January 14, 2020

The Honorable Sylvia Garcia
Member of Congress
1620 Longworth House Office Building
Washington, DC 20515

Dear Representative Garcia,

On behalf of our nation's venture capital (VC) investors and the entrepreneurs they support, I write to express our strong concerns about the impact that the *Managed Stablecoins are Securities Act* would have on startup blockchain projects backed by venture capital. We appreciate your views on this matter and look forward to working with you to provide startup blockchain projects a clear regulatory framework that will encourage U.S. leadership in innovation and strengthen investor protection.

The NVCA Blockchain Working Group brings together venture capital investors and the blockchain entrepreneurs they support to engage in the dynamic public policy conversations surrounding the emerging technology. As background, venture capitalists (VCs) create partnerships with institutional investors to combine the capital held by pension funds, endowments, foundations and other sophisticated investors with their talent and expertise to make risky, long-term equity investments into innovative startups. VCs typically invest early in the promise of an idea, then support a company with multiple investment rounds spanning between five and ten years, sometimes longer.

Through commercialization of new technologies such as the personal computer, biotechnology, or the internet, VCs partner with pioneers of new industries to create dynamic economic activity that has revolutionized society. Many of our members believe that blockchain holds the promise to be the next transformative industry, provided the policy environment allows entrepreneurs to fully experiment with the technology in the United States. The current discussions around blockchain have many similarities to the regulatory policy conversations which occurred at the outset of the biotechnology industry and the commercialization of the internet. In each of these cases, doubts amongst policymakers proliferated and policy proposals were considered that could have prevented American leadership in each field before their full promise was realized. Fortunately, cooler heads prevailed and as a result the United States has been the unquestioned global leader in technological innovation since World War II.

While the commercialization of the technology is in its infancy, a glimpse into the current efforts of blockchain entrepreneurs offers a clear illustration of its potential. As we speak, blockchain entrepreneurs are working to apply the technology to solve critical societal challenges like access to financial services for the unbanked and underbanked, expanding economic opportunity, fighting climate change, and providing a market-based solution to technology and financial services industry concentration. These individuals are undertaking the risky endeavor of entrepreneurship to explore how the power of open protocols can fundamentally redesign how individuals and businesses use the internet. History shows that open networks drive innovation and consumer value; blockchain can create the fuel that powers the rise of open networks.

Importantly, all of these efforts are being developed on open, decentralized architectures, similar to how the early Internet was developed. This architecture is particularly relevant today given some of the concerns expressed by many market participants about the concentration of market share held by a small number of important technology platforms. Blockchain architectures are governed and managed by a decentralized community, participation in which is available to anyone who so chooses, further democratizing access to this important foundational technology.

Stablecoins provide a critical onramp to the full utilization and commercialization of blockchain by using the technology in conjunction with existing stores of value to create early use cases for consumers. This pairing of emerging technology with more traditional instruments provides greater certainty to early adopters to exploit the benefits of blockchain with the protection and familiarity of more traditional assets underpinning the projects. For example, stablecoins minimize the volatility otherwise present in early markets, allowing consumers to utilize stablecoins for the procurement of goods and services and making it harder for those entering the markets solely for speculative purposes to succeed.

Entrepreneurs developing stablecoins by definition endeavor to create an asset whose value does not materially appreciate or depreciate over time. This attribute is critical to the usefulness of stablecoins in stabilizing entry points to markets, but it also makes many stablecoins particularly poor candidates for treatment as securities. The general stablecoin user does not acquire a stablecoin with the expectation that its value will increase but rather as a tool to access markets associated with blockchain technology in a more risk-protected way.

The *Managed Stablecoins are Securities Act* would unintentionally damage this early adoption process by imposing an overly broad definition of '*stablecoin*' that will inadvertently sweep in numerous startup projects, though they are likely not intended targets of the legislation. The definition would impact non-managed stablecoins as well as managed stablecoins and would be another roadblock to U.S. blockchain entrepreneurs struggling to navigate an uncertain regulatory environment in order to compete in a global innovation race. Further, our securities laws already provide the SEC significant authority to define certain stablecoin projects as securities if they deem it appropriate. Additional regulations also exist in the form of federal anti-money laundering and know your customer (AML/KYC) rules applied to stablecoins and in various state money transmitter rules.

While it is unknown precisely how blockchain-based technologies will develop over time, we do believe that they will become an important development architecture for many new applications, much in the way that the Internet has developed. That is why international competition to earn the benefits of early mover status is becoming more active. In fact, Chinese President Xi Jinping gave a recent speech stating his intent that *"China take the leading position in the emerging field of blockchain, occupy the commanding heights of innovation, and gain new industrial advantages."* The operative questions for policymakers aren't whether or not blockchain is here to stay, it's how the technology will impact society, who will lead and enjoy the benefits of commercialization, and who will create and maintain the ground rules.

For the first time in the modern era, United States leadership in developing next generation technology is in doubt, including in fields such as machine learning and artificial intelligence, quantum computing, renewable energy, 5G, and, as previously noted, blockchain. In fact, the U.S. has lost 40 points of market share over the last 25 years to other countries, going from attracting around 90 percent of global venture capital investment twenty years ago to just about 50 percent last year. Market share declines in any one of these fields can cost the U.S. economy millions of high paying jobs, billions in annual tax revenue, and put at risk our military superiority. We urge today's policymakers to view our leadership as a national imperative and prioritize preserving American leadership in the global innovation race.

While we may not fully understand the potential of blockchain's impact on society for a decade or more, we do know from experience that comprehensive experimentation in the United States will give our country the greatest chance to continue to be the global leader in technological innovation. We look forward to working with you to create a regulatory framework that provides necessary consumer protections while allowing entrepreneurs to do what they do best: push the boundaries of science to discover the full promise of emerging technologies for the benefit of the U.S. economy and society.

Thank you for your consideration of our views.

Sincerely,

Bobby Franklin

Bobby Franklin
President and CEO