



July 16, 2021

James P. Sheesley
Assistant Executive Secretary
Attention: Comments-RIN 3064- ZA25
Federal Deposit Insurance Corporation
550 17th Street N.W.
Washington, D.C. 20429

Request for Information and Comment on Digital Assets
(RIN 3064-ZA25)

The Financial Technology Association (FTA) appreciates this opportunity to respond to this request for comment issued by the Federal Deposit Insurance Corporation (FDIC) on digital asset developments and related regulatory considerations. The FDIC’s thoughtful exploration of digital assets and surrounding “new technology and innovation” demonstrates a forward-leaning posture aimed at ensuring the sound regulation of an emerging space that offers substantial promise to improving financial markets and services in the U.S. and abroad. The FTA offers this comment letter in order to underscore promising areas of digital asset innovation, the importance of technological and subject matter expertise demonstrated by financial technology (fintech) companies in this space, and the benefits of regulatory approaches that foster further U.S. based innovation that safeguards consumers and results in improved financial markets and services.

The Financial Technology Association

The FTA is a nonprofit trade organization that educates consumers, regulators, policymakers, and industry stakeholders on the value of technology-centered financial services and advocates for the modernization of financial regulation to support inclusion and innovation.¹ The FTA is focused on informing tomorrow’s regulations, policy frameworks, and public understanding in order to safeguard consumers and advance the development of trusted, digital financial markets and services.

¹ The FTA’s members include Afterpay, Betterment, Brex, Carta, Figure, Klarna, Marqeta, Nium, Plaid, Quadpay, Ribbit Capital, Sezzle, Truework, Wise, and Zest AI. For more information on the FTA, please see [Home - Financial Technology Association \(ftassociation.org\)](https://ftassociation.org).



A core pillar of the FTA’s effort to advance consumer-centric financial services development in the U.S. is ensuring modern regulatory frameworks that recognize the benefits of financial technology-driven innovation and accommodate new models within the regulatory perimeter. This is the opposite of a deregulatory approach and is one that can best safeguard consumers and the financial system, while allowing for ongoing improvement to the status quo in how consumers, investors, and small businesses access financial services.

It is important to note that fintech innovation – including in the digital assets and related blockchain space – does not occur in a vacuum. Indeed, fintech progress is occurring on a global scale. Fintech innovation around the world has been growing exponentially to improve on legacy approaches or solve ongoing challenges. Many countries are making substantial policy investments into their fintech sectors, with the UK recently releasing a comprehensive report to help support and grow their domestic sector.² The Basel Committee found that “the promise of digital finance to reach scale, reduce costs and, if coupled with the appropriate financial capability, broaden access is unprecedented.”³

Case studies from the world’s most populous country, China, provide a window into the state of global fintech and future competition. Chinese users are quickly shifting to an all-digital financial ecosystem in which fintech is not just mainstream but ubiquitous. China’s first-mover advantage with respect to developing a central bank digital currency (CBDC) in the form of a digital yuan is a good example of how the country is investing heavily into digital asset innovation.

Fortunately, American fintech innovation, including in the digital asset and blockchain space, is fully capable of competing on a global stage in order to advance the role of the U.S. in providing trusted, fair, equitable, and transparent financial products and services.⁴ Subject to sound regulation that safeguards consumers, digital asset innovation can streamline financial infrastructure and drive efficiencies, reduce costs, expand access, improve resiliency, and advance consumer-centric product innovation. And FDIC regulated banks and partnering

² UK HM Treasury, “*UK’s global fintech leadership bolstered by new review*,” (Feb. 26, 2021) (noting that “[a]n independent review has set out a plan for the UK to retain its global leadership in fintech by helping the country’s financial technology firms to scale up, access the talent and finance they need, and deliver better financial services”); KPMG, “*Governments’ role in the evolution of fintech*,” December 2017.

³ Basel Committee on Banking Supervision, *Implications of fintech developments for banks and bank supervisors*, (Feb. 2018).

⁴ See Financial Technology Association, *Shaping the Future of Finance* (Mar. 2021), available at https://www.ftassociation.org/wp-content/uploads/2021/03/fta-launch-paper_shaping-the-future-of-finance.pdf.



nonbanks with specific digital asset domain expertise will be critical stakeholders in this area of development.

The Promise of Digital Asset Innovation

At its core, the category of digital asset innovation is centered on developing new financial infrastructure to more efficiently and securely power how we transact a range of assets. Digital asset innovation can accordingly be broken down into two distinct, but frequently related, components.

First, there is the digitization of the asset itself, which frequently means using cryptography to tokenize an asset. Tokenization ensures and supports the authenticity and uniqueness of the asset and ownership over that asset. Put differently, owners can demonstrate ownership of a particular asset that can be transacted over the Internet, whether that asset be money, a security, a commodity, or even real estate or artwork.

Second, separate from the tokenized or digitized asset, there are the “rails” and related ecosystem that permits the transfer of the asset from one actor to another. The rails may range from being a fairly common centralized database to an open public blockchain most often associated with cryptocurrencies like bitcoin and Ethereum. In between those two ends of the spectrum are many blockchain-inspired systems, including private, permissioned blockchains that set strict governance around participation.

The combination of these two components – the digitized asset and new rails – results in the potential for new financial infrastructure to alter and improve how financial services are offered and markets operate. Individual firms may leverage just one of the two components by, for example, using a private blockchain to improve on legacy database systems, automate manual and intermediary core functions, and thereby reduce costs and improve services offered to consumers. This is effectively what one FTA member company, Figure, does across several products, including a payments product that operates on blockchain rails, rather than legacy card network rails, allowing Figure to offer no fee products to consumers and lower-cost payment mechanisms to merchants.

Digital asset innovation has the potential through reduced costs, enhanced automation, more effective security features, and Internet and mobile-based applications to improve access for



global un-and-underbanked individuals. It may further improve on legacy systems and infrastructure in order to drive further efficiencies and innovation. These are key reasons why Federal Reserve Governor Lael Brainard has expressed interest in further exploration of U.S. CBDC, or a digital dollar.⁵ It is further reason why US policymakers and regulators should ensure that digital asset innovation continues to advance in the U.S. and is not forced overseas given overly rigid or hostile domestic policies.

The Need for Digital Asset Expertise and Regulatory Certainty

As noted above, the digital asset ecosystem is centered around key technologies, including with respect to cryptography, tokenization, and blockchains. Accordingly, the technological knowledge and expertise required to safeguard and further develop these systems is frequently distinct from the knowledge required for legacy systems. When it comes to digital asset custody, for example, a proper custodian must fully understand standards and best practices when it comes to safeguarding private keys used to prove ownership over a digital asset. The same is true when it comes to building and maintaining blockchain rails, whether they be open and public or private and permissioned.

To be sure, digital asset innovation offers substantial promise to how financial services firms, including banks and market participants, offer products and services to consumers and investors. But, it is equally imperative that such intermediaries have the requisite technological literacy and knowledge to safely operate new systems. For this reason, it is likely – and it should be encouraged by regulators – that banks will partner with or procure services from leading nonbank fintech firms that have a competitive advantage in safely deploying and operating digital asset systems. Whether serving as custodians, helping banks integrate with or operate a node on a blockchain, or tokenizing assets, fintech firms can bring the needed digital asset-native expertise required to safely incorporate these new technologies.

In addition, it is important that banks themselves have the confidence and legal certainty to incorporate promising blockchain-based technologies and applications, both independently and in partnership with fintechs. Banks can play an important role in advancing related innovation given their unique ability to accept deposits, which can then, for example, be converted into

⁵ Jeff Cox, Fed's Lael Brainard pushes digital dollar as central bank currency race heats up, CNBC (May 24, 2021), available at <https://www.cnbc.com/2021/05/24/feds-lael-brainard-pushes-digital-dollar-as-central-bank-currency-race-heats-up.html>.



stablecoins that can be used to store, transfer, transmit and exchange the underlying fiat value.⁶ Through appropriate guidance, the FDIC can safely facilitate this type of innovation at both large and small banks, which can benefit consumers and institutional markets.

Forward-Leaning Regulation

Given the potential benefits of digital asset innovation and the requisite need for related technological literacy and regulatory guidance, the FDIC can take certain steps to facilitate responsible innovation and safeguard consumers. A great first step is this request for information, which should help focus further FDIC efforts. In addition, FTA recommends the following:

First, the FDIC should continue to invest in staff training regarding digital assets and the broader ecosystem. Given the novel technologies involved, it is critical that staff have the educational resources to keep pace with industry developments, identify promising new applications and use cases, and monitor potential risks or challenges. Part of this educational process should involve engagement with the industry, including through FDIC's ongoing conferences and related events.

Second, the FDIC should build on the first forthcoming tech sprint hosted by FDIC's Tech Lab (FDITECH) and consider a subsequent sprint on the topic of digital asset innovation.⁷ A new challenge could be around how this area of innovation can improve financial markets and services in the United States, including with respect to the infrastructure underlying such sectors.

Third, the FDIC should take steps to ensure that regulated banks have clear guidance on regulatory expectations regarding digital asset activities to give banks confidence in the permissibility of those activities and a framework for conducting those activities in a safe and sound manner. It is also important to support banks in securing appropriate expertise through partnerships with fintech firms or procurement of related services. Digital asset innovation will

⁶ See, e.g., J.P. Morgan, *J.P. Morgan Creates Digital Coin for Payments* (Feb. 1, 2021), available at <https://www.jpmorgan.com/solutions/cib/news/digital-coin-payments>; Matthew Leising, *Goldman Begins Trading on JPMorgan's Repo Blockchain Network*, Bloomberg (June 22, 2021), available at <https://www.bloomberg.com/news/articles/2021-06-22/goldman-sachs-begins-trading-on-jpmorgan-repo-blockchain-network>.

⁷ Indeed certain State regulators have already hosted such events with great success, including the New York State Department of Financial Services. See <https://www.dfs.ny.gov/techsprint>.



continue to occur, both domestically and globally, and it is accordingly sound policy to ensure that this innovation can occur in the U.S. subject to appropriate regulatory oversight.

To this end, and building on the prior recommendation, the FDIC should foster fintech-bank partnerships and/or vendor relationships in order to ensure that banks are leveraging the best technology and digital asset knowhow. Guidance and clarity regarding regulatory expectations, along with explicit statements of support for such partnerships and relationships, can help bring the best technology and innovation to the regulated banking space.

FTA also encourages the FDIC to pursue its 2020 proposal regarding the establishment of standard setting organizations and the creation of voluntary standards certification programs.⁸ This effort should be advanced through multi-agency coordination to ensure that resulting standards are applicable to meet all relevant regulatory requirements. The development of accepted standards and best practices related to emerging technologies can ensure the safety and soundness of the banking system and that the United States remains a leader in global financial innovation.

Conclusion

FTA applauds the FDIC's forward-leaning posture in this RFI and across its efforts to advance responsible financial innovation. We strongly support the creation and ongoing work of FDITECH and look forward to working closely with the FDIC on the topic of this RFI and broader topics related to the future of finance.

Sincerely,

Financial Technology Association

⁸ FDIC, Request for Information on Standard Setting and Voluntary Certification for Models and Third-Party Providers of Technology and Other Services, 85 Fed. Reg. 44890 (requested Jul. 24, 2020).