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**Subject: RFI Response: Digital Assets R&D Agenda
(88 FR 88702; Document Number 2023-28263)**

To Whom It May Concern:

The Stellar Development Foundation (“SDF” or the “Foundation”) submits this letter in response to a Request for Information (“RFI”) on “Digital Assets Research and Development,” which was made by the Department of the Treasury (“Treasury”) on December 22, 2023.

SDF appreciates that Treasury is inviting public input to inform its development of a national strategy for financial inclusion. The U.S. government has a critical role to play in advancing financial inclusion efforts in the face of evolving financial products and services, technology, and other tools and infrastructure. Specifically, this letter addresses two key points for Treasury’s consideration:

- (1) Defining financial inclusion by considering which financial products and services consumers should be able to access; and
- (2) Actions to promote financial inclusion including methods to establish trust in underserved communities and to leverage technology and data sources to create new opportunities and services.

SDF appreciates the opportunity to respond to the RFI and would be pleased to provide additional information that Treasury might find useful.

Sincerely,

Candace Kelly

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Stellar Development Foundation

Enclosure

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Stellar Development Foundation Response to RFI on Financial Inclusion

Stellar Development Foundation

By way of background, SDF is a US-based nonstock, nonprofit organization that contributes to the development and growth of the Stellar network (“Stellar”) and the “Stellar ecosystem” – the individuals, developers, and businesses who build on or interact with Stellar. Stellar is an open-source network that connects the world’s financial infrastructure. Founded in 2014, SDF helps maintain Stellar’s codebase, supports the technical and business communities building on the network, and serves as a speaking partner with policymakers, regulators, and institutions. Our mission is to create equitable access to the global financial system, using the Stellar network to unlock the world’s economic potential through blockchain technology.

From a technology standpoint, Stellar offers a decentralized, fast, scalable, and sustainable network for financial products and services. It is both a cross-currency transaction system and a platform for digital asset issuance that offers unique, robust asset issuer controls. Financial institutions and fintechs worldwide issue assets and settle payments on the Stellar network, which has grown to more than 7 million accounts. As of December 2023, over 14 billion operations have been processed on the Stellar network.

In Washington, D.C., SDF has engaged in public commentary, Congressional testimony, committee briefings, and proactive consultations with U.S. lawmakers, administration officials, and regulators, both one-on-one and through industry associations.

(A)(1)(a) How do you or your organization define financial inclusion?

SDF views the Stellar network as public infrastructure that enables individuals to access a suite of everyday financial services. The network is a public good in its truest sense – that is, non-rival and non-excludable. Anyone can access the Stellar network and one individual’s access does not diminish the opportunity for another. As such, the need to underscore access as mission-critical to the advancement of financial inclusion is a core tenet for the Foundation. Many emerging economies follow a spend-to-lend model to drive financial inclusion efforts. In a foundational study on financial inclusion, Allen et al. (2012) define financial inclusion as the use of formal accounts and conclude there is significant evidence that supports the positive effects of having a bank account on an individual’s saving and investment behavior. This means that access to the formal financial system for individuals, households, and small businesses is a prerequisite for furthering financial

inclusion. Having an account enables individuals and businesses to participate in the increasingly digital economy and access advanced services such as savings and lending. Without a commitment to access, there is no path to sustainable financial inclusion. SDF shares this belief and is committed to supporting the Stellar network as a public and freely accessible corridor for everyday financial services.

(A)(2)(a)(b) What do you consider to be in and out of scope for efforts to promote financial inclusion?

SDF strongly supports the provision of basic services that undergird participation in the formal financial system. Specifically, services that support digital transactions are increasingly necessary in today's economy. Many businesses now operate cashless, creating another layer of financial exclusion. As such, consumers should have access to free or low-cost products that support everyday digital financial transactions. However, one of the biggest challenges is the onboarding process required by traditional financial institutions to verify and approve new users. Access to bank accounts and debit cards is often burdensome, as exclusionary criteria such as minimum account balances and various fees make these services expensive to use. One way to combat exclusionary criteria is to ensure that financial disadvantage is not conflated with anti-money laundering and terrorist financing risk. While the onboarding process should rightly continue to address anti-money laundering and combat terrorist financing ("AML/CFT"), equating the two creates poor incentives that lead to prohibitive downstream costs for consumers. In fact, sound AML/CFT practices complement financial inclusion efforts by protecting those who are most vulnerable and suffer the greatest shocks in the face of economic risk.

Products such as digital wallets have become a popular alternative for storing and accessing individual funds internationally. Digital wallets are often free services that anyone can access and serve as infrastructure that connects users to the wider economy. These services allow users to store savings, send and receive money, make payments, and manage funds from a mobile device.

One example of how digital wallets are enabling better access is the work of the United Nations High Commissioner for Refugees ("UNHCR") on the Stellar Aid Assist ("SAA") platform. SAA is a disbursement system powered by the Stellar network that helps humanitarian aid organizations deliver urgently-needed cash assistance quickly and transparently to vulnerable populations. Over the past two years, UNHCR has provided aid to people affected by the war in Ukraine via digital wallets. By the end of 2023, two million dollars had been successfully disbursed. Digital wallets do not require a bank account or debit card and provide recipients with a secure place to hold and transport funds. Individuals can receive digital dollars remotely and hold them for an extended period of time.

Services and products also ought to consider the many informal institutions within the local economy they endeavor to support. Societal norms and informal institutions play an important role in how and to what extent financial services and formal markets are employed within communities. Communities share a set of beliefs that influence behavior and interactions with other community members, including how money is exchanged. One way to account for these nuances is to provide services that are not overly prescriptive. For instance, supporting basic financial activities like peer-to-peer (“P2P”) payments is critical to building an inclusive and sustainable economy. Improving P2P payments uplift local economic activity by making it easier to make payments and record transactions between consumers and local businesses. Everyday low value transactions are the bedrock of many local economies and are often excluded from the wider financial ecosystem. Successful instant payment systems, such as the Pix system in Argentina, recorded that 87% of all transactions in 2022 were P2P transactions and over 50% of such transactions were valued between 0 and 8 USD.¹ Promoting financial inclusion means supporting efforts from the ground up, which means focusing on the most commonly used services first.

(D)(2)(a) What should be done to improve financial inclusion for underserved communities?

One way to increase the trust of excluded consumers is to change the locus of trust. Historically, financially excluded consumers have been misrepresented by private and public actors, including financial institutions and local governments. Financial inclusion efforts that leverage technological innovation are particularly well-suited to address this trust gap. Innovations like smart contracts allow consumers to access similar services in the financial ecosystem without interfacing with the same actors they distrust. Smart contracts are programs written as code in digital ledgers that self-execute when certain predetermined conditions are met. In short, they operate as automated “if/then” statements and exist in execution environments that do not rely on intermediaries like legacy institutions. Innovation like smart contracts are creating new ways to access familiar financial services, but without the same biases that have undermined underserved communities in the past. Smart contracts in a digital environment open up the possibility of access to financial services offered by non-traditional institutions such as a local community. For instance, smart contracts can facilitate the expanded use of alternative financing options like community financing. Here, consumers can work with those they already trust.

SDF also advocates the use of open-source code in smart contracts and digital financial innovation in general. The benefits of open-source software shape how the Internet is used: two open-source web servers, Nginx and Apache, account for over 60% of

¹ Central Bank of Brazil, Pix Management Report, 2023.

all websites on the Internet.² Proprietary smart contracts only shift the burden of trust from institutions to inaccessible code, both of which exist behind closed doors. This can lead to similar trust issues. In contrast, open source code is transparent, auditable, and verifiable. With open-source smart contracts, there is no need for intermediaries and user trust is strengthened through transparency.

(D)(3)(a) What can be done to enable responsible, equitable innovation in financial products and services that enhances financial inclusion while ensuring robust consumer protections, including privacy and data security? For example, could novel data sources, data analytic techniques or algorithms be leveraged to promote access to financial products while ensuring privacy protections and safeguarding consumer data?

SDF also supports the increased use of open data. Data is created when users interact with programs and applications – an open data philosophy promotes robust accountability and transparency of this information. Open data is not data that is mined and kept under lock and key by private institutions, but data that can be freely used, reused and distributed in a way that is universally usable and modifiable.³ Such data can also be modified to exclude sensitive information that can be used to identify a specific person.

Financial ecosystems can benefit from more transparent data. One example that is redefining the way institutions use their data is the open banking initiative. Bank data has been historically difficult to share: individuals can download and access their data, but cannot share it with other financial institutions or make meaningful use of it. With open banking, participating banks make users' financial data, such as transaction history, available to independent third-party providers, which can be accessed by any participating business. Open banking empowers consumers to own and leverage their financial data to gain access to a more diverse range of services. With access to more financial data, competing firms can make data-driven decisions to offer more customized services to their clients. The financial services market is evolving into a networked environment where both banks and non-banks are competing to offer consumers an ever-increasing suite of services. The Central Bank of Brazil, a frontrunner in the open banking initiative, endeavors to encourage innovation, promote competition, increase payment system efficiency, and foster a digital financial identity. According to the central bank, "the sharing of information must be carried out through open and integrated platforms and/or infrastructures of information systems."

In Brazil, Nubank is an important example of a company focused on transforming an industry that historically had failed to use data in the best interest of its customers.

² W3Techs, Usage Statistics and Market Share of Web Servers, 2023.

³ Perens, Sroka, Stu, The Open Source Definition, 2023.

Although there are over 150 commercial banks in Brazil, five banks account for 87% of all commercial bank assets.⁴ When Nubank launched its lending business, it offered introductory loans starting at \$14 and automatically offered higher limits as its customers grew their credit history. This data-driven approach contrasts with commercial banks that disqualify individuals from lending altogether and charge high interest rates to manage their risk.

⁴ Federal Reserve Economic Data, 5-Bank Asset Concentration for Brazil, 2024.