ELECTRONIC TRANSACTIONS ASSOCIATION
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February 14, 2023

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

The Honorable Tim Scott
Ranking Member
Senate Committee on Banking,
Housing, and Urban Affairs
Washington, DC 20510

Dear Chairman Brown and Ranking Member Scott:

On behalf of the Electronic Transactions Association (ETA), we appreciate the opportunity to submit this statement for the record before the Committee's hearing, "Crypto Crash: Why Financial System Safeguards are Needed for Digital Assets."

As the trade association that represents the breadth of the payments industry,[1] the Electronic Transactions Association (ETA) has deep expertise in payments technology, including the use of cryptocurrencies, blockchain, and other crypto-related technologies to facilitate payment transactions. At ETA, we are engaged in ongoing conversations within the industry and with policymakers about the promise and challenges of digital assets, and we believe there is a common set of principles against which any proposed governmental policies should be measured. In this regard, the payments industry has been a leader in developing industry best practices for mitigating risk and protecting the payments ecosystem.

As policymakers consider new laws and regulations for digital assets, they should carefully consider the following principles and ensure that any proposal best serves the needs of consumers and businesses, furthers financial inclusion, preserves and strengthens the financial system, minimizes fraud and money laundering, and ensures that consumers and businesses continue to have access to a robust and innovative array of secure banking and payment options.

1. **Properly Defining Digital Assets:** Developing appropriate and functional definitions of digital assets is a critical first step in ensuring clarity about the regulatory requirements that are applicable to the technology. Given that new technologies can be deployed in many ways, and that new use cases are constantly being developed, digital asset regulation should be based on the underlying activity or use case. ETA suggests policymakers should set principles-based guidelines for industry-led standards to meet. This would permit flexibility over time to accommodate the technology capabilities of various stakeholders and satisfy consumer expectations. Adopting tailored definitions for specific activities and use cases will balance the need to appropriately regulate activity against the harms that might arise from sweeping definitions that inadvertently regulate other activities and use cases, while encouraging innovation that benefits consumers, businesses, and the economy.

2. **Tailoring Regulations to the Risk Profile of the Participant/Activity:** Appropriate regulation involving digital assets is key to unlocking their potential while ensuring a properly functioning payments ecosystem and consumer protection. Entities engaging with digital assets should be

[1] ETA is the world's leading advocacy and trade association for the payments industry. Our members span the breadth of significant payments and fintech companies, from the largest incumbent players to the emerging disruptors in the U.S and in more than a dozen countries around the world. ETA members make commerce possible by processing more than $44 trillion in purchases worldwide and deploying payments innovation to merchants and consumers.

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subject to regulation that is tailored to the risks that they or the activity in which they are engaged poses to the payments ecosystem.

3. **Ensuring Consumer Protection:** The public policy governing digital assets should include a framework of standards that appropriately safeguard the privacy and security of every transaction, protect consumers' interests, and give consumers confidence to use the technology for in-person and online transactions. Policymakers should also ensure that consumers understand those protections and how they may differ from those offered by other payment methods. The ability to identify and reduce fraud is critical and should be part of the regulatory framework.

4. **Harmonizing With Existing Regulatory Frameworks:** The payments industry is heavily regulated, and the adoption of any new laws or regulations governing digital assets should be designed to fit within this established, robust, regulatory framework. This framework includes federal and state laws relevant to anti-money laundering, economic sanctions, and other anti-fraud and consumer protection requirements. New public policies for digital assets should complement and build upon not conflict with, existing laws and regulations as well as private sector rules and practices. Blockchain technology offers real time visibility and traceability that has proven immensely helpful for law enforcement, for example. These types of benefits should be harnessed into any legislation or regulation.

5. **Encouraging Responsible Innovation:** Continual investment in innovation is at the heart of past, present, and future improvements to the financial ecosystem. Development of new technologies and capabilities serve to strengthen cybersecurity and consumer protection, increase efficiencies, and expand access to financial services. As a technology, digital assets have the potential to further many of these developments and promote innovation and developments, including for financial access and inclusion. Accordingly, any regulation involving digital assets should consider the technology's promise to improve existing capabilities while serving as a catalyst and platform for continued innovation.

We appreciate the opportunity to submit this letter for the record and the Committee's leadership on this topic. If you have any questions, please contact me or ETA's Senior Vice President of Government Affairs, Scott Talbott, at stalbott@electran.org.

Sincerely,

Jeff Patchen
Director of Government Affairs
Electronic Transactions Association