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TO: Kansas Chartered Credit Unions
SUBJECT: Distributed Ledger Technology

DISTRIBUTED LEDGER TECHNOLOGY

In May 2022, the National Credit Union Administration (NCUA) issued [Letter to Credit Unions No. 22-CU-07](#) with regard to the use of distributed ledger technology (DLT). With this letter, NCUA wanted to clarify its expectations for credit unions contemplating the use of new or emerging DLT with the recognition new technologies may transform how credit unions perform traditional operations and services.

DLT is often used interchangeably with blockchain; however, it is important to understand DLT is the framework which underpins it. Blockchain is the technology which enables the existence of cryptocurrency, *e.g.*, bitcoin. At this point, many of you have probably stopped reading! Don't! Read on to find out how this will affect financial institutions, including credit unions, in the future.

How does blockchain work? It is a decentralized ledger of all transactions across a peer-to-peer network. Using this technology, participants can confirm transactions, including fund transfers, without a need for a central clearing authority. The network validates the transaction and a new block is added to the existing blockchain. After verification, the transaction is combined with others to create a new block of date for the ledger.

For financial services, this could mean faster and cheaper settlements. In turn, the process could shave billions of dollars from transaction costs while improving transparency. How much of your credit union's operating expenses is spent on payment systems operations?

Blockchain is a new technology, having been around less than a decade. Of course, controls are new, too, which leads to uncertainty, particularly in the regulatory area. There are many in the credit union and technology industries actively seeking new options to incorporate this process in order to better serve their members. In addition, credit unions are providing a pathway for their members interested in purchasing cryptocurrency.

Think back to where technology was five years ago; now flash forward to 2027! Will your credit union be positioned to offer new products and services, including the ability to provide faster and more efficient payment systems for your members?

Last month, in an effort to provide additional value to our Kansas state-chartered credit unions, KDCU sent an email to credit union CEO's and managers asking for insight on what they might be exploring, including DLT's use for payment systems. Thank you to those who responded!