ELECTRONIC TRANSACTIONS ASSOCIATION
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The Honorable Patrick McHenry
Chairman
House Committee on Financial Services
Washington, DC 20515

The Honorable Maxine Waters
Ranking Member
House Committee on Financial Services
Washington, DC 20515

Dear Chairman McHenry and Ranking Member Waters:

On behalf of the Electronic Transactions Association (ETA), I am pleased to share our views on how a payment stablecoin regulatory framework will have on the payments ecosystem. At ETA, we are engaged in ongoing conversations within the industry and with policymakers about payment stablecoins, 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.

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 approximately $44 trillion annually in purchases worldwide and deploying payments innovation to merchants and consumers.

ETA's Payment Stablecoin Principles
As policymakers contemplate the development of new laws and regulations concerning stablecoins, it is crucial for them to thoroughly consider these principles. The proposed policies should effectively safeguard consumers and foster financial innovation. To achieve this, policymakers should address the associated risks while offering a clear operational framework for payment stablecoin issuers in the United States. Additionally, legislation should be impartial towards technology, prioritize the underlying activities and risks of specific stablecoins, and ensure that individuals and businesses have access to a diverse range of secure banking and payment options that are both innovative and reliable.

1. **Provide a path for both banks and fintechs**
   Both insured depository institutions and their subsidiaries, as well as fintech entities predominately engaged in financial activities, should be permitted to issue payment stablecoins.

2. **Tailored regulations for issuers**
   Effective regulation is vital to unlock the potential of payment stablecoins while safeguarding the payments ecosystem. The payments industry is subject to robust oversight from federal, state, and regulators. Payment stablecoin issuers should generally comply with existing regulations that are tailored to their specific risks and activities, considering consumer protection, safety, soundness, and financial stability. Payment stablecoin issuers must be subject to the requisite oversight and supervision, which includes AML/KYC requirements, segregation of consumer funds, financial report on regulatory attestations, operational management, cybersecurity risks, appropriate fund management, stabilization mechanisms, redemption rights, consumer disclosures, and approved regulatory attestations.

3. **Protecting consumers**
   Payment stablecoin issuers should comply with reasonable, risk-based operational requirements. These requirements should include prohibiting lending or leveraging customer funds, publicly

disclosing reserve assets, conflicts of interest, segregating customer assets from corporate funds, ensuring asset bankruptcy remoteness, implementing clear policies and procedures for issuance and redemption, and conducting routine self-attestations and audits by the appropriate regulator. In addition, they must establish and maintain a strong and robust compliance program to ensure the integrity of their operations to protect all consumers and small entities. This program should include comprehensive measures to protect consumers against insider trading and market manipulation. Additionally, payment stablecoin issuers should strive to promote financial inclusion and ensure that consumers continue to have access to a robust and innovative array of payment options.

4. **State-chartered and federally issued payment stablecoins**
   Payment stablecoin issuers should have the option to obtain a uniform federal or state licensing option. If payment stablecoin issuers receive a state license, the federal standard should be established as the minimum requirement, with states able to adopt, not dilute, but enhance these standards. Both the state and federal-supervisory standard should ensure appropriate redemption rights, consumer disclosures, operational and cybersecurity management, and guarantee consumers are promptly reimbursed at par value.

5. **Seamless integration of stablecoins in payments**
   Payment stablecoins must seamlessly integrate into the well-functioning payments ecosystem to avoid harming consumers and businesses. Payment stablecoin issuers should adopt a collaborative approach and develop industry-wide standards and best practices to protect consumers and facilitate payment stablecoin adoption.

6. **Quality of stablecoin reserves & maintenance of reserves**
   Payment stablecoin issuers must maintain reserve assets with a market value at least 100% of the par value of the outstanding payment stablecoins. These reserves should consist of high-quality, specified, short-term assets that meet safety and soundness standards, similar to Level 1 High Quality Liquid Assets as defined by the Federal Reserve. Furthermore, it is crucial for these assets to be managed responsibly, ensuring that funds are not mixed in a way that could potentially jeopardize the stability of the payment stablecoin.

We look forward to working with you and the Committee to implement these principles If you have any questions, please contact me or ETA's Executive Vice President, Scott Talbott, at stalbott@electran.org.

Sincerely,

Jeff Patchen
Director of Government Affairs
Electronic Transactions Association