August 5, 2022

U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Ensuring Responsible Development of Payments Innovation & Digital Assets - Request for Comment

(Document No. 2022-14588; Document ID TREAS-DO-2022-0014-0001)

The Financial Technology Association (FTA) appreciates the opportunity to respond to this request for public comment issued by the United States Department of the Treasury ("Treasury") regarding recommendations for fostering ongoing payments innovation and the responsible development of digital assets. The FTA believes that payments innovation in the U.S. holds substantial promise in enhancing consumer and small business financial access, and promoting inclusive and equitable economic growth. FTA is encouraged by the Treasury's forward-leaning and proactive public engagement on how new financial technologies can enhance and improve payments systems for domestic and global consumers, merchants, and financial market participants. The following comment is focused on supporting continued payments innovation and increasing payments choice, competition, and security. To this end, we believe that digital assets hold promise in furthering innovation within well-crafted, forward-leaning policy and regulatory frameworks.

The Financial Technology Association

The FTA champions the transformative role of financial technology for American consumers, businesses, and the economy. Representing industry leaders,[1] FTA elevates fintechs' power to increase competition and drive financial innovation through responsible products and services. As our members' voice in Washington, FTA advocates for the modernization of regulation to support greater access to financial services.

The FTA applauds and supports the Treasury's aim of reinforcing U.S. leadership in the global

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[1] FIN. TECH. ASS'N, www.ftassociation.org (last visited July 11, 2022). The FTA's members include Afterpay, Betterment, Block, BlueVine, Brex, Carta, Figure, Klarna, Marqeta, MoneyLion, MX, Nium, Plaid, Ribbit Capital, Sezzle, Stripe, Truework, Wise, Zest AI, Zilch, and Zip.

financial system and in technological and economic competitiveness, including through the responsible development of payment innovations and digital assets. To this end, the FTA believes that a thriving payments ecosystem is crucial to improving the financial lives of American consumers and small businesses. Fintech innovation around the world has been growing exponentially to improve on legacy approaches or solve ongoing access challenges, making domestic investment even more crucial. Fortunately, American fintech payments innovation, including in the digital asset 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.[2]

The following sections outline key areas of payments innovation and related benefits, and offer policy recommendations for further responsible development.

Improving Financial Access, Inclusion and Outcomes through Payments Innovation

Fintech payments companies are actively working to improve on legacy processes and consumer experiences across the payments landscape. As the Treasury explores digital asset development, it is important to do so within the broader payments innovation context. The following details key areas of progress.

Faster Speeds and Lower Costs

Fintech innovators are leveraging internet and mobile technologies to offer consumers new payment and money transfer options that can significantly reduce costs, speed access to funds, improve transparency and convenience, and enhance financial inclusion. Fintech payments innovation is dramatically reducing the cost consumers and small business merchants pay for a range of payment services, including those that cut across borders where legacy services can charge more than 20% of the transaction amount in fees.[3]

New payments models are further improving the speed at which consumers access funds, which can improve cash flow and reduce overdraft fees, while also offering easy mobile access. Mobile

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[2] *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.

[3] Sonia Elks, *Migrants losing $25 billion per year through remittance fees - UN*, Reuter (Sept. 20, 2018), available at https://www.reuters.com/article/us-global-migrants-un/migrants-losing-25-billion-per-year-through-remittance-fees-un-idUSKCN1NP2BA.

access has been a big driver in providing un-or-under-banked individuals with an onramp into the financial system.

Embedded Payments Platforms

Additionally, payments innovators are partnering with consumer-facing businesses to advance "embedded finance" or "banking as a service" payments models; these solutions provide consumers with low-cost and compliant financial services products without the business partner bearing the cost or complexity of building unique payments infrastructure. By leveraging API-based connectivity and open banking frameworks, platform payments companies are democratizing financial services, empowering small businesses to digitize and entrepreneurs to scale, enabling digital banks to innovate, and enhancing consumer access to digital payments solutions.

Increasing Transparency

It is also notable that fintech payments companies are often at the forefront of improving pricing transparency for consumers—a critical benefit. Government-supported research in the United Kingdom has found that consumers and small businesses are often unaware of exchange rate markups, and are significantly more likely to choose the best option when total costs are disclosed.[4] The Australian government has added that consumers should have access to digital tools that enable them to see the full composition of cross-border payments fees and how that impacts the final price of a transfer.[5] Fintech innovation – which relies on digital – is best suited to continue a push for pricing transparency and consumer-centric pricing competition, including through amendment of the CFPB's Remittance Rule requiring disclosure of exchange rate markup costs.[6]

Digital Asset Innovation and the Next Payments Frontier

Digital assets are a growing part of the payments and financial market ecosystem, and will continue to grow in importance as they reach mass adoption. At its core, the category of digital

[4] The Behavioural Insights Team, *The impact of improved transparency of foreign money transfers for consumers and SMEs* (Mar. 21, 2018), available at https://www.bi.team/publications/the-impact-of-improved-transparency-of-foreign-money-transfers-for-consumers-and-smes/.

[5] Australian Competition & Consumer Commission, *Transparent pricing of foreign currency conversion services* (December 2019), available at https://www.accc.gov.au/system/files/1651FAC_FX%20busines%20guide%20Transparent%20pricing%20D02.pdf.

[6] *See* Financial Technology Association, *Letter to CFPB Re: Promoting Transparency & Empowering Consumers in International Payments* (Dec. 1, 2021), available at https://www.ftassociation.org/wp-content/uploads/2021/12/FTA-International-Payments-Transparency-1.pdf.

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.[7] 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.

Policy recommendations to advance U.S. payments innovation

Given the context of payments innovation noted above, the Treasury has an opportunity to advocate a multi-pronged policy framework that will foster further responsible innovation and benefit consumers, small businesses, and broader U.S. economic competitiveness.

1. Expand Federal Reserve Payments System Access

In 2019, the Federal Reserve Board announced intentions to develop a new 24/7 real-time payment and settlement service called FedNow to support faster payments. FedNow will accelerate ubiquitous availability of real-time settlement capabilities among all financial institutions and their end-users. Speed and ubiquity are enormous benefits of real-time settlement, but only to the extent that such benefits are widely available via competitive, diverse providers.

To this end, allowing broader entity access to Federal Reserve services will significantly enhance the nation's payment infrastructure in several ways. First is cost. Different business models may be less reliant on fees because they provide a wider suite of services to consumers and businesses, and competition from these and other types of firms will lower costs and facilitate economic resiliency. Second, as digital channels online and offline continue to evolve at an accelerating pace, a diversity of business models and technology capabilities will keep pace with ever changing marketplace demands. Third, wider access would also address payments and concentration risks by addressing single points of failure presented by the status quo. Indeed, allowing fintech firms to reduce their sole reliance on banks would diversify significant infrastructure risk away from single points of failure, as nearly half of all ACH payment originations nationwide are currently generated by only two banks.

Unfortunately, unlike other global jurisdictions, direct access to the federal payments system is largely restricted in the U.S. to traditional depository banks. As noted below, providing fintech

[7] 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.

companies, including those with federal or state banking charters, with access to the federal payments infrastructure would substantially lower costs for fintech companies offering payments services, which ultimately benefits consumers through lower-cost products. FTA previously provided comment to the Federal Reserve Board on its original and supplemental proposed account access guidelines,[8] and believes this issue is core to the future of U.S. payments innovation.

2. Support Clear and Rationalized Digital Asset Regulatory Frameworks

Today, digital asset issuers and intermediaries face a confusing and fragmented regulatory landscape that includes bespoke licensing regimes, as well as bank regulatory oversight. The FTA supports coherent and rationalized policy frameworks that—as with the dual banking system—recognizes both state and federal frameworks and offers responsible companies clear paths to registration and compliance. To this end, the FTA encourages state regulators to continue efforts to streamline state-level supervision, including through multi-state licensing frameworks, multi-state examinations, and potential passporting or reciprocity regimes. The FTA further supports developing optional federal licensing that can improve the efficiency and clarity of digital asset oversight.

With respect to chartered banking entities, it is critical that federal banking regulators offer clear guidance on regulatory expectations regarding digital asset activities. The Office of the Comptroller of the Currency (OCC) has offered prior guidance permitting nationally chartered banks to engage in digital asset activities, but recently added that such banks should consult with the regulator before engaging in such conduct. The Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve have yet to issue similar guidance.[9] We therefore encourage the Treasury to support the development of clear and consistent guidance across federal bank regulators to ensure regulatory certainty, uniformity, and compliance.

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[8] *See* Financial Technology Association, *Response to Request for Comment on Proposed Guidelines for Evaluating Account and Services Requests* (July 12, 2021), available at https://www.ftassociation.org/wp-content/uploads/2021/07/FTA_Response-to-Fed-Payments-Access.pdf; Financial Technology Association, *Response to Request for Comment on Supplement to the Board's Proposed Guidelines for Evaluating Account and Services Requests* (Apr. 22, 2022), available at https://www.ftassociation.org/wp-content/uploads/2022/04/FTA-Letter-on-Fed-Updated-Proposal_April-2022.pdf.

[9] FTA acknowledges and welcomes the recent advisory and fact sheet from the FDIC regarding the lack of insurance coverage for crypto-products, but recommends further guidance related to proper insured depository activities involving digital assets. *See* FDIC, *Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies* (July 29, 2022), available at https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html.

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 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. Regulators should accordingly look to support and 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. It can further ensure that the United States remains a leader in global financial innovation.

3. Leverage Regulated Fintechs to Maximize the Inclusionary Benefits of Stablecoins and a Potential Digital Dollar

FTA also believes it is prudent and important for the U.S. government to continue its exploration of dollar-backed payments stablecoins and a potential digital dollar in order to ensure the central role of the U.S. Dollar now and into the future. Tokenized access to U.S. Dollars could be an important catalyst of further financial services innovation and financial inclusion. This exploration should be subject, however, to key principles:

- First, well-regulated dollar-backed stablecoins and/or a potential digital dollar should be distributed through trusted private sector intermediaries, including regulated fintechs and banks. Distributing these tokens through fintechs holds substantial promise in expanding financial access and inclusion, as well as leveraging leading-edge technologies and promoting further payments innovation to better serve all payment users equitably.
- Second, the public sector should carefully collaborate with the private sector on global standards, including with respect to interoperability and privacy. Interoperability is critical to ensuring that new payment tools can integrate with existing payments systems in order to promote consumer choice and competition. To this end, a potential U.S. CBDC should operate alongside existing forms of payment.
- Third, any decision to move forward with production of a digital dollar should be based on real-world testing in order to fully understand use-cases and implications for consumers, merchants, existing payments systems, and the broader economy. Any standards or rules should be determined through collaboration that includes government, consumer groups, and an equal cross-section of industry stakeholders, including fintechs and non-banks that serve end-users. Similarly, a diverse range of private sector players

can contribute to CBDC design, construction, and day-to-day operation of underlying infrastructure. Such wide integration - with appropriate oversight and safeguards - can enhance the impact and reliability of the CBDC infrastructure for businesses and end-users.

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Thank you for your consideration of our comments.

Sincerely,

Penny Lee

Penny Lee
Chief Executive Officer
Financial Technology Association