this technology can fit into existing regulatory and financial services frameworks. As such, we feel that our insights will help provide the NCUA with a better understanding of both the benefits and risks that credit unions might face when incorporating digital assets into their spectrum of services.

As a threshold matter, it is important to note that both credit unions and cryptocurrency and blockchain technology share an underlying goal: increase financial inclusion. Both credit unions and cryptocurrency and blockchain technology pursue financial inclusion by providing access to responsible financial products and services for low-income communities and the

¹“Request for Information and Comment on Digital Assets and Related Technologies,” 86 Fed. Reg. 40213-40214 (July 27, 2021).

<https://www.federalregister.gov/documents/2021/07/27/2021-15948/request-for-information-and-comment-on-digital-assets-and-related-technologies>

underserved. Additionally, while national banks invest in large scale industrial projects, credit unions partner with local organizations to keep their earnings circulating within their communities. In other words, credit unions, like cryptocurrency and blockchain technology, make great efforts to keep as much funds as possible in the hands of those individuals on the giving and receiving end of a financial transaction. In light of the commonality between the goals of credit unions and cryptocurrency and blockchain technology, the Association believes that incorporating digital asset technology into the services offered by credit unions can reinforce the cooperative nature, form, and function of the credit union community. In this manner, blockchain and cryptocurrency applications can empower U.S. credit unions in ways that digitize, secure, and enable financially marginalized communities wherever located.

There are many benefits that digital assets can bring to the credit union ecosystem. One such benefit is that payments on crypto networks offer faster, safer, and cheaper transfers of customer funds. The decentralized nature of cryptocurrency and blockchain technology removes the need to use a third party intermediary to execute a transaction, which means that the fees and wait time associated with these intermediaries no longer exist. Cryptocurrency and blockchain technology is also immutable, so any transaction that credit unions' customers might make using digital assets is securely recorded on a blockchain network and is essentially invulnerable to malicious activity. It is ultimately the role that credit unions play in the communities in which they reside that makes these institutions particularly well-suited to capitalize on the benefits that cryptocurrency and blockchain technology have to offer.

Another benefit that this technology can bring to the credit union ecosystem is that most crypto and blockchain based financial services projects, networks and technologies are open-source. Over time, this will shorten the R&D lifecycle for financial services firms, while providing an opportunity to upgrade the often legacy infrastructure and technology stack that powers today's institutions. Credit unions in particular, especially given their demanding customer service models, have to operate on a level playing field with the largest banks in the world, but doing so with deeper customer capital and investment restrictions. Cryptocurrency and blockchain technology can help create this level playing field.

The emergence of novel digital asset markets beyond traditional payments and digital asset custody (or digital wallets), such as crypto yield and lending products, also creates an opportunity for credit unions to not only allocate a portion of their funds into these markets, but to consider customer-facing products. The demand for crypto lending and trading markets, markets that are traditionally over-collateralized and increasingly well-regulated, offer rates of return in excess of market rates, typically fixed or open terms with APYs ranging between 4-8%. Opening up access to these promising yield markets to consumers requires that these solutions increasingly flow through traditional banking and lending institutions, for which credit unions will have a natural advantage - especially if offerings are structured in partnership with digital currency and asset businesses. While the benefits of digital assets are especially promising given the role that credit unions play in their communities, this technology also presents novel risks that must be accounted for by the NCUA.

The advent of cryptocurrency and blockchain technology has created a paradigm shift within financial services that presents its own unique risks and concerns that must be accounted

for when deciding how digital assets might fit into a financial institution's operations. Should credit unions make the decision to incorporate digital assets into their business model, it is essential that they have systems in place that are actively monitoring the network for issues related to the health and security of the network and the different computers that are powering it. Additionally, credit unions must adapt their regulatory compliance programs and strategy to account for the different money laundering and terrorist financing threats within these cryptocurrency and blockchain networks.² Once the novel risks associated with this transformative technology are accounted for, however, credit unions will benefit greatly.

It is critical that the transformative potential of cryptocurrency and blockchain technology is not lost on those individuals and institutions at the forefront of policy-making in the United States. Indeed, this burgeoning ecosystem has applications that will not only bring efficiency and inclusion to the global financial system, but will also revolutionize the way that ordinary people go about their daily lives. It is also critical, however, that policymakers appreciate and account for the novel risks associated with this technology. It is not until policymakers have a holistic understanding of the risks and benefits of the technology that digital assets can be successfully included in the array of services offered by credit unions. In conclusion, the Association applauds the NCUA's efforts to bring this industry into the realm of credit unions, and we offer ourselves as a resource that the Administration can leverage when crafting policy aimed at effectively and appropriately including digital assets into credit unions' activities.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kristin Smith".

Kristin Smith
Executive Director

² Several of the Association's member companies are actively working to develop blockchain native solutions that can help credit unions to tackle cryptocurrency and blockchain-specific ML/TF concerns. If the NCUA is interested in learning more about these solutions please reach out to the Association and we will get the Administration connected with the relevant parties.