FEDERAL RESERVE SYSTEM

12 CFR Parts 208, 211, 217, 225, 247 and 263

[Docket No. R–1899]

RIN 7100–AH29

Implementing the Federal Reserve Board's Responsibilities Under the GENIUS Act

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Board of Governors of the Federal Reserve System (Board) proposes to issue regulations to implement the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) with respect to Board-supervised permitted payment stablecoin issuers (PPSIs) and certain other entities that are subject to the Board's jurisdiction. In addition, the Board proposes to issue regulations to implement the prohibition on tying in section 4(a)(8) of the GENIUS Act, which is applicable generally to all PPSIs.

DATES: Comments must be received by November 30, 2026.

ADDRESSES: You may submit comments, identified by Docket No. R–1899 and RIN 7100–AH29, by any of the following methods:

- *Agency Website: https://www.federalreserve.gov/apps/proposals/.* Follow the instructions for submitting comments, including attachments. *Preferred Method.*
- *Mail:* Benjamin W. McDonough, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.
- *Hand Delivery/Courier:* Same as mailing address.
- *Other Means: publiccomments@frb.gov.* You must include the docket number in the subject line of the message.

Comments received are subject to public disclosure. In general, comments received will be made available on the Board's website at *https://www.federalreserve.gov/apps/proposals/* without change and will not be modified to remove personal or business information including confidential, contact, or other identifying information. Comments should not include any information such as confidential information that would not be appropriate for public disclosure. Public comments may also be viewed electronically or in person in Room M–4365A, 2001 C St. NW, Washington, DC 20551, between 9 a.m. and 5 p.m. during Federal business weekdays.

FOR FURTHER INFORMATION CONTACT: Juan Climent, Deputy Associate Director, (202) 460–2180, Jeff Ernst, Manager, (202) 369–9439, Christopher Anderson, Principal Economist, (202) 821–7114, Nadya Zeltzer, Lead Financial Institution Policy Analyst, (202) 452–3164, Christopher Powell, Lead Financial Institution Policy Analyst, (202) 507–2831, and Francis Kuo, Lead Financial Institution Policy Analyst (202) 339–7041, Division of Supervision and Regulation; Asad Kudiya, Associate General Counsel, (202) 475–6358, Kelley O'Mara, Assistant General Counsel, (202) 430–0911, Isabel Echarte, Senior Attorney, (202) 945–2412, Vivien Lee, Attorney, (240) 814–3594, and Jeremy Lin, Attorney, (240) 374–7669, Legal Division. For users of TTY–TRS, please call 711 from any telephone, anywhere in the United States or (202) 263–4869.

SUPPLEMENTARY INFORMATION:

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I. Background

The Guiding and Establishing National Innovation for U.S. Stablecoins Act (12 U.S.C. 5901 *et seq.*) (GENIUS Act or the Act) was enacted on July 18, 2025. The Act establishes a regulatory framework for issuers of ''payment stablecoins.'' Under section 2(22) of the Act (12 U.S.C. 5901(22)), ''payment stablecoin'' means ''a digital asset—(i) that is, or is designed to be, used as a means of payment or settlement; and (ii) the issuer of which—(I) is obligated to convert, redeem, or repurchase for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value; and (II) represents that such issuer will maintain, or create the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of monetary value[.]'' The term does not include a digital asset that is (i) a national currency;[1] (ii) a deposit (as defined in 12 U.S.C. 1813), including a deposit recorded using distributed ledger technology; or (iii) a security, as defined in 15 U.S.C. 77b, 78c, or 80a–2.[2]

The GENIUS Act generally prohibits any person other than a permitted payment stablecoin issuer (PPSI) from

[1] National currency has the same meaning as in section 2(19) of the GENIUS Act (12 U.S.C. 5901(19)).

[2] The Act provides that, for the avoidance of doubt, no bond, note, evidence of indebtedness, or investment contract that was issued by a PPSI shall qualify as a security solely by virtue of its satisfying the conditions described in section 2(22)(A) of the Act, consistent with section 17 of the Act. 12 U.S.C. 5901(22)(B)(iii).

issuing a payment stablecoin in the United States.[3] It further prohibits digital asset service providers [4] from offering or selling a payment stablecoin to a person in the United States unless the issuer is a PPSI or a foreign payment stablecoin issuer that meets certain requirements.[5] The Act sets forth various regulatory and licensing requirements for PPSIs and foreign payment stablecoin issuers. In many instances, the Act states that the specific requirements applicable to these entities (*e.g.,* those related to capital, reserve asset diversification, risk management), shall be set forth by regulations issued by the relevant primary Federal payment stablecoin regulator, in coordination with other relevant agencies, as appropriate.[6] This notice of proposed rulemaking (proposed rule) represents one piece of the GENIUS Act's implementing regulations.[7] The Board of Governors of the Federal Reserve System (Board) is concurrently issuing a notice of proposed rulemaking seeking comment on its applications procedures applicable to insured State member banks seeking approval for a subsidiary to issue payment stablecoins.

The Board has regulatory, supervisory, or enforcement authority over certain PPSIs, including subsidiaries of State member banks, and State-qualified payment stablecoin issuers subject to the Board's regulatory, supervisory, or enforcement authority under section 4 or 7 of the GENIUS Act (12 U.S.C. 5903 and 5906). The Board also has authority to issue regulations to implement the prohibition on tying in section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), which would apply to all PPSIs regardless of their primary Federal or State regulator. The proposed rule generally sets forth, and seeks comment on, proposed regulations to implement the GENIUS Act that would apply to Board-supervised PPSIs, other PPSIs, and other Board-supervised entities.

The GENIUS Act's effective date is the earlier of 18 months after the enactment date (July 18, 2025) or 120 days after the primary Federal payment stablecoin regulators issue any final regulations implementing the Act. The Board anticipates that these implementing regulations will be updated, as necessary, in the years following the effective date of the GENIUS Act as the business practices of PPSIs continue to evolve and develop. In addition, other regulations beyond those addressed in this rulemaking may need to be updated in light of the passage of the GENIUS Act. For example, the Board is considering whether certain regulations that impose different requirements at different asset thresholds should be amended to exclude stablecoin reserves from the asset calculation.

A. Request for Comments

The Board requests feedback on all aspects of the proposed rule and has set out specific questions for commenters to consider in each section of this **SUPPLEMENTARY INFORMATION**. Commenters should clearly identify the question number assigned by the Board when providing responses in comment letters.

The Board notes that many aspects of the proposed rule are similar to the notices of proposed rulemaking that the OCC,[8] FDIC,[9] and NCUA [10] released to implement their responsibilities under the GENIUS Act. For the convenience of commenters, the Board has generally tagged questions throughout the **SUPPLEMENTARY INFORMATION** that are similar to those posed by the OCC, including by identifying the numbering for the relevant similar questions in the OCC's notice of proposed rulemaking. Commenters are also generally invited to provide feedback on differences between the proposed rule and the OCC's, FDIC's, or NCUA's approaches, where the regulatory frameworks would differ if implemented as proposed.

B. Self-Executing Provisions

The GENIUS Act includes a number of self-executing provisions that are not addressed in this rulemaking.

- Section 4(a)(6)(B) of the GENIUS Act (12 U.S.C. 5903(a)(6)(B)) provides that a PPSI can only issue payment stablecoins if the issuer has the technological capability to comply, and will comply, with the terms of any lawful order.
- Section 4(g) of the GENIUS Act (12 U.S.C. 5903(g)) provides that a Federal savings association established under the Home Owners' Loan Act (HOLA) (12 U.S.C. 1461 *et seq.*) that holds a reserve that satisfies the requirements of section 4(a)(1) of the GENIUS Act shall not be required to satisfy the qualified thrift lender test under section 10(m) of HOLA (12 U.S.C. 1467a(m)) [11] with respect to such reserve assets.
- Section 5(h) of the GENIUS Act (12 U.S.C. 5904(h)) expressly preempts ''any State requirement for a charter, license, or other authorization to do business with respect to a'' subsidiary of a State member bank that is a Board-supervised PPSI. As a result, these entities are only required to obtain authorization to do business from the Board, which reduces the unnecessary complexity that would result from requiring these entities to also obtain a charter, license, or other authorization from one or more States.
- Section 7(f)(4) of the GENIUS Act (12 U.S.C. 5906(f)(4)) provides that nothing in the GENIUS Act preempts State consumer protection laws, including with respect to Board-supervised PPSIs.
- Section 16(d) of the GENIUS Act (12 U.S.C. 5915(d)) provides that a State-chartered depository institution with a PPSI subsidiary ''may engage in the business of money transmission or provide custodial services through the [PPSI] in any State if such State-chartered depository institution is . . . required by the laws or regulations of the home state to establish and maintain'' adequate capital and

[3] *See* 12 U.S.C. 5902(a). *See also* 12 U.S.C. 5916 (excepting foreign payment stablecoin issuers that meet certain requirements from the prohibitions in section 3 of the Act).

[4] ''Digital asset service provider'' means a person that, for compensation or profit, engages in the business in the United States (including on behalf of customers or users in the United States) of: (i) exchanging digital assets for monetary value; (ii) exchanging digital assets for other digital assets; (iii) transferring digital assets to a third party; (iv) acting as a digital asset custodian; or (v) participating in financial services relating to digital asset issuance. *See* 12 U.S.C. 5901(7). The term ''digital asset service provider'' does not include (a) a distributed ledger protocol; (b) an immutable and self-custodial software interface; or (c) a person solely by virtue of their (1) developing, operating, or engaging in the business of developing distributed ledger protocols or self-custodial software interfaces; (2) developing, operating, or engaging in the business of validating transactions or operating a distributed ledger; or (3) participating in a liquidity pool or other similar mechanism for the provisioning of liquidity for peer-to-peer transactions. *Id.*

[5] The prohibition against digital asset service providers offering or selling payment stablecoins that are not issued by PPSIs begins on July 18, 2028. *See* 12 U.S.C. 5902(b)(1). The prohibition against digital asset service providers offering or selling payment stablecoins that are issued by foreign payment stablecoin issuers unless they meet certain requirements goes into effect as of the effective date of the GENIUS Act. *See* 12 U.S.C. 5902(b)(2). The prohibitions that apply to a digital asset service provider would apply to a PPSI to the extent that the PPSI is a digital asset service provider.

[6] *See, e.g.,* 12 U.S.C. 5903(a)(4), (h); 5913.

[7] *See, e.g.,* 90 FR 59409 (December 19, 2025) (Federal Deposit Insurance Corporation (FDIC)); 91 FR 6531 (February 12, 2026) (National Credit Union Administration (NCUA)); 91 FR 10202 (March 2, 2026) (Office of the Comptroller of the Currency (OCC)); 91 FR 16844 (April 3, 2026) (U.S. Department of the Treasury (Treasury)); 91 FR 18582 (April 10, 2026) (Office of Foreign Asset Control (OFAC) and Financial Crimes Enforcement Network (FinCEN)); 91 FR 18534 (April 10, 2026) (FDIC); 91 FR 28956 (May 18, 2026) (NCUA); 91 FR 37234 (June 22, 2026) (FinCEN, OCC, Board, FDIC, and NCUA); 91 FR 37840 (June 24, 2026) (OCC); 91 FR 53368 (August 18, 2026) (Treasury).

[8] 91 FR 10202 (March 2, 2026) (OCC).

[9] 91 FR 18534 (April 10, 2026) (FDIC).

[10] 91 FR 28956 (May 18, 2026) (NCUA).

[11] A Federal savings association's status as a qualified thrift lender may be relevant to its parent savings and loan holding company's status under section 10 of HOLA, which is administered by the Board. *See* 12 U.S.C. 1467a.

liquidity, and such capital and liquidity are ''regularly reassessed by the home State banking supervisor to take into account any changes in the financial condition and risk profile of the institution, including any uninsured deposits maintained by such institution.'' Under the GENIUS Act, an insured State member bank may apply to the Board to seek permission to form a PPSI subsidiary. Because insured State member banks are State-chartered depository institutions, this provision would apply to the extent the laws or regulations of the State member bank's home state meet the criteria with respect to capital and liquidity.

Because these GENIUS Act provisions are self-executing, the Board is not proposing regulatory text to implement them. However, the Board invites public comment on all aspects of this framework, including whether the self-executing provisions of the Act should be codified in the Board's regulations for convenience.

II. Description of the Proposed Rule

A. Subpart A—Purpose, Scope, Definitions, and Severability

Subpart A of the proposed rules provides the purpose and scope and defines terms used throughout the proposed rule.

1. Authority, Purpose, and Scope (Proposed § 247.1)

Proposed § 247.1 sets forth the authority, purpose, and scope of the Board's proposed stablecoin-related regulations. Paragraph (a) cites the GENIUS Act (12 U.S.C. 5901 *et seq.*) as the authority for the proposed rule and describes the purpose of the proposed rule as implementing the Board's regulatory responsibilities under the Act.

Paragraph (b) would state the scope and affected entities of each subpart of the proposed rule as follows: (1) subpart B implements certain provisions in section 4 of the GENIUS Act (12 U.S.C. 5903), which requires the Board to issue regulations applicable to Board-supervised PPSIs; (2) subpart C implements section 10 of the GENIUS Act (12 U.S.C. 5909), which imposes requirements on Board-supervised persons seeking to provide custodial or safekeeping services for payment stablecoin reserves, payment stablecoins used as collateral, or the private keys used to issue payment stablecoins; (3) subpart D implements section 5 of the GENIUS Act (12 U.S.C. 5904), which requires the Board to establish applications procedures applicable to insured State member banks seeking approval for a subsidiary to issue payment stablecoins;[12] (4) subpart E implements section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), which imposes a tying prohibition on all PPSIs, and applies that tying prohibition in a manner consistent with section 4(a)(12)(B)(i)(III) of the Act (12 U.S.C. 5903(a)(12)(B)(i)(III)) to certain companies unanimously approved by the Stablecoin Certification Review Committee under section 4(a)(12) of the Act (12 U.S.C. 5903(a)(12)); and (5) subpart F implements rules pertaining to State-qualified payment stablecoin issuers—specifically, the Board's backup-enforcement authority during unusual and exigent circumstances under section 7(e) of the GENIUS Act (12 U.S.C. 5906(e)) and the transition and waiver process for uninsured State-chartered depository institutions under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)). These subparts are described in greater detail below.

2. Definitions (proposed § 247.2)

Proposed § 247.2 contains the following definitions of terms used throughout proposed part 247, many of which are included in or based on the definitions in the GENIUS Act (12 U.S.C. 5901 *et seq.*).[13] Certain of these definitions are also proposed in substantially the same form in the Board's concurrent notice of proposed rulemaking regarding applications procedures for Board-supervised insured depository institutions seeking approval for a subsidiary to issue payment stablecoins.

Affiliate. The Board is proposing to define the term ''affiliate'' consistent with the definition in the Bank Holding Company Act (BHC Act), 12 U.S.C. 1841(k), and the Board's Regulation Y, 12 CFR 225.2(a), but modified to use the defined term ''person'' in place of the term ''company.'' Under the proposed rule, the term ''affiliate'' would mean a person that controls, is controlled by, or is under common control with another person. The Board believes the proposed definition of affiliate would include the appropriate individuals and entities that could be involved in payment stablecoin issuance.

Bank Secrecy Act. The Board is proposing to define the term ''Bank Secrecy Act'' consistent with the definition provided in the GENIUS Act (12 U.S.C. 5901(2)), with certain technical edits. Under the proposed rule, the term ''Bank Secrecy Act'' would mean: (1) section 21 of the Federal Deposit Insurance Act (12 U.S.C. 1829b); (2) chapter 2 of title I of Public Law 91–508 (12 U.S.C. 1951 *et seq.*); and (3) subchapter II of chapter 53 of title 31, United States Code and notes thereto (31 U.S.C. 5311 *et seq.*). The proposed rule would add the phrase ''and notes thereto'' as a clarification.

Board. Under the proposed rule, ''Board'' would mean the Board of Governors of the Federal Reserve System. This accords with the definition of Board provided in the GENIUS Act (12 U.S.C. 5901(3)).

Board of directors. Under the proposed rule, ''board of directors'' would mean an entity's board of directors or the group of individuals that serve the nearest equivalent function of acting as the governing body of the entity. The proposed definition captures the persons responsible for certain requirements under proposed part 247, including for entities that do not have a board of directors as that term is commonly understood. This definition is similar to the definition of this term in 12 CFR 225.31(e)(1).

Board-supervised PPSI. Under the proposed rule, ''Board-supervised PPSI'' would mean a PPSI supervised and regulated by the Board pursuant to the GENIUS Act (12 U.S.C. 5901 *et seq.*). This term includes (i) subsidiaries of insured State member banks that have been approved by the Board to issue payment stablecoins and (ii) State-qualified PPSIs that are uninsured State-chartered depository institutions that have transitioned to the Board's regulatory framework under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)) and proposed § 247.51. This term does not include PPSIs for which the Board has only enforcement authority in unusual and exigent circumstances under section 7(e)(1) of the Act (12 U.S.C. 5906(e)(1)) and proposed § 247.50, or PPSIs subject only to the Board's regulations implementing the tying prohibition in section 4(a)(8) of the Act (12 U.S.C. 5903(a)(8)) and subpart E of the proposed rule.

Control. The Board is defining ''control'' such that a person would control another person if: (1) the person directly or indirectly or acting through one or more other persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other person; (2) the person controls in any manner the election of a majority of the directors or trustees of the other person; or (3) the

[12] The Board is concurrently proposing regulations to implement applications procedures for insured State member banks seeking approval for a subsidiary to issue payment stablecoins.

[13] The definitions in proposed § 247.2 describe only terms used in proposed part 247. These definitions do not interpret terms for purposes of any other statute or regulation and are not issued pursuant to section 3(d) of the GENIUS Act (12 U.S.C. 5902(d)).

Board determines, after notice and opportunity for hearing, that the person directly or indirectly exercises a controlling influence over the management or policies of the other person. Like the definition of ''affiliate,'' the proposed definition of ''control'' is similar to the definition in the BHC Act.

This approach is consistent with the statutory definitions in the GENIUS Act. The GENIUS Act and § 247.2 of the proposed rule define the term ''subsidiary'' by reference to the definition of ''subsidiary'' in the Federal Deposit Insurance Act, which states that a subsidiary includes any company which is owned or controlled directly or indirectly by another company.[14] In the Federal Deposit Insurance Act, the term ''control'' is defined by reference to the BHC Act.[15] The Board's Regulation Y sets out the Board's presumptions of control and noncontrol under the controlling influence prong of the BHC Act definition of ''control.''[16] The Board would interpret the term ''control'' in a manner that is consistent with the definition in the Board's Regulation Y, 12 CFR 225.2(e).

Covered shareholder. The Board is proposing to define the term ''covered shareholder'' to mean a person (i) who directly or indirectly or acting in concert with one or more persons, or together with members of their immediate family, will own, control, or hold the power to vote 25 percent or more of any class of voting securities of an entity; (ii) who controls in any manner the election of a majority of the entity's board of directors; or (iii) that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of an entity. A person is presumed to exercise a controlling influence over the management or policies of an entity if such person, directly or indirectly or acting in concert with one or more persons, together with members of their immediate family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities of an entity. This definition is relevant to the insider and affiliate transaction risk management standards. This definition is derived from the definition of ''controlling shareholder'' in the Board's Regulation Y, 12 CFR 225.2(n)(1), but includes certain additional changes and a rebuttable presumption to align with the definition of ''principal shareholder'' in Regulation O (12 CFR part 215).

Customer. The Board is proposing to define the term ''customer'' to mean a person that purchases (through any consideration) the products or services of another person. This term appears in a variety of different contexts in the proposed rule, so the Board has proposed a broad definition for the term. The definition for purposes of the proposed rule is not intended to affect any customer identification program or customer due diligence rules, any definition of ''United States customer'' under the Act, or any requirement on foreign payment stablecoin issuers under section 18(a)(3) of the Act.

Deposit. The Board is proposing to define the term ''deposit'' to have the same meaning as deposit in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(*l*)).

Deposit liability. The Board is proposing to define the term ''deposit liability'' to mean the liability issued by an insured depository institution (including an insured credit union) to a depositor (or member) in respect of any amount standing to the credit of a deposit account (or share account), which is a liability to a depositor (or member) from the perspective of the insured depository institution.

Depository institution. The Board is proposing to define the term ''depository institution'' to mean (1) any depository institution, as that term is defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(1)) or (2) any credit union. The Board is proposing this definition to improve clarity because, although the GENIUS Act uses the term ''depository institution,'' it is not defined in section 2 of the Act (12 U.S.C. 5901). Section 11(g) of the Act (12 U.S.C. 5911(g)) does, however, refer to the Federal Deposit Insurance Act's definition.[17] The Board believes that incorporating this definition will promote clarity and consistency. Under the Federal Deposit Insurance Act, the term ''depository institution'' means any bank or savings association, which are both defined terms under that statute, and would be incorporated herein to determine whether an institution is a depository institution for purposes of proposed part 247. The Board is proposing to include a reference to credit unions consistent with the approach that the GENIUS Act took with respect to the definition of ''insured depository institution,'' defined below, and which explicitly includes insured credit unions.

Digital asset. The Board is proposing to define the term ''digital asset'' as provided in section 2(6) of the GENIUS Act (12 U.S.C. 5901(6)). Under the proposed rule, the term ''digital asset'' would mean any digital representation of value that is recorded on a cryptographically secured distributed ledger.

Director. The Board is proposing to define the term ''director'' for purposes of this proposed part to mean an individual who serves on the board of directors of an entity, except an advisory director who (1) is not elected by the shareholders of the entity, (2) does not have the authority to vote on matters before the board of directors or any committee of the board of directors, and (3) provides solely general policy advice to the board of directors or any committee. This definition largely aligns with that in 12 CFR 215.2(d). As described above, to address the various organizational forms used by entities, including those that do not have a traditional board of directors, the Board is proposing to define the term ''board of directors'' in this proposed part to include a group of individuals that serve the nearest equivalent function of acting as the governing body of the entity.

Distributed ledger. The Board is proposing to define the term ''distributed ledger'' as provided in section 2(8) of the GENIUS Act (12 U.S.C. 5901(8)), with certain technical edits. The proposed rule would define the term ''distributed ledger'' to mean technology in which (1) data is shared across a network that creates a public digital ledger of verified transactions or information among network participants, and (2) cryptography is used to link the data to maintain the integrity of the public ledger and execute other functions. The proposed definition reformats the definition in the GENIUS Act by using numbering to distinguish between the two components of the definition. The formatting changes are technical and do not have a substantive effect on the definition.

Eligible deposit claim. The Board is proposing to define the term ''eligible deposit claim'' to mean:

(1) the insured or uninsured claim of a PPSI against an insured depository institution (including any foreign branches or agents, including correspondent banks, of an insured depository institution) other than an insured credit union in respect of any amount standing to the credit of a deposit account and payable on demand, which is an asset from the

[14] *See* 12 U.S.C. 5901(32) (''The term 'subsidiary' has the meaning given that term in [12 U.S.C. 1813].''); *see also* 12 U.S.C. 1813(w)(4).

[15] 12 U.S.C. 1813(w)(5).

[16] *See* 12 CFR part 225, subpart D.

[17] The proposed definition of ''depository institution'' for purposes of part 247 would not affect the meaning of the term under section 11(g) of the GENIUS Act (12 U.S.C. 5911(g)).

perspective of the depositor, including a Board-supervised PPSI; and

(2) the insured claim of a PPSI against an insured credit union in respect of any amount standing to the credit of a share account, which is an asset from the perspective of the accountholder, including a Board-supervised PPSI.

Fair value. The Board is proposing to include a definition of the term ''fair value'' in the rule. As proposed, the term ''fair value'' would mean the fair value as determined under GAAP.[18] Fair value is used in proposed § 247.11 in describing proposed reserve requirements.

FDIC. The Board is proposing to define FDIC to mean the Federal Deposit Insurance Corporation. This accords with the definition of ''Corporation'' in section 2(5) of the GENIUS Act (12 U.S.C. 5901(5)). The Board has opted not to use the term ''Corporation'' to describe the FDIC because that term is used more broadly in the definition of person, discussed below.

GAAP. The Board is proposing to include a definition of the term GAAP in the rule. The proposed rule would define the term ''GAAP'' to mean the generally accepted accounting principles as used in the United States. GAAP is used in the definition of fair value and proposed subpart B. The proposed definition of ''GAAP'' is the same as that in 12 CFR part 217.

GDP growth adjustment. The Board is proposing to define the term ''GDP growth adjustment'' to mean the most recent annual scalar published by the Board equal to the greater of (1) the ratio of (i) the average of nominal U.S. gross domestic product (GDP) in the three calendar years prior to the publication of the scalar, as reflected by the most current estimates published by the Bureau of Economic Analysis on or before September 30th of the year of the publication of the scalar, or a comparable value; to (ii) the average of nominal U.S. GDP in the three calendar years prior to the effective date of a final rule, as reflected by the most current estimates published by the Bureau of Economic Analysis; or (2) the GDP growth adjustment published by the Board the prior calendar year.

Immediate family. The Board is proposing to define the term ''immediate family'' to mean the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) residing in the individual's home. This term is relevant to the risk management standards concerning insider and affiliate transactions and is consistent with the definition in Regulation O (12 CFR part 215).

Insider. The Board is proposing to define the term ''insider'' to mean a covered shareholder, an executive officer, a director, or a related interest of or the immediate family member of any of these persons. This term is relevant to the risk management standards concerning insider and affiliate transactions and is adapted from the definition in Regulation O (12 CFR part 215). It has been adapted to make direct reference to the immediate family of a covered shareholder, executive officer, or director to mitigate the risk of an insider engaging in inappropriate transactions to benefit immediate family members.

Institution-affiliated party. The Board is proposing to define ''institution-affiliated party'' as provided in section 2(13) of the GENIUS Act (12 U.S.C. 5901(13)). Thus, with respect to a PPSI, the term ''institution-affiliated party'' means any director, officer, employee, or controlling stockholder of the PPSI. This definition is relevant to the Board's enforcement actions pursuant to the GENIUS Act, including but not limited to the Board's back-up enforcement authority over State-qualified PPSIs in unusual and exigent circumstances, as proposed in § 247.50.

Insured depository institution. The Board is proposing to define the term ''insured depository institution'' consistent with the definition of the term in section 2(15) of the GENIUS Act (12 U.S.C. 5901(15)), with certain technical edits that combine the definition of ''insured depository institution'' with the definition of ''insured credit union'' in section 2(14) of the GENIUS Act (12 U.S.C. 5901(14)). As proposed, the term ''insured depository institution'' would mean an insured depository institution, as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813) and an insured credit union, as defined in section 101 of the Federal Credit Union Act (12 U.S.C. 1752).

Insured State member bank. The Board is proposing to define the term ''insured State member bank'' to mean a State member bank, the deposits of which are insured by the FDIC.

Monetary value. The Board is proposing to define the term ''monetary value'' as provided in section 2(17) of the GENIUS Act (12 U.S.C. 5901(17)). The proposal would define ''monetary value'' to mean a national currency or deposit (which, as discussed above, would have the same meaning as in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(*l*))) denominated in a national currency.

Money. Section 2(18) of the GENIUS Act (12 U.S.C. 5901(18)), defines ''money'' to mean a medium of exchange currently authorized or adopted by a domestic or foreign government, including a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries. This definition is relevant to the definition of national currency (discussed below) and certain reserve assets described in section 4(a)(1)(A)(i) and (iv) of the Act (12 U.S.C. 5903(a)(1)(A)(i) and (iv)). Section 4(a)(1)(A)(i) of the Act (12 U.S.C. 5903(a)(1)(A)(i)) refers to money standing to the credit of an account with a Federal Reserve Bank. Section 4(a)(1)(A)(iv) of the Act (12 U.S.C. 5903(a)(1)(A)(iv)) refers to money received under a repurchase agreement that meets certain requirements. Although the statutory definition of money clearly includes monetary value, it may be unclear at any point in time whether other mediums of exchange have been authorized or adopted by a domestic or foreign government. Moreover, whether a medium of exchange meets this definition may change based on actions of foreign governments or intergovernmental organizations. While it may be relatively clear whether an asset is money standing to the credit of an account with a Federal Reserve Bank, there could be ambiguity as to whether a particular asset is money received under a repurchase agreement. Therefore, to promote clarity and uniformity for purposes of determining whether certain assets would qualify as money under proposed part 247, the Board proposes that it would provide prior confirmation publicly that a medium of exchange (other than those defined as monetary value) meets the definition of ''money'' under the GENIUS Act with respect to Board-supervised PPSIs. Specifically, the Board proposes to define money for purposes of part 247 to mean monetary value and any other medium of exchange that the Board has determined is currently authorized or adopted by a domestic or foreign government, including a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries. The Board expects that it would issue such public determinations, to the extent appropriate, on its own volition or at the request of an interested party.

Nonpublic personal information. The Board is proposing to define the term

[18] *See* discussion of the definition of ''GAAP,'' *infra.*

''nonpublic personal information'' to mean information (i) provided by a customer to a Board-supervised PPSI to obtain a financial product or service, (ii) about a customer resulting from any transaction involving a financial product or service between the Board-supervised PPSI and a customer, or (iii) otherwise obtained by the Board-supervised PPSI in connection with providing a financial product or service to a customer. The proposed definition does not include publicly available information, unless such publicly available information, when combined with other information, would reveal the identity of a customer or would enable access to the customer's account.

OCC. The Board is proposing to substitute the term ''OCC'' for the term ''Comptroller'' as defined in section 2(4) of the GENIUS Act (12 U.S.C. 5901(4)). Under the proposed rule, the term ''OCC'' would be defined to mean the Office of the Comptroller of the Currency.

Officer. The Board is proposing to define ''officer'' to mean the president, chairman, chief executive officer, chief operating officer, chief financial officer, chief investment officer, chief risk officer, chief technology officer, and Bank Secrecy Act officer. The term would include any individual serving in the functional capacity of the listed titles or their equivalent, without regard to title, salary, or compensation. The term ''officer'' also includes any other person identified by the Board or appropriate Federal Reserve Bank, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the entity. This definition is generally consistent with the definition of senior executive officer in 12 CFR 225.71(c).

Outstanding issuance value. The Board is proposing to define the term ''outstanding issuance value'' to mean the total consolidated par value of all of a PPSI's outstanding payment stablecoins. This would include the combined total par value of different brands of payment stablecoins issued by the PPSI (*e.g.,* under a white label arrangement) to the extent that such an arrangement complies with proposed 12 CFR part 247. The proposed definition includes the defined term ''payment stablecoin'' and should be read consistent with that definition, discussed below. For purposes of calculating the outstanding issuance value, the Board believes that a digital asset that is, or is designed to be, used as a means of payment or settlement but for which there is not yet an obligation to convert, redeem, or repurchase for a fixed amount of monetary value should not be included in the calculation. A digital asset minted (*i.e.,* created on a blockchain) by a PPSI to be a payment stablecoin would not be included in the calculation of outstanding issuance value until the obligation to convert, redeem, or repurchase the digital asset for a fixed amount of monetary value is incurred. Similarly, once a PPSI permanently removes a payment stablecoin from circulation (*e.g.,* burns the payment stablecoin) the digital asset would cease to be included in the calculation of outstanding issuance value. Payment stablecoins for which holder access has been restricted pursuant to applicable law, regulation, or court order remain payment stablecoins because the PPSI's obligation to convert, redeem, or repurchase for a fixed amount of monetary value continues and the associated reserves are maintained in segregated accounts pending resolution of the restriction. Likewise, if a PPSI repurchased a payment stablecoin but did not burn the payment stablecoin, the stablecoin in the PPSI's inventory would not be part of the PPSI's outstanding issuance value (but would become part of the outstanding issuance value if the PPSI subsequently put the payment stablecoin back into circulation). Therefore, the proposed definition of ''outstanding issuance value'' only includes payment stablecoins for which the PPSI is obligated to convert, redeem, or repurchase for a fixed amount of monetary value (generally the issued payment stablecoins in circulation).

The Board also considered whether the proposed ''outstanding issuance value'' definition should include only those payment stablecoins issued by a PPSI, or also the payment stablecoins issued by the PPSI's non-consolidated affiliates.[19] The Board determined that it was appropriate to limit the proposed definition to include only the payment stablecoins issued by a PPSI (and consolidated subsidiaries). The Board believes that the proposed definition would scope in the appropriate PPSIs to the relevant provisions regarding reserve assets,[20] the frequency of examinations,[21] required audits,[22] transition to the Federal regulatory framework,[23] and minimum capital requirements[24] without being overly expansive and that it best aligns with the language in the statute. Notwithstanding the proposed definition of ''outstanding issuance value,'' non-consolidated affiliates of a PPSI that issue payment stablecoins would separately need to comply with the requirements of the Act.

Payment stablecoin. The Board is proposing to define the term ''payment stablecoin'' consistent with the definition of the term in section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)). Under the proposal, the term ''payment stablecoin'' would mean a digital asset (i) that is, or is designed to be, used as a means of payment or settlement; and (ii) the issuer of which (A) is obligated to convert, redeem, or repurchase for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value; and (B) represents that such issuer will maintain, or creates the reasonable expectation that it will maintain, a stable value relative to the value of a fixed amount of monetary value.[25] For a digital asset to be a payment stablecoin under proposed part 247, the PPSI must be obligated to convert, redeem, or repurchase the digital asset for a fixed amount of monetary value.

The proposed definition also provides that a ''payment stablecoin'' does not include a digital asset that is a (i) national currency; (ii) deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)), including a deposit recorded using distributed ledger technology; or (iii) security, as defined in section 2 of the Securities Act of 1933 (15 U.S.C. 77b), section 3 of the Securities Exchange Act of 1934 (15 U.S.C. 78c), or section 2 of the Investment Company Act of 1940 (15 U.S.C. 80a–2), except that, for the avoidance of doubt, ''no bond, note, evidence of indebtedness, or investment contract that was issued by a [PPSI] shall qualify as a security solely [because the issuer satisfies] the conditions in [paragraph (1) of the proposed ''payment stablecoin'' definition], consistent with section 17 of the Act.''

Permitted payment stablecoin issuer or *PPSI.* The Board is proposing to define the term ''permitted payment stablecoin issuer'' or ''PPSI'' as having the meaning set forth in section 2 of the GENIUS Act (12 U.S.C. 5901(23)). This term is used to refer to all PPSIs, not only those supervised by the Board. This broader set of PPSIs is particularly relevant to subpart E, which applies to

[19] As noted above, the definition of ''outstanding issuance value'' includes the consolidated value of issued payment stablecoins.

[20] *See* proposed § 247.11.

[21] *See* proposed § 247.14.

[22] *See id.*

[23] *See* proposed § 247.51(b)

[24] *See* proposed §§ 247.15–18.

[25] The Board interprets the statutory language in 12 U.S.C. 5901(22) to mean that the PPSI would be obligated to meet redemption requests at par.

all PPSIs, but is also relevant to subpart C of part 247 and amendments to the Board's Regulation Q (12 CFR part 217) and Regulation Y (12 CFR part 225), discussed in sections II.F and II.G.3 of this **SUPPLEMENTARY INFORMATION**, respectively. Defining this term by cross reference to the GENIUS Act would ensure ongoing alignment between the regulatory and statutory definitions.

Person. The Board is proposing to define the term ''person'' as the term is defined in section 2(24) of the GENIUS Act (12 U.S.C. 5901(24)). As proposed, the term ''person'' would mean an individual, partnership, company, corporation, association, trust, estate, cooperative organization, or other business entity, incorporated or unincorporated.

Primary Federal payment stablecoin regulator. The Board is proposing to define the term ''primary Federal payment stablecoin regulator'' as that term is defined in section 2(25) of the GENIUS Act (12 U.S.C. 5901(25)).

Principal shareholder. The Board is proposing to define the term ''principal shareholder'' to mean a person (i) who directly or indirectly or acting in concert with one or more persons, or together with members of their immediate family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities of an entity; or (ii) any person that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of an entity. This definition is used in the applications provisions in subpart D of the proposed rule, which the Board is concurrently proposing. This definition is substantially similar to the definition in the Interagency Biographical and Financial Report—FR 2081c instructions and the Board's Regulation Y (12 CFR 225.2(n)(2)).

Private key. The Board is proposing to define the term ''private key'' to mean the unique alphanumeric sequence that allows an individual to transfer a particular unit of a digital asset using a distributed ledger. This definition is intended to include shards of a private key.[26]

Publicly available information. The Board is proposing to define the term ''publicly available information'' to mean any information that a person has a reasonable basis to believe is lawfully made available to the general public from: (1) Federal, State, or local government records; (2) widely distributed media; (3) disclosures to the general public that are required to be made by Federal, State, or local law; or (4) a distributed ledger.[27]

Registered public accounting firm. The Board is proposing to mirror the definition of ''registered public accounting firm'' as provided in section 2(26) of the GENIUS Act (12 U.S.C. 5901(26)). Under the proposal, the term ''registered public accounting firm'' would mean a registered public accounting firm set forth in section 2 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201(12)).

Related interest. The term ''related interest'' is defined in cross-reference to 12 CFR 215.2(n). At present, that term means (1) a company that is controlled by that person; or (2) a political or campaign committee that is controlled by that person or the funds or services of which will benefit that person. This term is relevant to the risk management standards for insider and affiliate transactions.

Reserve asset. The Board is proposing to define the term ''reserve asset'' to mean an asset maintained by a PPSI of a type enumerated in proposed § 247.11(b). A PPSI may maintain reserve assets as a custodian.

Stablecoin Certification Review Committee. The Board is proposing to define the term ''Stablecoin Certification Review Committee'' as that term is defined in section 2(27) of the GENIUS Act (12 U.S.C. 5901(27)).

State. The Board is proposing to define the term ''State'' as provided in section 2(28) of the GENIUS Act (12 U.S.C. 5901(28)).[28]

State-chartered depository institution. The Board is proposing to define the term ''State-chartered depository institution'' as provided in section 2(29) of the GENIUS Act (12 U.S.C. 5901(29)). Specifically, the proposed rule would define the term ''State-chartered depository institution'' as having the meaning as set forth for ''State depository institution'' in section 3(c) of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(5)). This term is particularly relevant with respect to the Board's jurisdiction over State-chartered depository institutions that are PPSIs under sections 2(25)(C) and 4(d) of the Act (12 U.S.C 5901(25)(C) and 5903(d)).

State member bank. The Board is proposing to define the term ''State member bank'' to mean a State-chartered bank, as the term ''bank'' is defined in 12 U.S.C. 221, that has been approved for membership in the Federal Reserve System. This term is similar to the definition of ''State member bank'' as set forth in section 3(d) of the Federal Deposit Insurance Act (12 U.S.C. 1813(d)(2)).

State payment stablecoin regulator. The Board is proposing to define the term ''State payment stablecoin regulator'' as provided in section 2(30) of the GENIUS Act (12 U.S.C. 5901(30)). As such, the Board is proposing to define ''State payment stablecoin regulator'' to mean a State agency that has primary regulatory and supervisory authority in such State over entities that issue payment stablecoins.

State-qualified payment stablecoin issuer or *State-qualified PPSI.* The Board is proposing to define the term ''State-qualified payment stablecoin issuer'' or ''State-qualified PPSI'' consistent with the definition of that term in section 2(31) of the GENIUS Act (12 U.S.C. 5901(31)).

Subsidiary. The Board is proposing to define the term ''subsidiary'' as provided in section 2(32) of the GENIUS Act (12 U.S.C. 5901(32)). Specifically, the proposed rule would define the term ''subsidiary'' as having the meaning set forth in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(w)(4)). Because the term in section 3 of that Federal Deposit Insurance Act relies on the definitions of ''control'' in section 2 of the BHC Act, the Board also proposes to incorporate that definition in proposed part 247, as discussed above.

Trading volume. The Board is proposing to define the term ''trading volume'' to mean the aggregate number of payment stablecoins issued by a PPSI that were purchased or sold on exchanges during a specified period of time.

Voting securities. The Board is proposing to define the term ''voting securities'' by adopting by reference the definition provided in 12 CFR 225.2.

Question 1: Are the definitions in the proposed rule appropriately scoped? How should they be improved? [similar to OCC Question 1]

Question 2: Should the Board define ''acting in concert'' to clarify the term ''principal shareholder'' and ''covered shareholder''? For example, the Board could define the term ''acting in concert'' to mean (i) knowing participation in a joint activity or

[26] Sharding refers to dividing a private key into distinct pieces for enhanced security.

[27] As noted above, the term ''distributed ledger'' is limited to publicly available and accessible ledgers.

[28] United States territories are also referenced in the proposed definition of ''foreign payment stablecoin issuers.'' The GENIUS Act and this proposed part address the potential overlap created by inclusion of territories in both definitions by defining ''foreign payment stablecoin issuers'' to exclude ''permitted payment stablecoin issuers.'' Therefore, if a payment stablecoin issuer is a ''permitted payment stablecoin issuer'' because it is a ''State-qualified payment stablecoin issuer'' that is legally established under the laws of a territory of the United States then by definition it cannot be a ''foreign payment stablecoin issuer.''

parallel action towards a common goal of acquiring control of an entity whether or not pursuant to an express agreement; or (ii) when persons are parties to any agreement, contract, understanding, relationship, agreement, or other arrangement, whether written or otherwise, regarding the acquisition, voting, or transfer of control of voting securities of an entity, other than through a revocable proxy as described in 12 CFR 225.42(a)(5). If the Board should define the term, should the Board incorporate any of the presumptions for acting in concert detailed in 12 CFR 225.41(d) and 238.31(d)? [similar to OCC Question 2]

Question 3: The Board's Regulation Y provides a regulatory framework for implementing the statutory definition of ''control.'' What, if any, clarifications to Board's control framework would be appropriate to address issues specific to PPSIs and, in particular, insured State member banks that seek approval for a subsidiary to issue payment stablecoins? [similar to OCC Question 3]

Question 4: The term ''customer'' is broadly defined to mean a person that purchases (through any consideration) the products or services of another person. Is the scope of this definition too broad? With respect to customers of Board-supervised PPSIs, should the definition expressly include only persons with direct interactions with a Board-supervised PPSI? Alternatively, should the definition include all downstream payment stablecoin holders (i.e., not just customers with direct interactions with the Board-supervised PPSI)? Please address any significant impact or burden the proposed definition or contemplated alternative definitions may have or add given other requirements in the proposed rule, such as the nonpublic personal information risk management standards in proposed § 247.13(b)(5). Because the term is used in several different contexts throughout the proposed rule, should the definition of ''customer'' be refined with respect to certain requirements? [similar to OCC Question 4]

Question 5: Section 2 of the GENIUS Act (12 U.S.C. 5901) does not define ''depository institution.'' However section 2(15) of the Act defines ''insured depository institution'' to include insured credit unions (12 U.S.C. 5901(15)), and section 2(29) of the Act defines ''State-chartered depository institutions'' to exclude credit unions (12 U.S.C. 5901(29)). Is the definition of ''depository institution'' in the proposed rule, which would include credit unions, sufficiently clear? Are there particular types of institutions for which it would be unclear whether the type of institution is a depository institution and which agency is the primary Federal payment stablecoin regulator for the type of institution? What additional clarifications would be helpful? For purposes of the Board's authority under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)) (proposed to be implemented in proposed § 247.51), should the Board consider such provisions to apply to only State-chartered depository institutions that meet the definition of ''State-chartered depository institution'' under the GENIUS Act and proposed part 247? Alternatively, should the Board consider such provisions to apply to any State-chartered institution that is a ''depository institution'' under the proposed definition in part 247, which would capture State-chartered credit unions that are not federally insured? [similar to OCC Question 5]

Question 6: Is the scope of the term ''digital asset'' sufficiently clear? If not, how should it be clarified? [similar to OCC Question 6]

Question 7: The proposed rule does not define the term ''digital asset service provider.'' Is the scope of the term ''digital asset service provider'' under the statute sufficiently clear? If not, how should it be clarified? Are there specific activities that should be expressly excluded from digital asset service provider activities, consistent with the statutory definition? Should additional guidance on the exclusions from the definition of ''digital asset service provider'' or the meaning of ''engaging in the business'' of providing digital asset service provider activities be clarified? If so, how should the Board further clarify these terms? Should the Board clarify that only the provision of financial services that directly relate to digital asset issuance would result in an entity becoming a digital asset service provider? [similar to OCC Question 7]

Question 8: Is the term ''director'' sufficiently clear? Is it clear which types of persons may be excepted from the definition as ''advisory directors?'' How should the Board further clarify the term? [similar to OCC Question 8]

Question 9: Is the term ''distributed ledger'' sufficiently clear? Should the term ''public digital ledger'' be further clarified? What additional clarifications would be helpful? Should certain permissioned or semi-permissioned digital ledgers be considered ''public?'' If so, how should the definition of ''public'' delineate between different types of permissioned or semi-permissioned blockchains? [similar to OCC Question 9]

Question 10: Is scope of the term ''immediate family'' sufficiently clear? If not, how should it be clarified? What are the advantages or disadvantages of referring to children (including adults) ''having their domicile in'' the individual's home in addition to or instead of referring to, as currently proposed, such persons ''residing in'' the individual's home? What are the advantages or disadvantages of removing this phrase entirely, and including in the term an individual's adult children, regardless of their residence or domicile?

Question 11: Is the proposed definition of ''institution-affiliated party,'' which restates the definition in section 2(13) of the GENIUS Act (12 U.S.C. 5901(13)), sufficiently clear? Should the Board provide additional clarification regarding the definition for purposes of its enforcement authorities?

Question 12: Is the definition of ''money'' appropriately scoped? Should the Board use the exact language of the statute, instead of using the proposed definition? What indicators should the Board consider when assessing whether instruments that are not ''monetary value,'' as defined in proposed part 247, are ''money?'' [similar to OCC Question 11]

Question 13: Is the term ''nonpublic personal information'' appropriately scoped? How could the term be further refined or clarified? Should the term be defined to be more consistent with the definition of ''nonpublic personal information'' in the Gramm-Leach-Bliley Act (15 U.S.C. 6809(4)(A))? Should the term ''nonpublic personal information'' be broadened to include any information provided by a customer to a Board-supervised PPSI? [similar to OCC Question 12]

Question 14: The term ''outstanding issuance value'' refers to the total consolidated par value of all of a PPSI's outstanding payment stablecoins. Should the definition also include the par value of non-consolidated affiliates? If so, what changes should be made to the reserve asset requirements to ensure the one-to-one requirement is met across all affiliated entities? [similar to OCC Question 13]

Question 15: Is the term ''payment stablecoin'' sufficiently clear? If not, how should the definition be amended to provide additional clarity as to whether a particular stablecoin is a ''payment stablecoin'' under the Act? Please describe the types of stablecoins that the Board should clarify do not meet the definition of a ''payment stablecoin'' under the Act and therefore would be outside the scope of the Act's coverage. Should there be additional clarity around what it means that a payment stablecoin is a digital asset *"that is, or is designed to be, used as a means of payment or settlement?" For example, are there certain settlement scenarios that the Board should clarify are not "designed to be, used as a means of payment or settlement?" [similar to OCC Question 14]*

Question 16: Is the exclusion of a digital asset that "is a deposit (as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)), including a deposit recorded using distributed ledger technology" from the definition of "payment stablecoin" sufficiently clear? Should the Board clarify which tokenized products this exclusion may apply to? [similar to OCC Question 15]

Question 17: Section 2 of the GENIUS Act (12 U.S.C. 5901) does not exclude insured shares from the definition of "payment stablecoin." Should insured shares be excluded in the implementing regulations? [similar to OCC Question 16]

Question 18: Are the terms "Board-supervised PPSI" and "PPSI" sufficiently clear, including the distinction between the terms? How should either definition be amended to provide additional clarity regarding the application of proposed part 247? [similar to OCC Question 17]

Question 19: Is the term "person" sufficiently clear? Should the Board further clarify the definition, including with respect to the meaning of "association" or other components of the definition? [similar to OCC Question 18]

Question 20: Is the term "private key" sufficiently clear? How could the term be further clarified? Should the Board define the term to mean the unique alphanumeric sequence that allows an individual to prove ownership of an account on a distributed ledger, including for the purpose of transferring a particular unit of a digital asset? [similar to OCC Question 19]

Question 21: Should the definition of "principal shareholder," "covered shareholder," or any other definitions explicitly incorporate governance instruments other than securities providing voting rights with respect to the activities of the issuer? In particular, are there governance instruments that may not qualify as securities that the Board should incorporate or instruments common to partnerships that the Board should consider incorporating? [similar to OCC Question 20]

Question 22: Is the term "senior management" as used in proposed part 247 sufficiently clear? Should the Board define the term, for example, to include all or a select subset of officers? [similar to OCC Question 21]

Question 23: The GENIUS Act does not define "payment stablecoin holder." Should the Board define the term? If so, should the Board define the term to mean the person that beneficially owns the payment stablecoin? Should the Board instead define the term based on possession via digital wallets or control of cryptographic keys? What considerations relating to custody should the Board bear in mind if it chooses to define the term? What interactions with other requirements in the proposed rule should the Board consider if it chooses to define the term? [similar to OCC Question 22]

Question 24: Should the Board refine the definition of trading volume? Should the term be limited to trades that occur on exchanges? Should it include transactions that occur outside of an exchange? Should the Board define "exchange" for purposes of this definition? If so, should the Board define it to mean a person engaged in the business of making a market in digital assets (including payment stablecoins)? Should any definition include decentralized exchanges? What impediments are there to PPSIs collecting data concerning trading volume? [similar to OCC Question 23]

Question 25: Should the Board define "United States customer" to mean a customer that resides in the United States, as proposed, or use a different definition? For example, should the definition be limited to United States citizens, regardless of where they reside? Should it be revised to include both citizens and residents of the United States? Should the definition be limited to permanent residents of the United States? Should the Board consider other regulatory definitions, like the definitions of "U.S. person" under the SEC's Regulation S (17 CFR 230.902(k)) or CFTC's cross-border rules (17 CFR 23.23(a)(23))? [similar to OCC Question 24]

3. Severability (Proposed § 247.3)

Proposed § 247.3 would provide that the provisions of this proposed part 247 are separate and severable from one another. If any provision is stayed or determined to be invalid, it is the Board's intention that the remaining provisions shall continue in effect. If a provision of the rule were found to be invalid, the Board anticipates that it would evaluate whether any re-proposal of the rule is appropriate. The Board is proposing to include the severability clause to ensure that, in the event any particular provision of the proposed rule is held to be invalid, the remainder of the rule would continue in effect, providing clarity for market participants on how to comply with the Board's regulations implementing the GENIUS Act pending any re-proposal.

The Board generally intends all of its rulemakings to be severable to the extent portions of the rule are determined to be invalid regardless of the presence of a severability clause. The Board is proposing to include an explicit severability clause to this rulemaking given the novelty and scope of the GENIUS Act and the importance of ensuring as much certainty as possible for the regulatory framework for payment stablecoins.

B. Subpart B—Rules Applicable to Board-Supervised Permitted Payment Stablecoin Issuers

1. Permissible and Prohibited Activities (proposed § 247.10)

a. Permissible Activities

Permitted Activities. Section 4(a)(7) of the GENIUS Act (12 U.S.C. 5903(a)(7)) sets forth the list of activities in which a PPSI may engage. Additionally, section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)) outlines certain additional activities and investments in which entities regulated by the Board, including Board-supervised PPSIs, may engage.

Consistent with the statute, the Board is proposing to mirror the permitted activities from section 4(a)(7)(A) of the GENIUS Act (12 U.S.C. 5903(a)(7)(A)) in proposed § 247.10(a)(1) through (4), which include: (1) issuing payment stablecoins; (2) redeeming payment stablecoins; (3) managing reserves related to the issuance or redemption of payment stablecoins, including purchasing, selling, and holding reserve assets or providing custodial services for reserve assets, consistent with applicable State and Federal law; [29] and (4) providing custodial or safekeeping services for payment stablecoins, required reserves, or private keys of stablecoins consistent with the GENIUS Act, as implemented in proposed subpart C. The permitted activities would not include lending or issuing

[29] For the avoidance of doubt, it is permissible for Board-supervised PPSIs (i) to retain an asset manager in connection with the activities specified in proposed § 247.10(a)(3), and (ii) to place funds in exchange for eligible deposit claims against an insured depository institution, as that term is defined in proposed § 247.2. These activities are inherent in the activities described in section 4(a)(7)(A) of the GENIUS Act (12 U.S.C. 5903(a)(7)(A)) and proposed § 247.10(a)(3). *See also* 12 U.S.C. 5903(a)(7)(A)(v) and proposed § 247.10(a)(7). Such activity is also explicitly recognized in section 4(a)(1)(A)(ii) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(ii)).

payment stablecoins as the proceeds of a loan.

In addition to the activities outlined in section 4(a)(7) of the GENIUS Act (12 U.S.C. 5903(a)(7)), for the sake of clarity, proposed § 247.10(a)(5) provides that Board-supervised PPSIs may assess fees that are associated with purchasing or redeeming payment stablecoins. This power is inherent in the activities described above and is explicitly recognized in section 4(a)(1)(B)(ii) of the Act (12 U.S.C. 5903(a)(1)(B)(ii)).

The Board also proposes to include the permitted activities identified in section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), namely ''acting as principal or agent with respect to any payment stablecoin and pay[ing] fees to facilitate customer transactions'' in payment stablecoins.[30] The Board notes that the scope of section 16(b) of the Act (12 U.S.C. 5915(b)) is limited by the clause that provides that entities regulated by the primary Federal payment stablecoin regulators are ''authorized to engage in the payment stablecoin activities and investments contemplated by this Act . . . .'' Accordingly, for Board-supervised PPSIs, ''acting as principal or agent with respect to any payment stablecoin'' is permissible within the limited set of authorities otherwise prescribed by the GENIUS Act rather than, for example, any activity that may be conducted as principal or agent (*i.e.,* any activity involving a payment stablecoin), such as lending or issuing payment stablecoins as the proceeds of a loan. Therefore, proposed § 247.10(a)(6)(i) would implement this statutory provision by stating that Board-supervised PPSIs may, in connection with payment stablecoin activities and investments contemplated by the GENIUS Act, act as principal or agent with respect to any payment stablecoin. Under this provision, Board-supervised PPSIs may hold and transact in payment stablecoins as principal or agent in connection with permissible activities. Payment stablecoins are not, however, a permitted reserve asset in proposed § 247.11.[31] To the extent an entity, including a Board-supervised PPSI, is a ''digital asset service provider,'' as defined in section 2(7) of the GENIUS Act (12 U.S.C. 5901(7)), such entity must also comply with the prohibitions outlined in section 3(b) of the GENIUS Act (12 U.S.C. 5902(b)), and any regulations issued thereunder by the Department of the Treasury. For avoidance of doubt, acting as a custodian is permissible as an agency activity.

Consistent with section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), proposed § 247.10(a)(6)(ii) would allow Board-supervised PPSIs to pay fees to facilitate customer transactions (*e.g.,* network or ''gas'' fees). The Board recognizes that if a Board-supervised PPSI is paying fees on certain distributed ledgers, the Board-supervised PPSI may have to hold non-payment stablecoin digital assets to facilitate the payment of these fees.[32] If a Board-supervised PPSI's payment stablecoin operates on a blockchain that assesses such fees, then the Board-supervised PPSI may (i) pay fees to facilitate customer transactions, and (ii) hold as principal non-payment stablecoin digital assets necessary to pay such fees, provided that such principal holdings shall not exceed quantities that are reasonably expected to meet near-term demand for the payment of fees.

Further, and consistent with section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), proposed § 247.10(a)(6)(iii) would clarify the authority of Board-supervised PPSIs to hold non-payment stablecoin digital assets as principal necessary for testing a distributed ledger.[33] Proposed § 247.10(a)(6)(iii) would provide that Board-supervised PPSIs may, in connection with payment stablecoin activities and investments contemplated by the GENIUS Act, (i) pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms and (ii) hold as principal non-payment stablecoin digital assets necessary to pay such fees, provided that such principal holdings shall not exceed quantities reasonably expected to be necessary for near-term testing of a distributed ledger-based platform. Consistent with the Act, such digital assets are not permitted reserve assets in proposed § 247.11.

Additionally, proposed § 247.10(a)(7) provides that a Board-supervised PPSI may undertake any other activities that directly support any of the activities in proposed § 247.10(a)(1) through (4), which is explicitly provided for in section 4(a)(7)(A)(v) of the GENIUS Act (12 U.S.C. 5903(a)(7)(A)(v)). To the extent that Board-supervised PPSIs are unclear about whether an activity qualifies as activity that directly supports the activities in proposed § 247.10(a)(1) through (a)(4), the Board encourages issuers to ask the Board directly whether an activity is permissible.

Rule of Construction. Section 4(a)(7)(B) of the GENIUS Act (12 U.S.C. 5903(a)(7)(B)) contains a ''rule of construction'' stating that ''nothing in'' section 4(a) of the GENIUS Act (12 U.S.C. 5903(a)(7)(A)) ''shall limit a [PPSI] from engaging in payment stablecoin activities or digital asset service provider activities specified by [the GENIUS Act], and activities incidental thereto, that are authorized by the primary Federal payment stablecoin regulator or the State payment stablecoin regulator, as applicable, consistent with all other Federal and State laws, provided that the claims of payment stablecoin holders rank senior to any potential claims of non-stablecoin creditors with respect to the reserve assets, consistent with section 11 [of the GENIUS Act].''

Section 4(a)(7)(B) of the Act (12 U.S.C. 5903(a)(7)(B)) states that regulators may only approve additional activities to the extent ''consistent with all other Federal and State laws,'' without amending such laws. For the avoidance of doubt, the Board interprets the phrase ''consistent with all other Federal or State laws'' in section 4(a)(7)(B) of the GENIUS Act to limit PPSIs to engaging under this authority only in those payment stablecoin, digital asset service provider, or incidental activities that are otherwise permitted under the Federal and State laws applicable to the PPSI, including on the basis of its charter or

[30] Section 16(b) of the Act provides, ''Entities regulated by the primary Federal payment stablecoin regulators are authorized to engage in the payment stablecoin activities and investments contemplated by this Act, including acting as a principal or agent with respect to any payment stablecoin and payment of fees to facilitate customer transactions.'' 12 U.S.C. 5915(b). The activities authorized under section 16(b) include, for example, acting as an agent for a customer with respect to the redemption of a payment stablecoin issued by a third party. The activities authorized under section 16(b), as described in this section II.1.a of the **SUPPLEMENTARY INFORMATION**, are also permissible for other entities regulated by the Board, including State member banks, uninsured State branches and State agencies of foreign banks, Edge and agreement corporations, and depository institution holding companies, as discussed in greater detail in section II.G of this **SUPPLEMENTARY INFORMATION**.

[31] *See* 12 U.S.C. 5903(a)(1) (setting forth permissible reserve assets).

[32] *Cf.* OCC Interpretive Letter 1186 (November 18, 2025).

[33] The holding of digital assets as principal to the extent necessary to conduct testing of digital asset-related platforms is a permissible activity for national banks, *see* OCC Interpretive Letter 1186 (November 18, 2025), and therefore also for State member banks, provided it is permitted under applicable State law. 12 U.S.C. 330, 1831a. For the avoidance of doubt, the Board believes that Board-supervised PPSIs also may hold non-payment stablecoin digital assets as principal as an activity under the proposed § 247.10(a)(7), as an activity which directly supports any of the activities in proposed § 247.10(a)(1) through (4). Such an activity may be necessary to ensure that the Board-supervised PPSI may operate safely and effectively on a distributed ledger.

affiliations.[34] In contrast to section 4(a)(7)(A) of the Act (12 U.S.C. 5903(a)(7)(A)), which affirmatively lists permissible activities, section 4(a)(7)(B) (12 U.S.C. 5903(a)(7)(B)) begins with ''nothing in subparagraph (A) shall limit . . . ,'' which indicates that section 4(a)(7)(B) is being utilized to clarify or prevent misinterpretation, rather than to grant new authority to conduct activities.

The Board interprets the reference to ''payment stablecoin activities . . . specified by this Act'' in section 4(a)(7)(B) of the GENIUS Act (12 U.S.C. 5903(a)(7)(B)) to refer only to the activities listed in the preceding paragraph, section 4(a)(7)(A) of the Act (12 U.S.C. 5903(a)(7)(A)). The Board interprets ''digital asset service provider activities specified by this Act'' to refer only to the activities listed in the definition of digital asset service provider in section 2(7)(A) of the Act (12 U.S.C. 5901(7)(A)). Under section 4(a)(7)(B) of the Act (12 U.S.C. 5903(a)(7)(B)), permissibly authorized activities may also include activities that are ''incidental'' to payment stablecoin and digital asset service provider activities. Under the GENIUS Act, PPSIs may not engage in activities that are ''incidental'' to any activities not listed in sections 2(7)(A) and 4(a)(7)(A) of the GENIUS Act (12 U.S.C. 5901(7)(A), 5903(a)(7)(A)). For the avoidance of doubt, a Board-supervised PPSI may not engage in activities incidental to those described in section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)) or proposed § 247.10(a)(5) through (6).

Accordingly, pursuant to proposed § 247.10(b), a Board-supervised PPSI may conduct an activity that is outside the activities listed in proposed § 247.10(a) only if (i) the proposed activity is (A) incidental to the activities specified in proposed § 247.10(a)(1) through (4) and § 247.10(a)(7), or (B) is a digital asset service provider activity specified in section 2(7)(A) of the Act (12 U.S.C. 5901(7)(A)) or activities incidental thereto; (ii) the activity is permissible under applicable State and Federal laws; (iii) the activity is expressly authorized by the Board; and (iv) the claims of payment stablecoin holders rank senior to any potential claims of non-stablecoin creditors with respect to the reserve assets, consistent with section 11 of the GENIUS Act.[35] As a result of prong (ii), a Board-supervised PPSI that is a subsidiary of a insured State member bank would only be authorized by the Board to conduct activities under section 4(a)(7)(B) of the GENIUS Act (12 U.S.C. 5903(a)(7)(B)) if the activity is permissible for a subsidiary of an insured State member bank under (i) applicable State law and (ii) applicable Federal law, including under section 24 of the Federal Deposit Insurance Act (12 U.S.C. 1831a).

In general, the Board expects that Board-supervised PPSIs will not incur material liabilities other than payment stablecoin liabilities or maintain significant assets other than those listed in proposed § 247.11(b) without the Board's express, written permission. While Board-supervised PPSIs are permitted to own other assets pursuant to proposed § 247.10(a)(6)(iv), and potentially also under proposed § 247.10(a)(7) and (b), the Board generally expects these assets to be limited in quantity relative to assets permitted under proposed § 247.11(b). Under proposed subpart D of part 247, the Board will review the business plan of a proposed Board-supervised PPSI, including its projected assets and liabilities, prior to deciding on an application from an insured State member bank for its subsidiary to issue payment stablecoins. The Board expects to include a condition in any such approval that the Board-supervised PPSI may not, without the prior written approval of the Board, cause or permit any change in the general character of its business following its approval under proposed subpart D of part 247. A change in the general character of a Board-supervised PPSI could include, for example, incurring any material liabilities other than payment stablecoin liabilities, or significant assets other than those listed in proposed § 247.11(b) that were not approved as part of the initial business plan.

Question 26: Are there activities not contemplated in the proposed § 247.10 that Board-supervised PPSIs must be able to engage in for purposes of the GENIUS Act? If so, please describe them and any appropriate limits for these additional activities. [similar to OCC Question 25]

Question 27: The **SUPPLEMENTARY INFORMATION** *clarifies that it is permissible for Board-supervised PPSIs to retain an asset manager in connection with the activities specified in § 247.10(a)(3). What additional clarification, if any, would be necessary or beneficial regarding the permissibility of such an arrangement? [similar to OCC Question 26]*

Question 28: Are there other limits or conditions the Board should consider with respect to Board-supervised PPSIs acting as principal or agent with respect to any payment stablecoin? Should the Board specify the activities contemplated under the GENIUS Act for which a Board-supervised PPSI may act as principal or agent in payment stablecoins under section 16(b) of the Act (12 U.S.C. 5915(b))? [similar to OCC Question 27]

Question 29: Do Board-supervised PPSIs need to hold digital assets other than payment stablecoins for other purposes beyond paying fees or testing a distributed ledger? If so, under what circumstances would a Board-supervised PPSI need to hold such assets? [similar to OCC Question 28]

Question 30: The proposed rule provides that a Board-supervised PPSI may not hold non-payment stablecoin digital assets in a quantity that exceeds what is reasonably expected to be necessary to meet near term demand for the payment of fees or near-term testing of a distributed ledger-based platform. What are the benefits and drawbacks of codifying this limitation? Should the Board calibrate the limitation differently, including by capping it to a percentage of assets or a certain value threshold? [similar to OCC Questions 29 and 33]

Question 31: Should there be any limit on what methods of payment a Board-supervised PPSI can accept when assessing fees, including fees associated with the purchasing or redeeming of stablecoins? Should the final rule include provisions addressing a Board-supervised PPSI's potential assessment of fees in digital assets other than payment stablecoins and how long Board-supervised PPSIs can hold onto such digital assets? Are there specific forms of payment outside of fiat and payment stablecoin that a Board-supervised PPSI will need to accept and that the Board should provide additional clarity on? [similar to OCC Question 30]

Question 32: Proposed § 247.10(b) provides the Board's interpretation of the rule of construction in section 4(a)(7)(B) of the GENIUS Act (12 U.S.C. 5903(a)(7)(B)). Should the Board include an approval process for such activities? Should the Board interpret the phrase ''digital asset service provider activities specified by this Act'' to include the

[34] As a result of this interpretation, PPSIs that are part of a bank holding company or a savings and loan holding company will, regardless of their primary Federal or State payment stablecoin regulator, generally be limited to conducting only those activities permitted under the BHC Act or HOLA, as applicable.

[35] In evaluating whether to authorize activities under proposed § 247.10(b), the Board may consider, for example, the extent to which claims of creditors that are not stablecoin holders are subordinated to stablecoin holders' claims on stablecoin reserve assets and other assets of the Board-supervised PPSI.

activities in section 2(7)(B) of the Act? What are the benefits and drawbacks of such an interpretation? [similar to OCC Question 31]

Question 33: Should the Board clarify proposed § 247.10(a)(7) by providing further examples of activities that directly support the activities in proposed § 247.10(a)(1) through (4)? Are there specific examples of activities that directly support the activities listed in proposed § 247.10(a)(1) through (4) that should be clarified? Should the Board distinguish between what it means for an activity to directly support the activities in proposed § 247.10(a)(1) through (4), and therefore, satisfy the test in proposed § 247.10(a)(7), as opposed to what it means for an activity to be incidental to payment stablecoin activities provided in Section 4(a)(7)(B) of the GENIUS Act (12 U.S.C. 5903(a)(7)(B))? [similar to OCC Question 32]

Question 34: Should the Board explicitly provide that managing foreign exchange risk is a permissible activity for any Board-supervised PPSI that issues payment stablecoins that are denominated in a national currency other than the U.S. dollar? If so, should the Board include limitations on the activity (e.g., that the Board-supervised PPSI may not over-hedge its position and may not use foreign exchange risk management as a pretext to engage in speculation)? If the Board permits this activity, what requirements should the Board impose to mitigate risks? For example, should there be a capital add-on for foreign exchange risk? [similar to OCC Question 34]

Question 35: Should the Board explicitly prohibit Board-supervised PPSIs from incurring material liabilities other than stablecoin liabilities, or maintaining significant assets other than assets permitted under proposed § 247.11(b)? Under what circumstances might a Board-supervised PPSI incur material liabilities other than stablecoin liabilities? Under what circumstances might a Board-supervised PPSI maintain significant assets other than assets permitted under proposed § 247.11(b)? Should the Board require any Board-supervised PPSI with material liabilities other than stablecoin liabilities, or significant assets other than assets permitted under proposed § 247.11(b) to keep all of its reserve assets in a wholly owned subsidiary with no liabilities of its own, the assets of which secure stablecoin liabilities of the Board-supervised PPSI, as discussed in section II.B.2.a of this **SUPPLEMENTARY INFORMATION***?*

b. Prohibited Activities

The GENIUS Act also prohibits PPSIs from engaging in certain activities under the prohibition on rehypothecation in section 4(a)(2) (12 U.S.C. 5903(a)(2)), the prohibition on the use of deceptive names in section 4(a)(9) (12 U.S.C. 5903(a)(9)), the prohibition against misrepresenting insured status in section 4(e) (12 U.S.C. 5903(e)), and the prohibition on paying remuneration in section 4(a)(11) (12 U.S.C. 5903(a)(11)).

Prohibition on the Use of Deceptive Names. In proposed § 247.10(c)(1), the Board mirrors the prohibition on the use of a deceptive name in section 4(a)(9) of the GENIUS Act (12 U.S.C. 5903(a)(9)). This provision prohibits a Board-supervised PPSI from using any combination of terms relating to the U.S. Government, including ''United States,'' ''United States Government,'' and ''USG,'' in the name of the payment stablecoin. This prohibition does not apply to abbreviations relating directly to the currency to which the payment stablecoin is pegged, such as ''USD.''

Prohibition on Deceptive Marketing of Payment Stablecoins. Consistent with section 4(a)(9) of the GENIUS Act (12 U.S.C. 5903(a)(9)), proposed § 247.10(c)(2) would prohibit Board-supervised PPSIs from marketing a payment stablecoin in such a way that a reasonable person would perceive the payment stablecoin to be legal tender as described in 31 U.S.C. 5103, issued by the United States, or guaranteed or approved by the Government of the United States, including the FDIC or NCUA. The Board recognizes that Board-supervised PPSIs may want to market themselves as PPSIs regulated under the GENIUS Act. Neither section 4(a)(9) of the Act nor proposed § 247.10(c)(2) would prohibit Board-supervised PPSIs marketing themselves in this manner in connection with marketing their payment stablecoins or stressing that their stablecoin liabilities are 100 percent or more backed by reserve assets permitted by the GENIUS Act including very short-term U.S. Government securities, if true. However, Board-supervised PPSIs must ensure that they do not run afoul of the prohibitions outlined in proposed § 247.10(c)(1) and (2), including the prohibition against marketing a payment stablecoin in such a way that a reasonable person would perceive the payment stablecoin to be guaranteed, issued, or approved by the United States, including the FDIC or NCUA.[36]

Prohibition on Deceptive Representations. Consistent with section 4(e) of the GENIUS Act (12 U.S.C. 5903(e)), proposed § 247.10(c)(3) would provide that a Board-supervised PPSI must not directly or through implication represent that payment stablecoins are backed by the full faith and credit of the United States, guaranteed by the U.S. Government, or subject to Federal deposit insurance or Federal share insurance. As stated above, Board-supervised PPSIs are, however, permitted to represent that their payment stablecoins are 100 percent or more backed by permissible reserve assets including very short-term U.S. Government securities, if true.

With respect to all of the prohibitions discussed in proposed § 247.10(c)(1)–(3), the Board notes that misrepresentations by a Board-supervised PPSI cannot be cured by a general disclaimer and that representations and disclosures should be clear to payment stablecoin holders and customers.

Prohibition on Remuneration. Consistent with section 4(a)(11) of the GENIUS Act (12 U.S.C. 5903(a)(11)), proposed § 247.10(c)(4) provides that Board-supervised PPSIs must not pay the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin. The Board understands that Board-supervised PPSIs could attempt to make prohibited payments of interest or yield to payment stablecoins holders through arrangements with third parties. Moreover, there likely will be a large and changing variety of arrangements with third parties in which PPSIs could achieve the payment of yield to payment stablecoin holders. It would not be possible to identify in detail all, or even most, of the potential arrangements between Board-supervised PPSIs and third parties that the Board may prohibit under section 4(a)(11) of the GENIUS Act and the Board's rulemaking authority under section 4(h) of the GENIUS Act (12 U.S.C. 5903(h)),[37] particularly as such arrangements may evolve over time. On the other hand, a rule with only a

[36] While proposed § 247.10(c) only expressly addresses the prohibitions set out in sections 4(a)(9) and 4(e)(2) of the GENIUS Act, to the extent a Board-supervised PPSI markets any products other than payment stablecoins, it shall also be subject to the prohibition in section 4(e)(3) of the GENIUS Act, which provides that it shall be unlawful to market a product in the United States as a payment stablecoin unless it is issued pursuant to the GENIUS Act.

[37] Section 4(h) of the GENIUS Act (12 U.S.C. 5903(h)) provides that the Board and other stablecoin regulators may issue regulations to ''carry out the requirements of this section, including to establish conditions, and to *prevent evasion thereof*'' (emphasis added).

general prohibition on the payment of yield could create uncertainty within the payment stablecoin market.

To balance these interests, the Board is proposing to follow the approach proposed by the OCC in its notice of proposed rulemaking on implementing its responsibilities under the GENIUS Act [38] and include a presumption in proposed § 247.10(c)(4)(i) that certain types of arrangements with certain types of persons would be presumed to be prohibited payments of yield or interest by the issuer. Specifically, the Board would presume that a Board-supervised PPSI is paying interest or yield (whether in cash, tokens, or other consideration) to the holder of a payment stablecoin solely in connection with the holding, use, or retention of such payment stablecoin if: (A) the Board-supervised PPSI has a contract, agreement, or other arrangement with an affiliate of the Board-supervised PPSI or a related third party to pay interest or yield to the affiliate or related third party; and (B) the affiliate [39] or related third party (or affiliate of such related third party) has a contract, agreement, or other arrangement to pay interest or yield (whether in cash, tokens, or other consideration) to a holder of any payment stablecoin issued by the Board-supervised PPSI solely in connection with the holding, use, or retention of such payment stablecoin. To the extent that the person, or an affiliate of the person with whom the Board-supervised PPSI has a contract, agreement, or other arrangement to pay interest or yield is a related third party of the Board-supervised PPSI because the Board-supervised PPSI issues payment stablecoins on the related third party's behalf or under the related third party's branding, the arrangement between the related third party and the holder of the payment stablecoin would consider the holder of the payment stablecoin to be the holder of the payment stablecoin issued by the Board-supervised PPSI on the related third party's behalf or under the related third party's branding. That is to say, with respect to a white-label relationship, the presumption would be triggered only to the extent the payment stablecoin holder is a holder of the related third party's white-labeled stablecoin (as opposed to other payment stablecoins issued by the Board-supervised PPSI).

Related third parties would be defined to include a person offering to pay interest or yield to payment stablecoin holders as a service (*i.e.,* on behalf of the Board-supervised PPSI) and any person that the Board-supervised PPSI issues payment stablecoins on behalf or under the branding of (*i.e.,* persons that have entered white-label relationship with the issuer). The Board believes that the close nexus to the Board-supervised PPSI's payments and payments to the payment stablecoin holder as well as the close contractual or control relationship between the Board-supervised PPSI and the other party would make it highly likely that the Board-supervised PPSI's payments of yield or interest would be made to the holder through an intermediary or an attempt the evade the GENIUS Act's prohibition on interest and yield payments.

Nonetheless, the Board would allow the Board-supervised PPSI to rebut the presumption given the Board-supervised PPSI provides sufficient evidence to the contrary. Specifically, a Board-supervised PPSI may rebut the presumption by submitting written materials that, in the Board's judgment, demonstrate that the contract, agreement, or other arrangement is not prohibited under proposed § 247.10(c)(4) and is not an attempt to evade the prohibition.

Other arrangements that are not captured by the presumption may also violate the statutory prohibition or constitute an evasion thereof. The Board would assess those arrangements on a case-by-case basis but does not believe that it is necessary to include other arrangements within the rebuttable presumption at this time. The prohibition is not intended to prevent a merchant from independently offering a discount to a payment stablecoin holder for using payment stablecoins. The prohibition is also not intended to prevent a Board-supervised PPSI from sharing in the profits derived from the payment stablecoin with a non-affiliate partner in a white-label arrangement.

Prohibition on rehypothecation. In proposed § 247.10(c)(5), the Board proposes to include the language from section 4(a)(2) of the GENIUS Act (12 U.S.C. 5903(a)(2)) that prohibits Board-supervised PPSIs from pledging, rehypothecating, or reusing any reserve assets required under section 4(a)(1) of the Act (12 U.S.C. 5903(a)(1)), except for the purposes listed in section 4(a)(2) of the Act (12 U.S.C. 5903(a)(2)). Thus, consistent with the statute, a Board-supervised PPSI may not pledge, rehypothecate or reuse any assets held as reserves under proposed § 247.11(a)(1), either directly or indirectly (*e.g.,* through a third-party custodian of the reserve assets), except for the purpose of: (i) satisfying margin obligations in connection with investments in permitted reserves under proposed § 247.11(b)(4) or (5); (ii) satisfying obligations associated with the use, receipt, or provision of standard custodial services; [40] or (iii) creating liquidity to meet reasonable expectations of requests to redeem payment stablecoins, such that reserves in the form of Treasury bills may be sold as purchased securities in repurchase agreements with a maturity of 93 days or less, provided that either: (A) the repurchase agreements are cleared by a clearing agency registered with the SEC; or (B) the Board-supervised PPSI receives prior approval from the Board.

By including the phrase ''directly or indirectly'' in the prohibition, it is clear that Congress intended that a PPSI would be prohibited from consenting to a custodian holding the reserves on behalf of a PPSI to pledge, rehypothecate or reuse any of the reserve assets, other than with respect to the limited exceptions discussed in proposed § 247.10(c)(5). To the extent that a PPSI consented to a custodian holding the payment stablecoin reserves on behalf of the PPSI to bypass this prohibition, it would undermine the relatively safe nature of the reserve assets and the confidence that payment stablecoin holders have that the payment stablecoin will hold its peg.

For the avoidance of doubt, the Board believes that the general prohibition on rehypothecation in section 4(a)(2) of the Act (12 U.S.C. 5903(a)(2)) does not apply to reserve assets that are specifically permitted under section 4(a)(1)(A)(iv)–(v) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(iv)–(v)). Therefore, proposed § 247.10(c)(5) does not in any way constrain Board-supervised PPSIs from including as reserve assets (i) money received from repurchase transactions described in proposed § 247.11(b)(4), or (ii) reverse repurchase agreements described in proposed § 247.11(b)(5).

Prohibition on evasive activity. Section 4(h)(1) of the GENIUS Act (12 U.S.C. 5903(h)(1)) provides that the Board may issue regulations ''to carry out the requirements of this section . . . and to prevent evasion thereof.'' In proposed § 247.10(c)(6), consistent with this statutory authority, the Board proposes language that provides that a Board-supervised PPSI must not engage in any activity that the Board determines is an evasion of the requirements of section 4 of the GENIUS

[38] 91 FR 10202, 10212 (March 2, 2026).

[39] A person would not be included within this second prong solely because the person is an affiliate of an affiliate of the Board-supervised PPSI.

[40] The Board interprets this exception, codified in 12 U.S.C. 5903(a)(2)(B), as being related solely to the purposes specified in 12 U.S.C. 5909(c)(2)(B).

Act (12 U.S.C. 5903) or its implementing regulations.

Other prohibitions under consideration. The Board has considered and is requesting comment on whether to prohibit a Board-supervised PPSI from issuing more than one brand or series of payment stablecoin. The Board recognizes that there are advantages and disadvantages associated with permitting a Board-supervised PPSI to issue multiple brands of payment stablecoins that may be co-branded with a named partner in a white label arrangement. These arrangements can allow parties to leverage the experience and expertise of a PPSI and facilitate a broader range of stablecoins in the market. However, they may also foster uncertainty about reserve assets and encourage contagion and run risk among brands of payment stablecoins, including but not limited to brands issued by one issuer. One possibility that the Board has considered and is requesting comment on is to restrict each Board-supervised PPSI to issuing only one brand of payment stablecoin but to streamline the process for approving applications from insured State member banks seeking approval for an additional subsidiary to issue payment stablecoins, if it has previously received approval from the Board for a different subsidiary to issue payment stablecoins. Under this approach, multiple Board-supervised PPSIs could share certain services and back-office functions with each other and might operate under a common risk management framework, but each issuer would be legally separate. This approach would allow an entity to leverage its experience and expertise but may provide more certainty with respect to the rights of payment stablecoin holders in the event that a Board-supervised PPSI becomes insolvent.

Another alternative, as discussed in further in section II.B.2.a of this **SUPPLEMENTARY INFORMATION**, would be to require each Board-supervised PPSI that issues more than one brand of payment stablecoin to hold the reserve assets backing each payment stablecoin in separate, wholly owned subsidiaries, with the assets of each subsidiary securing the issuance of the corresponding payment stablecoin. Under this approach, each subsidiary would be prohibited from incurring any liability of its own, thereby helping to ensure that the reserve assets held in the subsidiary are effective security for the corresponding payment stablecoin liabilities. The Board seeks comment on this approach.

Question 36: Could the prohibition against paying remuneration solely in connection with the holding or use of a payment stablecoin be clarified? If so, how? Would it be helpful to include a de minimis exception to the prohibition to provide certainty with respect to arrangements that are not designed to violate the prohibition and that do not have a meaningful economic impact? If so, is there any specific guidance the Board should provide on what de minimis means? [similar to OCC Question 35]

Question 37: Does the presumption with respect to the prohibition against paying remuneration solely in connection with the holding, use, or retention of a payment stablecoin appropriately address concerns relating to evasion? Is the presumption with respect to the prohibition against paying remuneration solely in connection with the holding, use, or retention of a payment stablecoin appropriately scoped? Is the presumption sufficiently clear? How could the presumption be clarified? Should the Board clarify the standard of review under which it would consider written materials to rebut the presumption related to remuneration and specify whether the Board's determination is appealable? Should the Board propose any safe harbor for arrangements that the Board believes do not violate the statutory prohibition? [similar to OCC Question 36]

Question 38: Should the prohibition on remuneration in proposed § 247.10(c)(4) be broader to prevent Board-supervised PPSIs from directly or indirectly paying remuneration to payment stablecoin holders (rather than presuming that certain arrangements with affiliates or related third parties violate the prohibition)? Are there examples of potentially evasive behavior that the Board should expressly include in a prohibition? If the Board were to expand the prohibition, are there activities that should be expressly carved out of such an expansion? [similar to OCC Question 37]

Question 39: Should the prohibition on interest and yield in proposed § 247.10(c)(4) clarify the terms "pay," "interest," "yield," "solely," or any other terms? If so, what clarifications would be helpful? Would specific examples of arrangements where the consideration offered would not be considered "interest" or "yield" be helpful? [similar to OCC Question 38]

Question 40: What would the economic impact of a narrow prohibition on paying remuneration solely in connection with the holding, use or retention of a payment stablecoin be relative to a broader prohibition (i.e., one that includes relationships with affiliates or third parties)? What impact would either prohibition have on bank deposits? [similar to OCC Question 39]

Question 41: Is the scope of the prohibition against pledging, rehypothecating, or reusing reserve assets sufficiently clear? The proposed rule states that the Board does not believe this general prohibition on rehypothecation applies to reserve assets that are specifically permitted under sections 4(a)(1)(A)(iv) and (v) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(iv) and (v)). Should the Board take further steps to provide additional clarity on this point? Should the Board instead follow the approach proposed by the OCC in section 15.10(c)(5) of its GENIUS Act notice of proposed rulemaking? [41] *Are there specific types of transactions, relationships, or structures for which it would be helpful to clarify whether the prohibition applies? For example, should the Board clarify whether the prohibition would prevent establishing a collateral trustee that would hold a security interest in reserve assets for the benefit of payment stablecoin holders? What arguments weigh for and against finding that the prohibition would prohibit these arrangements? If a Board-supervised PPSI sets up a collateral trustee arrangement where the issuer grants a security interest in the reserve assets, does this arrangement sufficiently protect the reserve assets in the event of insolvency or bankruptcy? Should a Board-supervised PPSI be required to make particular disclosures if it uses such an arrangement? What should those disclosures include? [similar to OCC Question 40]*

Question 42: Should the Board specify what "creating liquidity to meet reasonable expectations of requests to redeem payment stablecoins" means under proposed § 247.10(c)(5)(iii)? Should the Board pre-approve Board-supervised PPSIs to engage in term repurchase agreements during periods of market stress pursuant to proposed § 247.10(c)(5)(iii) such that Board-supervised PPSIs can signal to counterparties that they have access to an additional source of liquidity? Alternatively, should the Board allow for broad and open-ended approvals of the sale of reserves as purchased securities in repurchase agreements or should approvals be limited to specific types of transactions? What factors should the Board consider prior to granting approval of the sale of reserves as purchased securities in repurchase agreements under proposed § 247.10(c)(5)(iii)(B)? [similar to OCC Question 41]

[41] *See* 91 FR 10202 (March 2, 2026).

Question 43: Should Board-supervised PPSIs be required to provide disclosures stating that payment stablecoins are not legal tender, issued by the United States, or guaranteed or approved by the United States? If so, should the Board impose any requirements on the manner in which disclosures are made? For example, should the Board require that disclosures be made on the Board-supervised PPSI's website, at point of direct sale by the issuer, alongside other types of disclosures, or in some other manner? [similar to OCC Question 42]

Question 44: Is any further clarity needed regarding the prohibition on the use of deceptive names, marketing, and representations in proposed § 247.10(c)(1) through (3)? For example, should the Board specify what kind of images or branding are likely to violate the prohibition? Should the Board require Board-supervised PPSIs to affirmatively state that payment stablecoins are not legal tender, issued by the United States, or guaranteed or approved by the Government of the United States? Should the Board explicitly require Board-supervised PPSIs to disclose that payment stablecoins are not covered by deposit insurance or share insurance even if they are partially backed by insured eligible deposit claims? The proposal indicates that a Board-supervised PPSI may make representations that its stablecoins are 100 percent or more backed by reserve assets permitted by the GENIUS Act including very short-term U.S. Government securities, if true. Should the Board provide clarifications regarding other permissible statements? [similar to OCC Question 43]

Question 45: Should the Board explicitly prohibit Board-supervised PPSIs from issuing more than one type of stablecoin, for example different brands or series of stablecoins? If the Board permits Board-supervised PPSIs to issue more than one type of stablecoin, should it require the Board-supervised PPSI to keep all of its reserve assets in a wholly owned subsidiary with no liabilities of its own, the assets of which secure a particular type of stablecoin liabilities of the Board-supervised PPSI, as discussed in section II.B.2.a of this **SUPPLEMENTARY INFORMATION***?*

2. Reserve Assets (Proposed § 247.11)

a. Reserve Requirement (Proposed § 247.11(a))

Under section 4(a)(4)(A)(ii) of the Act (12 U.S.C. 5903(a)(4)(A)(ii)), the Board is responsible for ''issu[ing] regulations implementing . . . the liquidity standard under section 4(a)(1) of the Act'' with respect to Board-supervised PPSIs. Section 4(a)(1)(A) of the Act (12 U.S.C. 5903(a)(1)(A)) provides that a PPSI must ''maintain identifiable reserves backing the outstanding payment stablecoins of the [PPSI] on an at least'' one-to-one basis and specifies the eight permissible reserve asset types. A Board-supervised PPSI would not be in compliance with this requirement if it did not maintain reserve assets sufficient to back outstanding payment stablecoins of the Board-supervised PPSI on a one-to-one basis. A Board-supervised PPSI may maintain reserve assets through a custodian, including an affiliate acting as a custodian, provided that the custodian is eligible to provide such services under, and is in compliance with, section 10 of the GENIUS Act (12 U.S.C. 5909) and its implementing regulations.

Proposed § 247.11(a)(1) would require that Board-supervised PPSIs maintain reserve assets that: (i) are identifiable; (ii) are segregated from, are not commingled with other assets owned or held by the Board-supervised PPSI, and are not available to satisfy the claims of any creditor (other than through the redemption of payment stablecoins) unless and until all payment stablecoins have been redeemed at par; (iii) at all times have a total fair value that equals or exceeds the outstanding issuance value of the Board-supervised PPSI; and (iv) are held (A) in custody by a person that is eligible to provide such services under, and is in compliance with, section 10 of the Act (12 U.S.C. 5909), including any applicable implementing regulations; (B) as an eligible deposit claim; (C) as money standing to the credit of an account at a Federal Reserve Bank; or (D) by the Board-supervised PPSI. With respect to prong (D), as discussed in more detail below, the Board is proposing to allow Board-supervised PPSIs to hold reserve assets directly or indirectly through a wholly owned subsidiary of the Board-supervised PPSI that has no liabilities of its own, the assets of which are pledged to secure the Board-supervised PPSI's obligations on its payment stablecoins.

In order to maintain reserve assets that are ''identifiable'' and comply with proposed § 247.11(a)(1)(i), Board-supervised PPSIs must maintain appropriate records to ensure documented ownership and legal entitlement to individual reserve assets. Similarly, any ownership arrangements, including ownership via custodians, must comply with applicable laws and regulations. The Board generally anticipates that reserve assets will be recorded on the Board-supervised PPSI's balance sheet under GAAP and be included in the quarterly reports required under proposed § 247.14(i) and on Consolidated Reports of Condition and Income (Call Report) Schedule RC, Balance Sheet, for a parent State member bank, as applicable. A Board-supervised PPSI must maintain the appropriate operational capabilities, internal controls, policies, and safeguards to ensure that its payment stablecoins are at all times backed by reserves on an at least one-to-one basis.

Proposed paragraph § 247.11(a)(ii) sets out a requirement that a Board-supervised PPSI must maintain reserve assets that are segregated from, are not commingled with other assets owned or held by the Board-supervised PPSI, and are not available to satisfy the claims of any creditor (other than through the redemption of payment stablecoins) unless and until all payment stablecoins have been redeemed at par. This requirement helps ensure that reserve assets are only used to back outstanding payment stablecoins of a Board-supervised PPSI and to satisfy redemption requests.

Proposed § 247.11(a)(1)(iii) sets out a requirement that a Board-supervised PPSI must, at all times, maintain reserve assets that have a total fair value that equals or exceeds the outstanding issuance value of the Board-supervised PPSI (one-to-one requirement). To comply with this requirement, a Board-supervised PPSI must ensure that the fair value of all reserve assets equals or exceeds the outstanding issuance value at all times.[42] Valuing reserve assets at fair value, rather than another measure, such as amortized cost, will help ensure that the reserve assets maintained by the Board-supervised PPSI reflect current prices and will be monetizable at a value sufficient to meet any redemption requests at par value. Notably, the outstanding issuance value is based on the total consolidated par value of all of a Board-supervised PPSI's payment stablecoins rather than on the fair value of the outstanding issued payment stablecoin. Thus, if the fair value of the payment stablecoin decreased (*i.e.,* if the payment stablecoin de-pegged in the secondary market), the Board-supervised PPSI would nevertheless be obligated to retain a stock of reserve assets, the fair value of which equals or exceeds the par value of outstanding payment stablecoins. This approach is intended to ensure that the Board-supervised PPSI is able to credibly meet

[42] The proposed rule defines ''fair value'' as ''fair value determined under GAAP.'' GAAP determines ''fair value'' of United States coins and currency to be their par value. Accordingly, United States coins and currency will be valued at par.

redemption requests, including in adverse circumstances. To take a contrary approach (*e.g.,* basing the outstanding issuance value on the fair value of payment stablecoins) could increase the risk that Board-supervised PPSIs would be unable to redeem all of their payment stablecoins at all times at par on demand, which may in turn exacerbate run risk for a Board-supervised PPSI.

Proposed § 247.11(a)(1)(iv) provides that reserve assets must be held (A) in custody by a person that is eligible to provide such services under, and is in compliance with, section 10 of the Act (12 U.S.C. 5909), including any applicable implementing regulations; (B) as an eligible deposit claim; (C) as money standing to the credit of an account at a Federal Reserve Bank; [43] or (D) by the Board-supervised PPSI. The Board generally expects that Board-supervised PPSIs will hold reserve assets with an eligible custodian only after they have entered into a custody agreement establishing the custodian's duties and responsibilities in providing safekeeping and ancillary services to the Board-supervised PPSI.

With respect to prong (D) of proposed § 247.11(a)(1)(iv), the Board is proposing and seeking comment on an approach that would permit a Board-supervised PPSI to hold reserve assets directly or indirectly through a wholly owned subsidiary of the Board-supervised PPSI that has no liabilities and is fully capitalized by the Board-supervised PPSI (*i.e.,* a special purpose vehicle). Under such a structure, the Board-supervised PPSI would remain the issuer of payment stablecoins, and such payment stablecoins would be reflected as liabilities on the balance sheet of such Board-supervised PPSI. However, the payment stablecoin liabilities of the Board-supervised PPSI would, pursuant to appropriate legal agreements, be secured by the assets of the Board-supervised PPSI's wholly owned subsidiary. This type of structure may be attractive for a Board-supervised PPSI that issues more than one kind of payment stablecoin, as the reserve assets backing each kind of payment stablecoin could be clearly segregated in different subsidiaries and therefore be easily identifiable with a particular type of payment stablecoin. While the Board expects Board-supervised PPSIs will generally not incur material liabilities other than payment stablecoin liabilities, or maintain significant assets other than those listed in proposed § 247.11(b), this structure may be attractive for a Board-supervised PPSI that receives the Board's permission to do so. The use of a subsidiary to hold reserve assets in no way alters the obligation of a Board-supervised PPSI to comply with all provisions of the GENIUS Act and its implementing regulations, including those relating to reserve assets and capital. The Board invites comment on the legal and operational benefits and drawbacks of this approach.

To demonstrate compliance with the proposed one-to-one requirement, proposed § 247.11(a)(2) would require a Board-supervised PPSI to record the fair value of reserve assets required under proposed § 247.11(a)(1) at a minimum of once each calendar day at 5:00 p.m. in the time zone of the Board-supervised PPSI's supervising Federal Reserve Bank. This requirement represents the minimum frequency for demonstrating compliance with the one-to-one requirement, but does not modify the requirement to meet the one-to-one requirement at all times. Depending on the circumstances, more frequent assessments of the reserve assets' fair value may be necessary to demonstrate that the one-to-one requirement is being met at all times. For example, if the fair value of the reserve assets is only marginally above the outstanding issuance value, a Board-supervised PPSI may need to re-assess the fair value of reserve assets multiple times per day. A Board-supervised PPSI should generally have systems that enable it to conduct such monitoring. This approach provides some flexibility for Board-supervised PPSIs to develop their own approach for demonstrating compliance with the one-to-one requirement. A minimum demonstration of compliance at 5:00 p.m. each day would prevent Board-supervised PPSIs from choosing the time of day that might be most beneficial to their demonstration.

Proposed § 247.11(a)(3) would require that a Board-supervised PPSI demonstrate the operational capability to access and monetize the identifiable reserve assets, commensurate with the Board-supervised PPSI's risk profile and business model. The Board-supervised PPSI must be able to monetize the reserve assets, potentially quickly and at short notice, in order to meet redemption requests. The inability to quickly monetize reserve assets would undermine the ability of a Board-supervised PPSI to maintain the stable value of its payment stablecoins.

To comply with proposed § 247.11(a)(3), a Board-supervised PPSI must be able to demonstrate the ability to monetize all types of reserve assets that it maintains. In the case of reverse repurchase agreements, monetization may happen automatically when the agreement matures and the counterparty repurchases the collateral. Other types of reserve assets may require additional demonstration of monetization capacity. Depending on the Board-supervised PPSI's size, risk profile, business model, activities, and operations, the Board-supervised PPSI may be able to demonstrate monetization in different ways. For example, smaller Board-supervised PPSIs may meet this requirement by demonstrating established relationships with brokers to sell reserve assets. In some cases, additional measures, such as preparations to execute repurchase agreements on short notice, may be appropriate. Such arrangements may be necessary if a Board-supervised PPSI maintains a large position in U.S. Treasury securities that could be difficult to monetize in its entirety without causing adverse market movements, which should be rare since the maximum term of such securities would be 93 days (as required by the GENIUS Act), or if a Board-supervised PPSI maintains concentrated positions in other types of reserve assets. The availability of multiple monetization channels helps ensure that a Board-supervised PPSI is not required to monetize assets at reduced or ''fire sale'' prices.

Proposed § 247.11(a)(4) would include requirements for when Board-supervised PPSIs could withdraw excess reserve assets when the total fair value of all reserve assets exceeds outstanding issuance value. Board-supervised PPSIs would be permitted to withdraw excess reserve assets only once per month upon the publication of the composition report required by section 4(a)(3) of the GENIUS Act (12 U.S.C. 5903(a)(3)) and provided for in proposed § 247.11(d). Specifically, Board-supervised PPSIs would be able to withdraw any reserve assets in excess of the amount needed for the total fair value of reserve assets to equal the outstanding issuance value, calculated and reported as of the last day of the

[43] Certain industry participants have raised questions regarding the extent to which funds held in a parent insured depository institution's Federal Reserve Bank account can qualify as its PPSI subsidiary's reserve assets in the form of money standing to the credit of a Federal Reserve Bank. For the avoidance of doubt, balances held by a parent insured depository institution at a Federal Reserve Bank are liabilities of the Federal Reserve Bank solely to the parent insured depository institution acting in a principal capacity and not to any subsidiary thereof. As explained in the Board's recent request for comment on the proposal to establish a special-purpose payment account, the Federal Reserve Banks do not recognize third-party interests, including those of a subsidiary for which an insured depository institution may be acting in a trustee, fiduciary, or similar capacity, in Federal Reserve Bank accounts. *See* 91 FR 30627, 30641, 30646 (May 26, 2026).

previous month, after the information in the month-end report is examined and certified pursuant to proposed § 247.11(e). Permitting a Board-supervised PPSI to withdraw surplus reserve assets only after examination and certification will promote public confidence about the integrity of the handling of reserve assets. Permitting withdrawal of excess reserve assets at other intervals could undermine public confidence in the sufficiency of a Board-supervised PPSI's reserve assets. If Board-supervised PPSIs were able to withdraw excess reserve assets at any time, based only upon their own internal calculations, that could undermine public confidence in the value of reserve assets between public reports and even create concerns about misconduct; for example, it could give rise to a concern that a Board-supervised PPSI might make a bad faith or unvalidated determination that an excess existed in order to justify a withdrawal. Proposed § 247.11(a)(4) would also require that, while withdrawals would be based on calculations at the end of the previous month, a Board-supervised PPSI could only make withdrawals if the remaining reserve assets had a current total fair value at least equal to the current outstanding issuance value, calculated as of the day of withdrawal.

Question 46: The Board seeks comment on all aspects of the proposed monetization requirement in proposed § 247.11(a)(3). What would be the advantages and disadvantages of requiring Board-supervised PPSIs to conduct actual sales or repurchase agreements in reserve assets to demonstrate their monetization capabilities? Given the highly liquid markets for reserve assets allowed by the GENIUS Act, how useful is the monetization requirement? Under what circumstances, if any, would Board-supervised PPSIs be unable to monetize reserve assets (e.g., Treasury bills) to meet redemptions within a time frame of two days? How frequently could those circumstances occur?

Question 47: The Board seeks comment on the use of "fair value" for valuing reserve assets. Given the types of assets that qualify as reserve assets, would another valuation measure such as "fair market value" be more appropriate and help ensure that the reserve assets reflect current market prices? What would be the advantages or disadvantages of using another valuation measure such as fair market value?

Question 48: The Board seeks comment on the requirement in proposed § 247.11(a)(2) *that Board-supervised PPSIs record the fair value of reserve assets at a minimum once each calendar day at 5:00 p.m. in the time zone of the Board-supervised PPSI's supervising Federal Reserve Bank. Is this requirement sufficient to ensure compliance with the one-to-one requirement at all times? As an alternative, the Board considered requiring real-time monitoring of the fair value of reserve assets. Would real-time monitoring be feasible? What would be the advantages or the disadvantages associated with such a requirement? What alternative approaches to ensuring that Board-supervised PPSIs are meeting the one-to-one requirement at all times can the Board adopt? What would be the advantages or disadvantages of such approaches?*

Question 49: Should the Board allow Board-supervised PPSIs to use wholly owned subsidiaries to hold reserve assets and secure stablecoin liabilities, provided that each such subsidiary would have no liabilities of its own (a special purpose vehicle or "SPV")? What are the legal and operational implications of this approach? What are the benefits and drawbacks the SPV structure? What legal mechanisms might be employed to ensure the assets of the SPV serve as security for the payment stablecoin liabilities of the Board-supervised PPSI and effectively subordinate other creditors of the Board-supervised PPSI with respect to reserve assets backing the payment stablecoins?

Question 50: The proposed rule would require a Board-supervised PPSI to maintain reserve assets, the fair value of which must equal or exceed the outstanding issuance value at all times. Should the Board impose a different standard, such as requiring the fair value of reserve assets to equal or exceed the outstanding issuance value at the end of each day or at the end of each business day? [similar to OCC question 56]

Question 51: Should the final rule include additional risk management or other requirements beyond those proposed to protect reserve assets against fraud or misuse? Proposed § 247.11(a)(4) provides that a Board-supervised PPSI may withdraw any reserve assets in excess of the amount needed for the total fair value of reserve assets to equal the outstanding issuance value, calculated and reported as of the last day of the previous month, after the publication and certification of the monthly composition report. Should the final rule include additional guardrails to ensure that customer funds provided to a Board-supervised PPSI for purposes of acquiring payment stablecoins are secure against fraud or other threats? For example, the proposed rule could clarify that customer funds become reserve assets as soon as they are provided to the Board-supervised PPSI for purposes of acquiring payment stablecoins—and are therefore subject to the protections afforded to reserve assets. Additionally, proposed § 247.11(a)(1)(i) requires that reserve assets be "identifiable." Should the final rule also clarify that the requirement that reserve assets be "identifiable" includes the requirement that any income, interest, or other proceeds generated by reserve assets remain "identified" as reserve assets until a Board-supervised PPSI claims any excess pursuant to the process required by proposed § 247.11(a)(4)? For example, if a Board-supervised PPSI invests $100 of reserve assets in a 90-day Treasury bill that yields $101 upon maturity, should the entirety of the $101 proceeds remain "identified" as a reserve asset? Or should the requirements in proposed § 247.11(a)(4) for claiming excess reserve assets only apply to principal, not income? In this example, the Board-supervised PPSI would be required to identify $100 of the proceeds as a reserve asset while it would not be required to identify the $1 in interest as a reserve asset. Should proposed § 247.13 (risk management) include additional requirements around making sure reserve assets are "identifiable"? For example, proposed § 247.13 could include a requirement that Board-supervised PPSIs must maintain appropriate controls and systems necessary to ensure that reserve assets can be traced and identified at all times.

Question 52: Should the final rule include other requirements related to securing reserve assets? Proposed § 247.11(a)(1)(iv) would require that a Board-supervised PPSI maintain reserve assets that are held in custody by certain persons or by the Board-supervised PPSI. Should the final rule include additional requirements for such persons or Board-supervised PPSIs holding or managing reserve assets, for example, requiring that Board-supervised PPSIs verify that persons holding reserve assets have appropriate capabilities, safeguards, systems to secure reserve assets, including against fraud? Should proposed § 247.11 include other protections to secure reserve assets, for example, a limitation on Board-supervised PPSIs charging fees for the management or trading of its own reserve assets—or an outright prohibition against such fees? Should *proposed § 247.11 include requirements around disclosure of fees, for example, that fees must be disclosed prominently to new and existing payment stablecoin holders, or prohibitions against fees that are excessive or out of line with prevailing market terms?*

b. Permissible Reserve Assets (Proposed § 247.11(b))

Under proposed § 247.11(b), reserve assets must only comprise: (1) United States coins and currency (including Federal Reserve notes) or money standing to the credit of an account with a Federal Reserve Bank; (2) eligible deposit claims subject to any limitation established by the FDIC and NCUA, as applicable, pursuant to section 4(a)(1)(A)(ii) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(ii)) to address safety and soundness risks of such insured depository institution; [44] (3) Treasury bills, Treasury notes, or Treasury bonds with a remaining maturity of 93 days or less; [45] (4) money received under repurchase agreements, with the Board-supervised PPSI acting as a seller of securities and with a no longer than overnight maturity, that are backed by Treasury bills with a maturity of 93 days or less; [46] (5) reverse repurchase agreements, with the Board-supervised PPSI acting as a purchaser of securities and with a no longer than overnight maturity, that are collateralized by Treasury bills, Treasury notes, or Treasury bonds on a no longer than overnight basis,[47] subject to overcollateralization in line with standard market terms, that are: (i) tri-party; (ii) centrally cleared through a clearing agency registered with the SEC; or (iii) bilateral with a counterparty that the issuer has determined to be adequately creditworthy even in the event of severe market stress; (6) securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940 (15 U.S.C. 80a–8(a)), or other registered Government money market fund, and that are invested solely in underlying assets described in proposed § 247.11(b)(1) through (5); [48] (7) any other similarly liquid Federal Government-issued asset approved by the Board, in consultation with the State payment stablecoin regulator, if applicable, of the PPSI; or (8) any reserve described in proposed § 247.11(b)(1) through (3), (6), or (7), in tokenized form, provided that such tokenized asset (i) confers legal rights that are identical to those of the non-tokenized form of the same asset, and (ii) is in compliance with all applicable laws and regulations.

In determining whether a potential reserve asset qualifies as ''any other similarly liquid Federal Government-issued asset,'' under proposed § 247.11(b)(7) the Board will consider, among other relevant factors, whether: (i) the asset has liquidity characteristics, including during times of stress, comparable to the other reserve assets allowed under proposed § 247.11(b); (ii) Board-supervised PPSIs will be operationally capable of monetizing the asset to meet redemption requests, including sudden and high-volume requests; (iii) the asset poses levels of risk comparable to the assets allowed under proposed § 247.11(b), including interest rate risk and counterparty credit risk; and (iv) whether the asset introduces additional risks that may be difficult for Board-supervised PPSIs to manage. Only assets that are actually *issued* by the Federal government (*i.e.,* the U.S. Department of the Treasury and other agencies of the federal government), and are not merely guaranteed by the Federal government, may qualify as a potential ''similarly liquid Federal Government-issued asset.''

An asset exists in ''tokenized form'' under proposed § 247.11(b)(8) when the asset's ownership rights are represented on a blockchain or some other form of distributed ledger technology. Thus, a tokenized asset only qualifies as a permissible reserve asset under proposed § 247.11(b)(8) if the tokenized asset confers legal rights that are identical to those of the non-tokenized form of the permissible asset.[49] A tokenized asset that does not meet this standard could have a lower value than the non-tokenized permissible asset, which could, depending on the difference in value, undermine the Board-supervised PPSI's compliance with the one-to-one requirement.

Because market practices around tokenization are not firmly established, it may be difficult to determine whether a tokenized asset confers legal rights that are materially the same as those conferred by a non-tokenized permissible reserve asset. The Board encourages any Board-supervised PPSI that seeks clarity on whether a specific tokenized asset qualifies as a permissible reserve asset under proposed § 247.11(b)(8) to seek an opinion from competent counsel or the Board as to whether the asset qualifies. To the extent feasible, the Board is considering publishing a list of, or otherwise making public, a nonexclusive list of tokenized reserve assets that satisfy this standard.

Question 53: Section 4(a)(1)(A)(vi) of the Act (12 U.S.C. 5903(a)(1)(A)(vi)) includes ''securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940 (15 U.S.C. 80a–8(a)), or other registered Government money market fund, and that are invested solely in underlying assets described in clauses (i) through (v)'' as eligible reserve assets for payment stablecoins issued by PPSIs. However, many or all Government money market funds are investment companies registered under section 8(a) of the Investment Company Act of 1940. Should the provision relating to securities issued by investment companies registered under section 8(a) of the Investment Company Act, or other registered Government money market funds, be clarified? Does section 4(a)(1)(A)(vi) of the Act (12 U.S.C. 5903(a)(1)(A)(vi)) permit securities issued by investment companies registered under section 8(a) of the Investment Company Act of 1940 that are not Government money market funds to be reserve assets for payment stablecoins issued by PPSIs? Are there

[44] For the avoidance of doubt, an uninsured U.S. branch or agency of a foreign bank is not an ''insured depository institution'' for purposes of the GENIUS Act, but insured U.S. branches and agencies of foreign banks would be.

[45] The GENIUS Act permits the inclusion of Treasury bills, notes, or bonds ''(I) with a remaining maturity of 93 days or less; or (II) issued with a maturity of 93 days or less.'' The proposed rule would combine these categories since the former category includes the latter, at least for purposes of complying with the requirements of proposed § 247.11. Board-supervised PPSIs may choose to categorize these assets separately for other reasons, for example accounting or risk management purposes. For clarification, the 93-day maturity limit is measured from the settlement date to the stated final maturity.

[46] The proposed rule would clarify that a repurchase agreement or reverse repurchase agreement with an intraday maturity could qualify as a permitted reserve asset. Section 4(a)(1)(A)(iv) and (v) of the Act (12 U.S.C. 5903(a)(1)(A)(iv) and (v)) specifically refers to repurchase agreements and reverse repurchase agreements with an overnight maturity. The Board believes that this provision is intended to permit repurchase agreements and reverse repurchase agreements with a maturity no longer than overnight. Thus, the proposed rule would explicitly permit the use of intraday repurchase agreements and reverse repurchase agreements.

[47] For clarity, deposits and cash may serve as additional permitted collateral in the repurchase and reverse repurchase agreements described in this provision.

[48] A money market fund that invests in any other assets, including in Treasury securities with a remaining maturity longer than 93 days, would not be eligible to be held as a reserve asset.

[49] This approach is consistent with the Interagency FAQ on tokenized securities. *See* Board of Governors of the Federal Reserve System, ''Capital Treatment of Tokenized Securities Frequently Asked Questions'' (updated March 5, 2026), available at *https://www.federalreserve.gov/supervisionreg/capital-treatment-of-tokenized-securities-faqs.htm.*

any registered Government money market funds that are not investment companies registered under section 8(a) of the Investment Company Act? Does section 4(a)(1)(A)(vi) of the Act permit securities issued by registered Government money market funds that are not registered under section 8(a) of the Investment Company Act to be reserve assets for payment stablecoins issued by Board-supervised PPSIs? [similar to OCC question 44]

Question 54: Should there be further clarifications on the provisions relating to repurchase agreements and reverse repurchase agreements? For example, should the Board include limitations with respect to the use of eligible deposit claims as collateral? If so, what limitations? [similar to OCC question 45]

Question 55: Is the term ''eligible deposit claims'' sufficiently clear? If not, how should the Board clarify the term (i.e., what types of accounts should expressly be included within the term)? Should the Board expand the definition of ''eligible deposit claims'' to include uninsured claims of a PPSI against an insured credit union in respect of any amount standing to the credit of a share account, which is an asset from the perspective of the accountholder, including a Board-supervised PPSI (consistent with the NCUA's GENIUS Act notice of proposed rulemaking)? [similar to OCC question 48]

Question 56: Is the proposed rule sufficiently clear regarding what constitutes a ''reserve in tokenized form?'' What modifications to this definition or the rule's related terminology would enhance clarity? [similar to OCC question 49]

Question 57: Should the Board provide additional detail on what securities could be in scope for ''any other similarly liquid Federal Government-issued asset'' under § 247.11(b)(7)? For example, should Treasury securities with a remaining maturity of two years or less be permitted under § 247.11(b)(7)? What would be the implications for liquidity or interest rate risk of allowing these types of securities to be held as reserve assets? If the Board were to permit two-year Treasury securities to be used as reserve assets, should the Board impose any additional requirements, such as requiring the weighted average maturity of Treasury securities held as reserves to be no more than 93 days (or some shorter timeframe) or requiring additional reserve asset diversification requirements (e.g., minimum amount of reserve assets held as eligible deposit claims or minimum number of depository institutions holding the Board-supervised PPSI's reserve assets) for Board-supervised PPSIs that hold Treasury securities with a remaining maturity between 94 days and two years? [similar to OCC question 51]

Question 58: Should the final rule clarify that Treasury Floating Rate Notes (FRNs) and Treasury Inflation-Protected Securities may be included as permissible reserve assets, assuming they otherwise meet the requirements of the proposed rule, including maturity requirements? Is there any reason these securities should be excluded? Should Treasury Separate Trading of Registered Interest and Principal of Securities be included? Are there other instruments that should be considered as included within the GENIUS Act's phrase ''Treasury bills, notes, or bonds'' (12 U.S.C. 5903(a)(1)(A)(iii))? If these securities are included, should there be additional requirements—for example, both weighted average life and weighted average maturity limits to accommodate interest rate resets in FRNs? [similar to OCC question 52]

Question 59: The proposed rule would, consistent with the GENIUS Act, allow as reserve assets funds held as eligible deposit claims, which are defined in part as claims of a Board-supervised PPSI against an insured depository institution (including any foreign branches or agents, including correspondent banks). Should the proposed rule add definitions for these terms to make them clearer or impose restrictions on the use of foreign branches or agents and correspondent banks? For example, should the proposed rule require that payment stablecoins denominated in United States dollars only be backed by eligible deposit claims against a U.S.-based insured depository institution (i.e., reserve assets could not include eligible deposit claims against insured depository institutions outside the United States)? Should the Board include any additional requirements with respect to reserve assets held abroad, such as applying a haircut to the reserve assets, imposing a capital charge, or including additional policies and procedures to manage the risks associated with holding reserve assets abroad? [similar to OCC question 54]

Question 60: Should the Board develop a formal process to consider and approve Federal Government-issued assets under proposed § 247.11(b)(7)? Should the Board allow Board-supervised PPSIs or other parties to request that the Board consider a specific type of Federal Government-issued asset? Should any determinations on additional Federal Government-issued assets approved under this authority be made public? [similar to OCC question 55]

Question 61: Should the final rule include special measures to ensure that reverse repurchase agreements are ''overcollateralized in line with standard market terms?'' Proposed § 247.11(b)(5) would permit the inclusion, as reserve assets, of reverse repurchase agreements ''subject to overcollateralization in line with standard market terms.'' As one possibility, the final rule could include no special measures, and the examination and supervision process could be used to evaluate if a particular Board-supervised PPSI fails to overcollateralize their reverse repurchase agreements in line with standard market terms. As another possibility, the final rule could include more express requirements—for example, that overcollateralization haircuts cannot be less than 0.5 percent. [similar to OCC question 80]

c. Reserve Asset Diversification and Concentration (Proposed § 247.11(c)–(d))

Section 4(a)(4)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(4)(A)(iii)) requires the Board to ''issue regulations implementing . . . reserve asset diversification, including deposit concentration at banking institutions, and interest rate risk management standards applicable to [Board-supervised PPSIs] that—(I) are tailored to the business model and risk profile of [Board-supervised PPSIs] and (II) do not exceed standards that are sufficient to ensure the ongoing operations of [Board-supervised PPSIs].'' The Board is proposing to take a principles-based approach to reserve asset diversification regulations. The Board generally believes that Board-supervised PPSIs should maintain reserve assets consisting predominantly of U.S. Treasury securities. The proposal would require a Board-supervised PPSI to maintain reserve assets that are sufficiently diverse to ensure that it can comply with the one-to-one requirement at all times, including under stress. Among other actions, a Board-supervised PPSI must mitigate concentration risks that could arise from: (i) uninsured eligible deposit claims against one or a small number of insured depository institutions, including any foreign branches or agents (including correspondent banks) of an insured depository institution; and (ii) reverse repurchase transaction exposures to one or a small number of counterparties and their affiliates, excluding designated financial market utilities.

A Board-supervised PPSI that maintains a portion of its reserve assets as uninsured eligible deposit claims faces risk of default from the insured depository institution(s) that issued the deposit liabilities. A Board-supervised PPSI similarly faces risk from reverse repurchase agreement counterparties defaulting on their repurchase obligations. Diversifying these counterparties, consistent with proposed § 247.11(c), can help reduce the impact of any individual counterparty's stress or failure on the value of the Board-supervised PPSI's reserve assets and support the Board-supervised PPSI's ability to meet the one-to-one requirement. Under the proposal, the diversification requirements would not apply to designated financial market utilities, given the central role they play in the clearing of reverse repurchase agreements involving Treasury securities and recent efforts to promote the clearing of such transactions.

The Board also recognizes that a Board-supervised PPSI may temporarily increase the concentration in uninsured eligible deposit claims against a particular insured depository institution in connection with the (i) liquidation of other reserve assets to satisfy actual redemption requests; or (ii) receipt of funds in connection with issuance requests. The Board acknowledges that the risk from such concentrations would be minimal because of the temporary nature of the holdings, and a Board-supervised PPSI may temporarily increase its credit exposure to a particular insured depository institution or its concentration in uninsured eligible deposit claims for these purposes.

While various prescriptive reserve asset diversification requirements were considered, the Board is not proposing such prescriptive requirements at this time given the potential for diverse risk and activities profiles across Board-supervised PPSIs. However, the Board requests comment on whether prescriptive requirements would be more appropriate and, if so, how such a requirement should be calibrated.

For example, while there are similarities between stablecoin issuers and money market funds, the proposal would not establish a requirement based on daily or weekly asset maturities similar to those established for money market funds under 17 CFR 270.2a–7. Permissible reserve assets under the Act are transacted in highly liquid markets, which can support intraday or next-day settlement. For example, Board-supervised PPSIs may monetize Treasury securities with overnight repurchase agreements, allow overnight reverse repurchase agreements to mature, or obtain cash the same day by selling Treasury securities. Treasury bills have maintained their highly liquid status during previous episodes of stress.[50] Thus, the reserve asset limitations imposed by the GENIUS Act are already sufficient to provide assurance that Board-supervised PPSIs will be able to meet their redemption obligations within the two day time frame as required under the proposal, as discussed more in section II.B.3 of this **SUPPLEMENTARY INFORMATION**. For similar reasons, the Board is not proposing to require that a minimum amount of reserve assets be held as eligible deposit claims.

Question 62: The **SUPPLEMENTARY INFORMATION** *indicates that the Board generally believes that Board-supervised PPSIs should maintain reserve assets consisting predominantly of U.S. Treasury securities. What are the advantages and disadvantages of the Board retaining this language when finalizing Regulation UU?*

Question 63: What would be the advantages and disadvantages if the final rule were to require a buffer or impose haircuts on certain reserve assets to ensure that reserve asset values do not fall below outstanding issuance values? What would be the appropriate buffers or haircuts, and how could such buffers or haircuts be determined (e.g., price volatility in stress or price changes given movements in interest rates). Section 4(a)(1)(A) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)) requires PPSIs to maintain identifiable reserves "on an at least [one-to-one] basis." What measures should the final rule include to ensure that Board-supervised PPSIs are able to maintain this minimum? Without a buffer or other measures, the fair value of a Board-supervised PPSI's reserve assets could fall below the required minimum if there are, for example, sudden increases in interest rates. What other requirements, such as an explicit requirement to diversify reserves to manage interest rate risk, should the Board consider to help ensure a Board-supervised PPSI's reserve assets do not fall below the one-to-one requirement? For example, the proposed rule could require Board-supervised PPSIs to maintain a buffer of one percent of assets or hold an amount of reserve assets sufficient to stay above the outstanding issuance value in light of risks facing the Board-supervised PPSI, including interest rate risk and risks associated with the capability to access and monetize reserve assets. Are there other considerations the Board should take into account if it chooses to calibrate such a buffer? As an alternative to requiring such a buffer, what type of guidance could the Board provide on the level of buffer that would generally be appropriate as a matter of prudent risk management? [similar to OCC question 46]

Question 64: What type of limits or haircuts on permissible reserve assets denominated in a national currency other than the U.S. dollar, if any, should the Board consider in the final rule? If the Board imposed such limits or haircuts, what factors should the Board consider in calibrating the limits or haircuts, such as the management of foreign exchange risk? What would be an appropriate level of any such limit or haircut to ensure reserve asset values do not fall below outstanding issuance values?

Question 65: What would be the potential costs and benefits of requiring Board-supervised PPSIs to maintain a minimum percentage of reserve assets at unaffiliated third-parties, including with respect to operational risk?

Question 66: How should the final rule's requirements for reserve assets reflect potential interactions with the larger market for Treasury securities? For example, what requirements should the Board consider in order to prevent any disruptive or negative effects that the management or liquidation of Treasury reserve assets might have on markets? [similar to OCC question 53]

Question 67: What would be the advantages and disadvantages of prescribing quantitative limits or minimums on specific types of reserve assets instead of or in addition to the proposal's principles-based approach to reserve asset diversification? For example, the Board could (i) limit the amount of uninsured eligible deposit claims against an insured depository institution to no more than five percent of the Board-supervised PPSI's total amount of reserve assets, (ii) limit the Board-supervised PPSI's reserve assets held in the form of uninsured eligible deposit claims issued by a single insured depository institution to no more than 10 percent of the insured deposit institution's deposit liabilities, (iii) impose a weighted-average maturity limit on a Board-supervised PPSI's reserve assets to no more than 30 days, or (iv) impose a combination of such limits. Would quantitative limits or minimums, either as mandatory requirements for all Board-supervised PPSIs or as a safe harbor for a

[50] *See* Scott Davis, "Treasuries' allure as safe haven noted in short maturities, not in long bonds," Dallas Fed Economics (June 27, 2023), *available at https://www.dallasfed.org/research/economics/2023/0627.*

principles-based approach, be more appropriate and, if so, how should these limits or minimums be calibrated? What types of operational challenges would these limits or minimums introduce or present? What proportion of reserve assets, if any, should a Board-supervised PPSI maintain as eligible deposit claims in order to facilitate reserve asset management? Should smaller Board-supervised PPSIs be subject to different reserve asset diversification standards and, if so, what considerations should the Board account for?

Question 68: What would be the advantages and disadvantages of a requirement limiting a Board-supervised PPSI's exposures to a single financial institution? For example, the Board could require a PPSI to maintain no more than 40 percent of its reserve assets at any one "eligible financial institution" (as that term is defined by the OCC in its GENIUS Act notice of proposed rulemaking), whether as eligible deposit claims against any one insured depository institution, securities held in custody at any one eligible financial institution, bilateral reverse repurchase agreements with any counterparty, or through other exposures. Alternatively, such a limit could apply to certain types of eligible financial institutions or other counterparties, or with respect to a specific requirement only. What would be the advantages and disadvantages of this specific limit?

Question 69: What would be the advantages and disadvantages of requiring that a Board-supervised PPSI's reserve assets have a maximum weighted average maturity (e.g., no more than 20 or 30 days) to help the Board-supervised PPSI manage interest rate risks? If requiring a maximum weighted average maturity would be advantageous, what should be the maximum weighted average maturity for reserve assets, and why? How should the Board differentiate, if at all, between the maximum weighted average maturity applicable for larger Board-supervised PPSIs and smaller Board-supervised PPSIs (e.g., should smaller Board-supervised PPSIs be subject to a 45-day weighted average maturity requirement on their reserve assets, and why)? How should larger and smaller Board-supervised PPSIs be defined for this purpose?

Question 70: The Board is proposing a principles-based requirement that requires Board-supervised PPSIs to diversify reserve assets in a manner that ensures that it can comply with the one-to-one requirement at all times, including under stress. What are the advantages and disadvantages of such a principles-based approach? Are there types of risks (e.g., credit, liquidity, interest rate, price, and concentration risks) or other considerations that PPSIs should be required to measure or manage under this approach?

Question 71: What would be the advantages and disadvantages of requiring that a Board-supervised PPSI that holds reserve assets described in proposed § 247.11(b)(6) apply the diversification requirements in proposed § 247.11(c) to the underlying assets of such funds on a look-through basis?

Question 72: What would be the advantages and disadvantages of considering requirements to diversify the maturity profile of reserve assets? For example, should Board-supervised PPSIs be required to maintain a minimum amount of their reserve assets in cash or equivalents or assets that can be converted more readily into short-term liquidity within a daily or weekly timeframe, akin to the requirements for money market funds in SEC Rule 2a–7 or short-term investment funds in 12 CFR 9.18(b)(4)(iii), and, if so, why? [similar to OCC question 62]

Question 73: What would be the advantages and disadvantages of considering a minimum requirement to maintain reserve assets as eligible deposit claims or money standing to the credit of an account with a Federal Reserve Bank, or as those aforementioned assets or amounts receivable and due unconditionally within five business days on pending sales of reserve assets or other maturing transactions? At what level should such thresholds be set (e.g., 5 percent, 10 percent, 20 percent, 25 percent, or 30 percent)?

Question 74: What would be the advantages and disadvantages of considering measures to encourage reserve assets to be held in the form of insured eligible deposit claims against insured depository institutions? While it may be difficult for larger Board-supervised PPSIs to hold a material proportion of reserve assets as insured eligible deposit claims against insured depository institutions because of deposit insurance limits and the finite number of insured depository institutions in the United States, what would be the advantages and disadvantages of requiring larger Board-supervised PPSIs to hold some minimum amount of reserves, such as 0.5 percent of reserves, as insured eligible deposit claims against insured depository institutions, capped at a level such as $500 million, in order to provide extra protection for stablecoin holders? What could be the size threshold for applying this provision to a Board-supervised PPSI? Under such an approach, how should the Board consider differentiating requirements for larger and smaller Board-supervised PPSIs, and how should the Board consider an appropriate level for the cap on the requirement? [similar to OCC question 63]

Question 75: Board-supervised PPSIs could use deposit placement services to hold a higher proportion of reserves as insured eligible deposit claims against insured depository institutions, as long as Board-supervised PPSIs are able to maintain the operational ability to access and monetize the eligible deposit claims, consistent with proposed § 247.11(a). Please describe any risks associated with using such services or other intermediaries, and how Board-supervised PPSIs could best mitigate these risks. [similar to OCC question 66]

Question 76: Consistent with the GENIUS Act, the proposed rule would allow physical currency, including coins, to serve as reserve assets. Nevertheless, given the limitations on transferring physical currency, particularly difficulties that may arise in deploying physical currency quickly to meet sudden demands for redemptions, what would be the advantages and disadvantages of imposing limits on how much physical currency can serve as reserve assets? For example, the final rule could require that physical currency constitute no more than five percent or 10 percent of a Board-supervised PPSI's reserve assets. What special requirements, if any, should the Board require to make sure that physical currency is safeguarded (for example, against theft or fire)? Should the special requirements include periodic verification or inspection requirements for physical currency used as reserve assets? [similar to OCC question 75]

Question 77: What would be the advantages and disadvantages of including special limits on Treasury bonds and notes that may be more thinly traded and therefore more likely to sell at a discount? The GENIUS Act would allow PPSIs to hold as reserve assets Treasury notes and bonds so long as they have a maturity of 93 days or less (12 U.S.C. 5903(a)(1)(A)(iii)). Older and off-the-run Treasury securities may be more difficult to sell and may only be marketable at a discount.[51] *What limit, if any, should the final rule*

[51] *See* Dimitri Vayanos & Jiang Wang, "Market Liquidity—Theory and Empirical Evidence," National Bureau of Economic Research Working Paper 18251 (July 2012), *https://www.nber.org/system/files/working_papers/w18251/w18251.pdf.*

impose on the portion of reserve assets that Treasury bonds and notes can comprise—for example, 20 percent of total reserve assets? [similar to OCC question 77]

Question 78: What would be the advantages and disadvantages of diversification requirements that would limit over-reliance on short-term repurchase transactions (e.g., limits on the aggregate amount of short-term repurchase transactions as a percentage of a Board-supervised PPSI's total reserve assets)? How should such requirements be calibrated?

Question 79: What would be the advantages and disadvantages of considering requirements for Board-supervised PPSIs to conduct stress tests, including stress tests to manage liquidity and interest rate risks? The GENIUS Act permits the inclusion of bilateral reverse repurchase agreements as reserve assets "with [counterparties] that the issuer has determined to be adequately creditworthy even in the event of severe market stress" (12 U.S.C. 5903(a)(1)(A)(v)(III)). How should Board-supervised PPSIs evaluate the impact of "severe market stress"? Should diversification requirements be based on or account for the outcome of any stress tests? For example, Board-supervised PPSIs could be required to maintain a minimum amount of readily available reserve assets (for example, eligible deposit claims that are payable on demand and reserve balances) based on the results of liquidity stress tests. In particular, Board-supervised PPSIs could be required to maintain—or could elect to maintain as part of a potential safe harbor to a principles-based approach that could be adopted in the final rule—an amount of readily available reserve assets at least sufficient to meet outflow levels predicted by an internal liquidity stress test. [similar to OCC question 81]

Question 80: What would be the advantages and disadvantages of requiring Board-supervised PPSIs to adopt written plans or policies and procedures related to liquidity planning? For example, how should Board-supervised PPSIs be required to adopt their own concentration restrictions, including limits on concentrations in eligible deposit claims against insured depository institutions, that are tailored to their own business model, operations, and risk profile? Similarly, what would be the advantages or disadvantages of requiring Board-supervised PPSIs to adopt liquidity management plans, which would include provisions to assign responsibility for liquidity risk management and address contingency funding needs? [similar to OCC question 82]

Question 81: For Board-supervised PPSIs that are subsidiaries of insured State member banks, what would be the advantages and disadvantages of prescribing special requirements to ensure that reserve assets are appropriately maintained and controlled within the larger corporate structure, and what should such requirements entail? Alternatively, what would be the advantages and disadvantages of requiring that a Board-supervised PPSI have dedicated liquidity management personnel who have independent control over the liquidity management functions of the Board-supervised PPSI (and its reserve assets)? [similar to OCC question 84]

Question 82: What would be the advantages and disadvantages of requiring Board-supervised PPSIs to monitor the financial condition of insured depository institutions holding reserve assets? How should the financial condition of an insured depository institution holding a Board-supervised PPSI's reserve assets be considered in whether the Board-supervised PPSIs have met their obligations related to concentration in eligible deposit claims? [similar to OCC question 97]

d. Reports and Certifications (Proposed § 247.11(d)–(e))

Proposed § 247.11(d) would require a Board-supervised PPSI to publish on its website by noon on the last day of each month the monthly composition of the Board-supervised PPSI's reserves held pursuant to the GENIUS Act as of noon of the last day of the previous month, using a format substantially similar to the template provided in table 1 to proposed § 247.11(d). The report must contain the total number of outstanding payment stablecoins issued by the Board-supervised PPSI and the amount (fair value) and composition of the reserves, including the average tenor and geographic location of custody of each category of reserve instruments. The information in the report, including the fair value of reserve assets, should be as-of the end of the previous month. This implements the requirement in section 4(a)(1)(C) of the GENIUS Act (12 U.S.C. 5903(a)(1)(C)). To satisfy the geographic location requirement, the Board expects that it will generally be sufficient for Board-supervised PPSIs to disclose the jurisdiction where reserve assets are held in custody or otherwise located.

Proposed § 247.11(e) implements the applicable requirements of section 4(a)(3) of the GENIUS Act (12 U.S.C. 5903(a)(3)). This provision would require Board-supervised PPSIs to, each month, have the report required under proposed § 247.11(d) examined by a registered public accounting firm prior to publication. Proposed § 247.11(e)(1) would require that the examination of the previous month-end report occur by noon on the last day of each month and would require the registered public accounting firm's examination report to be published on the Board-supervised PPSI's website at the same time as the month-end report required under proposed § 247.11(d). Consistent with the Act, proposed § 247.11(e)(2) would require the Chief Executive Officer and Chief Financial Officer (or the persons performing the equivalent functions) of the Board-supervised PPSI to submit a certification as to the accuracy of each monthly report to the Board. Under section 4(a)(3)(C) of the Act (12 U.S.C. 5903(a)(3)(C)), any person who submits this required certification knowing that such certification is false shall be subject to the same criminal penalties as those set forth under 18 U.S.C. 1350(c).

Question 83: For purposes of incorporating "average tenor and geographic location of custody of each category of reserve instruments" in the composition report required under proposed § 247.11(d), what, if any, specific content and structure should the Board require? For example, should the report include information about concentration in eligible deposit claims and CUSIPS of securities? Should the required content include the composition of the reserve assets by type of assets and maturities and by counterparty issuer? For purposes of stating the geographic location of custody, should it suffice to state the country of custody? Or should more granular information be required? Should the Board require that the composition report conform to the specified template? Are there specific methods for calculating tenor that the rule should require or explicitly permit? For example, should the rule define average tenor as the weighted average maturity or life of the asset? Should the monthly composition report require the Board-supervised PPSI to distinguish between insured and uninsured eligible deposit claims? [similar to OCC question 88]

Question 84: Are there any additional steps that the Board should take to encourage transparency while minimizing burden with respect to the reserve asset composition report? [similar to OCC question 89]

Question 85: What modifications to the reporting requirements, including the reserve asset composition report, would be appropriate for arrangements *where one Board-supervised PPSI issues multiple stablecoins under different brands (e.g., white label arrangements), if that arrangement is permitted in the final rule? Are there any additional disclosures that the Board-supervised PPSI should provide in order to ensure that the report is not misleading? [similar to OCC question 90]*

Question 86: Should the report be required to list and name any insured depository institutions holding reserve assets? Should the report be required to list and name any custodians holding reserve assets? Should the final rule include additional measures to ensure that reserve assets are appropriately traceable and linked to their corresponding stablecoin so as to avoid any difficulties in resolving claims to reserve assets? [similar to OCC question 91]

Question 87: For purposes of the composition report and reserves in tokenized form, should the Board-supervised PPSI be required to disclose the location of custody of both the reserve instrument in tokenized form on a ledger and any real-world asset that the reserve in tokenized form represents? What related reporting requirements would be appropriate? [similar to OCC question 92]

Question 88: Should the values and information in the monthly report be required to be as of a particular date or time? Alternatively, should Board-supervised PPSIs publish on their websites a report showing the real-time values of the items required in the monthly composition report? Having the most recent information will make the more report more useful, and the Board invites comment on how much real-time reporting is feasible and whether it may only be feasible for certain items. Should the monthly report be required to include both month-end figures (for the previous month) and some information that can be presented in real-time (for example, the value of reserves or outstanding issuance value)? Are there potential challenges in providing assurance over real-time information presented in a monthly report? [similar to OCC question 93]

Question 89: Should the Board require Board-supervised PPSIs to publish the monthly certification on their websites, in addition to publishing the monthly reserve asset composition report? Should the Board specify the content and form of the certification? [similar to OCC question 94]

Question 90: Should the monthly composition report be published at some point before the examination by a registered public accounting firm? For example, a Board-supervised PPSI could publish the report five days after the end of the previous month and have the report examined 30 days after the end of the previous month and disclose any discrepancies uncovered by the examination. Would the benefits of more timely availability of these reports outweigh the potential costs associated with the risk of subsequent changes as a result of the examination that would be completed at a later date? [similar to OCC question 95]

Question 91: Is the requirement in proposed § 247.11(e) to have information disclosed in the previous month-end report examined by a registered public accounting firm sufficiently clear? If not, what additional clarity should the Board provide with respect to the examination by a registered public accounting firm? Should the examination be performed at the ''reasonable assurance'' level or at some other standard? What additional standards, if any, should the Board apply to ensure that the examination is accurate and appropriate? Should the engagement letter between the Board-supervised PPSI and the registered public accounting firm require the registered public accounting firm to attest to whether the Board-supervised PPSI is in compliance with the reserve asset requirements in proposed § 247.11 (or a subset thereof), based on the information available to the registered public accounting firm? What criteria should be used for the examination? Would assurances from the management of the Board-supervised PPSI regarding the information in the issuer's weekly or monthly report be sufficient? If not, what other criteria should be included? [similar to OCC question 96]

e. Consequences and Remedial Measures for Noncompliance (Proposed § 247.11(f)–(g))

Proposed §§ 247.11(f)–(g) provide the consequences and remedial measures that apply if a Board-supervised PPSI does not comply with the requirements of proposed § 247.11. Proposed § 247.11(f) applies to violations of the one-to-one requirement in proposed § 247.11(a)(1)(iii), whereas proposed § 247.11(g) applies to violations of § 247.11(a)–(c) generally.

Proposed § 247.11(f)(1) would require a Board-supervised PPSI that fails to satisfy the one-to-one requirement in proposed § 247.11(a)(1)(iii) to, within 24 hours of such failure, submit: (i) notification to the Board through its supervising Federal Reserve Bank of such failure; and (ii) a plan describing how the Board-supervised PPSI will return to compliance with the one-to-one requirement. Proposed § 247.11(f)(1)(ii)(A) clarifies that the Board reserves discretion to require the Board-supervised PPSI to modify the plan submitted under proposed § 247.11(f)(1)(ii) as appropriate in light of circumstances surrounding the shortfall.

Proposed § 247.11(f)(2)(i) would require the Board-supervised PPSI to begin liquidating reserve assets and redeeming outstanding stablecoins consistent with proposed § 247.12 by no later than 5:00 p.m. in the time zone of the Board-supervised PPSI's supervising Federal Reserve Bank on the business day following the deadline for submission of a plan under § 247.11(f)(1), unless either (A) it has returned to compliance with the one-to-one requirement in the interim; or (B) the Board directs the Board-supervised PPSI to proceed with the plan submitted under proposed § 247.11(f)(1)(ii) or, if in the case of the Board's modification of such a plan, the modified plan. Under proposed § 247.11(f)(2)(ii), the Board-supervised PPSI must not charge customers a fee to redeem their payment stablecoins at any time during liquidation. Similarly, under proposed § 247.11(f)(2)(iii), the Board-supervised PPSI must not issue new payment stablecoins at any time during liquidation.[52]

The proposed approach aims to protect payment stablecoin holders and promote market confidence in payment stablecoins. The GENIUS Act requires PPSIs to process all redemptions at par. While redemption at par is important for payment stablecoins' use as a means of payment, it can lead to run dynamics when outstanding payment stablecoins are not fully backed by reserve assets. In such situations, for every redemption the PPSI processes, the payment stablecoin would fall further away from full backing. As a result, the risk that the remaining payment stablecoin holders will suffer a loss and the magnitude of the loss they stand to incur grows.[53] This dynamic may incentivize payment stablecoin holders to rush to redeem at any indication that the one-to-one

[52] For the avoidance of doubt, the prohibition in proposed § 247.11(f)(2)(iii) does not prevent a Board-supervised PPSI from transferring payment stablecoins across blockchains, to the extent such transfer is necessary to facilitate the liquidation process.

[53] For example, a PPSI that issues a payment stablecoin with outstanding issuance of $100 million and a $5 million shortfall in reserve assets can theoretically redeem all stablecoin holders at $0.95 for each payment stablecoin. However, if that PPSI processes $35 million in redemptions at par, and the shortfall remains $5 million, the PPSI could only redeem all stablecoin holders at $0.92 for each payment stablecoin.

requirement has been breached, which, in turn, could lead to the Board-supervised PPSI's failure.

The transparency of the public blockchains on which payment stablecoins will likely circulate has the potential to make them more or less vulnerable to runs. Public blockchains allow the market to observe redemptions as they occur. If some subset of payment stablecoin holders request redemptions after learning that the payment stablecoin is no longer fully backed, the remaining payment stablecoin holders could observe those redemptions in real time, which could then trigger a new round of redemptions. A surge in trading volume on the secondary market could also provide an observable signal that a payment stablecoin is coming under stress, with similar consequences.[54]

At the same time, the secondary market for payment stablecoins could also ameliorate these dynamics to some degree: If payment stablecoin holders who become concerned about the payment stablecoin's backing choose to sell on the secondary market rather than redeem directly with the PPSI, there will be no need for the PPSI to liquidate reserve assets to redeem at par, and no direct adverse impact on the remaining holders.

Nevertheless, the Board believes the potential for stablecoin holders' losses because of insufficient reserve assets, particularly once the one-to-one requirement has been breached, is a legitimate concern. Proposed § 247.11(f) would address these concerns by requiring a Board-supervised PPSI that has fallen out of compliance with the one-to-one requirement to notify the Federal Reserve and liquidate its reserves promptly unless it has a credible plan to promptly return to full backing. This requirement to redeem outstanding payment stablecoins, based on the value of the reserve assets, will also help ensure that payment stablecoin holders will bear any losses from a reserve deficit on a pro-rata basis, and avoid disproportionate losses to those holders who did not rush to redeem. Additionally, the Board's proposed approach may also help prevent run dynamics from developing in the first place. The Board's commitment to intervene if the fair value of the reserves fall irretrievably below the aggregate par value of outstanding payment stablecoins may give the market confidence that any payment stablecoin that continues to operate remains fully backed.

Additionally, proposed § 247.11(f)(2)(iii), which prohibits a Board-supervised PPSI from issuing new payment stablecoins once the liquidation process has commenced, is necessary to protect prospective payment stablecoin holders. At this stage, any newly-issued payment stablecoin would immediately be subject to the redemption requirement, so the payment stablecoin would have no utility to its holder.

The Board considered requiring Board-supervised PPSIs in breach of the one-to-one requirement to suspend issuing new payment stablecoins immediately after the breach occurs, rather than when the liquidation process has commenced. However, the Board ultimately determined that such a requirement would be imprudent. The Board's proposal creates a brief window during which Board-supervised PPSIs would be able to restore full backing of their payment stablecoins, so they can return to normal operation. Requiring PPSIs to suspend new issuance during this period could effectively deprive them of that opportunity, since the market would observe the lack of minting on the public blockchain. Moreover, the relatively compressed time-period between a Board-supervised PPSI's breach of the one-to-one requirement and required liquidation effectively limits new redemptions in such circumstances to less than 48 hours, and in many cases, much less than that. Further, suspending new issuances would, at best, provide incomplete protection, since it would not prevent customers from purchasing the payment stablecoin on the secondary market. For all these reasons, the Board declined to require Board-supervised PPSIs with a shortfall in reserve assets to suspend issuing new payment stablecoins.

Finally, proposed § 247.11(g) provides that if at any point the Board determines that a Board-supervised PPSI has not demonstrated that it meets any of the reserve asset requirements in proposed § 247.11(a)–(c), the Board may require the issuer to submit a plan describing how the Board-supervised PPSI will attain compliance and the timeline for the plan. If the Board determines, either before or after the submission of a plan, that a Board-supervised PPSI faces a significant risk of being unable to attain compliance with the reserve requirements in proposed § 247.11(a)–(c) within a reasonable period, the Board may order the Board-supervised PPSI to initiate redemption of all outstanding payment stablecoins.

Proposed § 247.11(g) also states that the Board's authority to require a compliance plan or order redemption does not limit the Board's authority to pursue other measures, including enforcement actions, if appropriate. This approach would provide the Board with more supervisory discretion than the process in proposed § 247.11(f) for breaches of the one-to-one requirement. The more flexible approach to enforcement of the reserve asset requirements in proposed § 247.11(a)–(c) is appropriate, given that a breach of such requirements poses less immediate risk of loss to payment stablecoin holders.

Question 92: What would be the advantages or disadvantages of allowing a Board-supervised PPSI that experiences a shortfall in required reserve assets to issue new payment stablecoins? What limits (e.g., such as no increase in total outstanding issuance), if any, should be placed on the amount such a Board-supervised PPSI can issue and what would be the advantages or disadvantages of placing such a limit? Should the Board prohibit a Board-supervised PPSI from issuing new stablecoins upon breaching the one-to-one requirement, instead of once it commences the liquidation process?

Question 93: Are there additional considerations that the Board should take into account with respect to proposed § 247.11(f)? What operational difficulties would a Board-supervised PPSI encounter in notifying the Board of a shortfall in required reserve assets and submitting a remediation plan within 24 hours of such failure or in liquidating reserve assets and redeeming outstanding stablecoins at 5:00 p.m. in the time zone of the supervising Federal Reserve Bank the following business day after the deadline for submitting the remediation plan? What would be the advantages or disadvantages of allowing a longer period (e.g., allowing the issuer two additional days to hear from the Board), or using a different threshold (e.g., Board-supervised PPSI fails to meet the minimum reserve asset requirement for 15 consecutive business days), before requiring a Board-supervised PPSI to begin liquidating reserve assets and redeeming outstanding stablecoins? Should the Board prohibit Board-supervised PPSIs that fail to satisfy the one-to-one requirement from issuing new payment stablecoins until they have remediated the shortfall? Would such a requirement, which may result in a sudden pause in the issuance of new payment stablecoins, exacerbate run risks, given the public nature of the

[54] *See* Gordon Y. Liao, et al. *Risk-based Capital for Stable Value Tokens* (June 30, 2024), available at *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4926568.*

blockchains on which such payment stablecoin are issued?

Question 94: Should the final rule include restrictions on expenses that may be charged against reserve assets? Is it worth making clear that Board-supervised PPSIs may not charge general corporate expenses against reserve assets? While there may be a narrow set of expenses that can be paid from reserve assets (for example, interest on a repurchase agreement or fees paid to an investment company holding reserve assets), the Board expects that paying most other expenses from reserve assets would be inconsistent with the requirement for permitted payment stablecoin issuers to maintain identifiable reserve assets backing outstanding issuance value on a one-to-one basis. [similar to OCC question 99]

Question 95: Should the final rule include additional measures to address de-pegging in the secondary market? For example, should the final rule bar a Board-supervised PPSI from issuing new payment stablecoins if a Board-supervised PPSI's payment stablecoins trade in secondary markets at some price that is a set amount less than par (e.g., trading at or below $0.99, $0.80 or some other amount) for some sustained period of time (e.g., 24 hours)? [similar to OCC question 86]

Question 96: Should other liquidity rules be amended to accommodate the changes made by the final rule and the GENIUS Act? For example, should the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR) rules be amended so that depository institutions are unable to include high quality liquid assets (HQLA) held by PPSI subsidiaries as eligible HQLA in their own LCR and NSFR calculations? Similarly, should any outflows associated with a PPSI subsidiary be excluded from a parent entity's LCR calculations? Should the stablecoin activities of PPSI subsidiaries be fully excluded from the LCR calculations of parent entities? Or should there be a limited outflow commensurate with the possibility that a parent entity may provide support to a PPSI subsidiary (for example, one percent, five percent, or 10 percent of outstanding issuance value)? Should the LCR rule be amended so that, if PPSIs hold a large volume of eligible deposit claims against a particular depository institution, that depository institution must assign a higher outflow to such deposit liabilities? Should the LCR rule be amended in light of any other implications of the GENIUS Act, such as how it may apply to custodians under section 10 of the GENIUS Act? [similar to OCC question 87]

3. Redemption and Fees (Proposed § 247.12)

Proposed § 247.12 addresses redemption requirements imposed by section 4(a)(1)(B) of the GENIUS Act (12 U.S.C. 5903(a)(1)(B)). Consistent with the statute, under proposed § 247.12(a), a Board-supervised PPSI must publicly disclose its redemption policy.[55] The Board proposes that in disclosing its redemption policy, the Board-supervised PPSI must include, at a minimum, certain information. Specifically, proposed § 247.12(a)(1) provides that the Board-supervised PPSI must include a timeframe in which the Board-supervised PPSI will redeem payment stablecoins and the timeframe under which the Board-supervised PPSI is required to redeem payment stablecoins (which, under proposed § 247.12(b)(2) may not exceed two business days following the date of the requested redemption). For the avoidance of doubt, a Board-supervised PPSI may choose a redemption timeframe that is less than 2 days in its redemption policy. In proposed § 247.12(a)(2), the Board proposes to require the Board-supervised PPSI to include a statement consistent with proposed § 247.12(b)(3) that any discretionary limitations on timely redemptions may only be imposed by the Board, or in the case of a State-qualified PPSI that is a Board-supervised PPSI, by the Board or the State payment stablecoin regulator, as applicable. Proposed § 247.12(a)(3) requires that Board-supervised PPSIs include in their redemption disclosures a statement explaining the scenarios when the redemption period may be extended as provided for in proposed § 247.12(c)–(d). Proposed § 247.12(a)(4) provides that the Board-supervised PPSI must provide a statement with clear instructions on how a customer can redeem a payment stablecoin, including a link to the website(s) where a customer can redeem the payment stablecoin.

Proposed § 247.12(a)(5) would require the Board-supervised PPSI to specify the minimum number of payment stablecoins, if any, that the Board-supervised PPSI will redeem, provided that the Board-supervised PPSI must redeem any number greater than or equal to one payment stablecoin, subject to appropriate customer screening and onboarding. In setting the requirement that a Board-supervised PPSI must redeem any number greater than or equal to one payment stablecoin, the Board is relying on a natural reading of the definition of ''payment stablecoin.'' Specifically, section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)), defines ''payment stablecoin'' as a digital asset that an issuer ''is obligated to convert, redeem, or repurchase for a fixed amount of monetary value.'' Since ''payment stablecoin'' is singular, the statutory language suggests that while a PPSI could set a minimum redemption threshold at a fraction of a payment stablecoin, a PPSI must redeem any number greater than or equal to one payment stablecoin to comply with the GENIUS Act.

Proposed § 247.12(b)(1) provides that a Board-supervised PPSI's redemption policy must provide clear and conspicuous procedures for timely redemption of outstanding payment stablecoins. In proposed § 247.12(b)(2), the Board is proposing to define ''timely'' to mean that the Board-supervised PPSI would have to redeem a payment stablecoin no later than two business days following the date of the requested redemption. The Board is proposing this two-business day timeframe as an outer limit on when a Board-supervised PPSI must redeem a payment stablecoin and understands that Board-supervised PPSIs may choose a timeframe that is less than two business days. The Board believes this timeframe provides sufficient responsiveness to stablecoin holders who seek to redeem their stablecoins, while also ensuring that Board-supervised PPSIs can appropriately manage liquidity demands.

Proposed § 247.12(b)(3), consistent with the statute, provides that discretionary limitations on timely redemption by a Board-supervised PPSI may only be imposed by the Board or, in the case of a State-qualified PPSI that is a Board-supervised PPSI, by the Board or the State payment stablecoin regulator, as applicable. Proposed § 247.12(c) provides that the Board, may in its discretion, extend timely redemption described in proposed § 247.12(b)(2) if the Board determines that the Board-supervised PPSI faces a threat to its safety and soundness or poses a threat to financial stability, or that such an extension is otherwise in the public interest. In general, the Board anticipates that it would consider whether to impose discretionary redemption limitations on Board-supervised PPSIs if they experience unusual and exigent circumstances, as described by the Board under proposed § 247.50(c). If such unusual and exigent

[55] Under section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)), the issuer of a payment stablecoin must be obligated to convert, redeem, or repurchase a payment stablecoin for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value.

circumstances make timely redemption impracticable, Board-supervised PPSIs may also request that the Board consider using its authority to issue a discretionary redemption limitation.

The Board also proposes including safe harbors for Board-supervised PPSIs that fail to redeem a payment stablecoin within two business days, which the Board recognizes may not be reasonable in all circumstances. As such, under proposed § 247.12(d), the Board will not take action against a Board-supervised PPSI for a failure to timely redeem if the Board-supervised PPSI can demonstrate to the Board's satisfaction that: (i) additional time is necessary to conduct customer identification and due diligence reviews in connection with legal requirements under the Bank Secrecy Act, sanctions, or federal anti-money laundering/countering the financing of terrorism laws or regulations; or (ii) the delay is outside of the Board-supervised PPSI's control. The Board recognizes that customer identification and due diligence reviews for customers without pre-existing relationships with Board-supervised PPSIs may take longer than two days. The Board further recognizes that there may be certain circumstances that are clearly outside of Board-supervised PPSIs' control that cause delays in meeting redemption requests beyond two days (*e.g.,* unforeseen third-party bank or custodian processing delays). Such circumstances would not, however, extend to instances where delays are owed solely to a higher-than-expected number of redemption requests within a given time period. Reliance on either safe harbor is contingent on the Board-supervised PPSI making all reasonable efforts to resolve the delay in a timely manner.

The requirements of this section would apply only to the redemption of a payment stablecoin by the Board-supervised PPSI (and any entity acting on behalf of the Board-supervised PPSI) and would not apply to secondary market trading.

Proposed § 247.12(e)(1) provides that a Board-supervised PPSI must also publicly, clearly, and conspicuously disclose in plain language and in a format that is readily noticeable to customers, readily understandable by customers, and segregated from other information: (i) the name of the Board-supervised PPSI that issues the payment stablecoin; (ii) that the Board-supervised PPSI is the entity that is obligated to convert, redeem, or repurchase the payment stablecoin for a fixed amount of monetary value; (iii) the link to the monthly composition report of the relevant Board-supervised PPSI's reserves as required under proposed § 247.11(d); and (iv) all fees associated with purchasing or redeeming payment stablecoins. The Board is including a requirement that the disclosures under proposed § 247.12(e)(1) are readily noticeable by customers, readily understandable by customers, and segregated from other information to provide more certainty on what it means to "publicly, clearly, and conspicuously disclose [the information] in plain language." [56]

The Board is proposing to include the requirement that the disclosures be conspicuous and not mixed in with other information to ensure that the information in the disclosures is not buried with other non-relevant information that could obscure these required disclosures. Although the Board-supervised PPSI may include additional information beyond what is required in proposed § 247.12(e)(1) in the same disclosure, the information required under proposed § 247.12(e)(1) should be sufficiently conspicuous and separate and must meet the other requirements outlined, including that the information is readily noticeable and readily understandable by customers.

The Board will generally consider the disclosures as required by the proposed § 247.12 to be clear and conspicuous if a "reasonable person" would view the disclosures as such. Disclosures must comply with applicable consumer compliance laws, including the prohibition on unfair or deceptive acts or practices under the Federal Trade Commission Act (15 U.S.C. 45 *et seq.*). The Board believes that the disclosures required under proposed § 247.11(d)(1) are consistent with section 4(a)(1)(B) of the GENIUS Act (12 U.S.C. 5903(a)(1)(B)) and are particularly important in the situation where a Board-supervised PPSI issues more than one brand of payment stablecoin either directly or through an affiliate (if the Board limits Board-supervised PPSIs to issuing a single brand of payment stablecoin). The Board believes that these disclosures are necessary to prevent confusion and ensure that payment stablecoin holders understand who has the ultimate obligation to redeem their payment stablecoins.

Proposed § 247.12(e)(2) provides that an issuer must update the disclosures in proposed § 247.12(e)(1)(iv) if there are any changes in the fees associated with purchasing or redeeming payment stablecoins and provide customers at least seven calendar days' prior notice of the change, including by securely delivering the notice to current customers for which the Board-supervised PPSI has contact information. Proposed § 247.12(e)(3) provides that a Board-supervised PPSI must publish the disclosures in proposed § 247.12(e)(1) and any updates made in accordance with proposed § 247.12(e)(2) on the Board-supervised PPSI's website. Proposed § 247.12(e)(4) provides that a Board-supervised PPSI must include the disclosures in proposed § 247.12(e)(1) and any updates made in accordance with proposed § 247.12(e)(2) in any customer agreements that it provides.

Question 97: Proposed § 247.12(b)(2) provides that timely redemption may not exceed two business days following the date of the requested redemption. Is this the appropriate timeframe to allow for redemptions? If not, what may be a more appropriate timeframe? For example, should the Board consider other timeframes ranging from one calendar days to seven calendar days timely? Should the Board consider some timeframe longer than seven calendar days timely? Should the Board define "timely" in a manner that scales with the liquidity of the underlying reserve assets or other factors? How should any definition of "timely" appropriately balance considerations of price stability and run risk? Should the Board allow for more freedom of contract between Board-supervised PPSIs and their payment stablecoin holders to establish what constitutes "timely redemption," so long as the negotiated terms are consistent with the requirements of the GENIUS Act? [similar to OCC question 100]

Question 98: Should the timely redemption timeframe begin following the date of the requested redemption, as proposed, or following some other event? For example, should the timely redemption timeframe not begin unless the Board-supervised PPSI has completed customer identification and due diligence reviews in connection with legal requirements under the Bank Secrecy Act, sanctions, or federal anti-money laundering/countering the financing of terrorism laws and regulations?

Question 99: Are the Board's safe harbors for failing to timely redeem a payment stablecoin in proposed § 247.12(d) appropriately scoped? Should the safe harbor extend to other circumstances that are not covered by the Board's proposed rule? [similar to OCC question 101]

Question 100: Should the Board consider a longer redemption period "timely" in times of stress? If so, how long should the Board extend the

[56] 12 U.S.C. 5903(a)(1)(B)(ii).

redemption period, and what metrics and data should the Board look to in order to determine whether an extension is warranted? For example, if a Board-supervised PPSI faced redemption demands in excess of 10 percent of its outstanding issuance value over one day, should the Board extend the time period for timely redemption to seven calendar days. Would other metrics or thresholds be more appropriate? Should the Board automatically extend the time period for timely redemption in the event of a spike in redemption requests? [similar to OCC question 102]

Question 101: Should the Board define ''redemption'' for purposes of the proposed rule? If so, should it be defined broadly to mean that, for example, the Board-supervised PPSI has initiated payment to the payment stablecoin holder in return for a tendered payment stablecoin? Are there reasons to define ''redemption'' more narrowly? For example, should the Board define redemption to mean that the Board-supervised PPSI's payment to a payment stablecoin holder in exchange for the payment stablecoin has settled? [similar to OCC question 103]

Question 102: Are there limitations that the Board should impose on redemption fees, e.g., to discourage run risk or to encourage price stability? [similar to OCC question 104]

Question 103: What are the advantages and disadvantages of the Board explicitly limiting the fee disclosure provisions to fees required by the Board-supervised PPSI? Should third-party fees also be subject to the fee disclosures, and under what circumstances? For example, if a Board-supervised PPSI uses a third party to facilitate issuance and redemption, how should the Board evaluate compliance with the requirements of this section?

Question 104: Should the Board require Board-supervised PPSIs to deliver notice to current customers whenever they change fees, as proposed? Are there any specific methods or modes of communication that the Board should require? If so, which modes of communication would be most effective and appropriate? Is it feasible for Board-supervised PPSIs to secured deliver notice to all ''customers''? [similar to OCC question 105]

Question 105: Should the Board include specific additional provisions regarding fee disclosures in the regulation text? If so, what additional requirements should be included? Should the Board specify how section 5 of the FTC Act (15 U.S.C. 45) relating to unfair or deceptive acts or practices could apply to how the Board evaluates the disclosures? Should the Board further explain the proposed ''reasonable person'' standard for clear and conspicuous disclosures? To whom should Board-supervised PPSIs have a responsibility to deliver disclosures regarding changes in fees? Should it be all payment stablecoin holders (e.g., including retail holders who purchased from an exchange or secondary market), or should it be a narrower subset of holders (e.g., only holders who purchased directly from the Board-supervised PPSI)? Are there obstacles that would make it impractical to deliver change in fee notices to all payment stablecoin holders? Should Board-supervised PPSIs be expected to provide direct notice where it has a customer's contact information because of a completed customer onboarding process? [similar to OCC question 106]

Question 106: The Board has proposed several categories of disclosure in the proposed rule and requested comment as to whether it should propose additional categories. Taken collectively, would these disclosures provide potential customers of Board-supervised PPSIs with the appropriate information to inform their use of payment stablecoins? Are there any steps the Board should take to ensure that potential customers are not confused or overwhelmed by these disclosures, especially in light of the relative unfamiliarity many potential customers may have with payment stablecoins? For example, should the Board take any steps to unify required disclosures so that they are all provided to customers at a specific point during the relationship? If so, how should the Board ensure that the most pertinent information is sufficiently emphasized? Is there anything else the Board should do to ensure that potential customers are appropriately informed in regard to payment stablecoins issued by Board-supervised PPSIs? Are there any technical aspects of distributed ledgers or blockchain the Board should take advantage of in relation to disclosures? For example, should certain disclosures be automated through smart contracts, such as with wrappers or other techniques? [similar to OCC question 107]

Question 107: Currently, many stablecoin issuers have issuance policies that may limit direct interaction with retail stablecoin holders. What are the potential impacts of these policies on retail stablecoin holders during a liquidity event? Should the Board explicitly require Board-supervised PPSIs to redeem payment stablecoins presented by any payment stablecoin holder that has undergone appropriate on-boarding including customer screening, as proposed? Should the Board require Board-supervised PPSIs to redeem payment stablecoins presented by a stablecoin holder that has an account relationship at a regulated financial institution? Is additional clarity needed as to for whom a Board-supervised PPSI is obligated to redeem a payment stablecoin? Alternatively, should the Board include other protections to ensure that payment stablecoin holders are able to redeem, or otherwise receive cash, for their payment stablecoins, including any protections in the event that payment stablecoin holders are unable to monetize their payment stablecoins through sales in the secondary market or through sales to direct customers of a Board-supervised PPSI? For example, should the final rule include an option for the Board to require direct redemptions under certain conditions, such as if the Board determines that the customers of a Board-supervised PPSI are not adequately facilitating the monetization of the Board-supervised PPSI's payment stablecoins? Should the Board impose any additional rules addressing minimum amounts for redemption? For example, should the Board prohibit redemption minimums or set the minimum at some point other than one payment stablecoin? [similar to OCC question 108]

Question 108: What would be the advantages or disadvantages of allowing a Board-supervised PPSI a period of days (e.g., 15 days) after the Board-supervised PPSI experiences a shortfall in required reserve assets before it needs to begin liquidating reserve assets and redeeming issued and outstanding payment stablecoins?

Question 109: The Board has indicated that it generally anticipates that it would consider whether to impose discretionary redemption limitations on Board-supervised PPSIs if they experience unusual and exigent circumstances, as described by the Board under proposed § 247.50(c). What are the benefits and drawbacks of this approach? Should the Board consider use of these authorities in a broader range of circumstances? The Board has also indicated that Board-supervised PPSIs may request the Board consider using this authority. What should a Board-supervised PPSI making such a request need to demonstrate in order for a Board to consider issuance of such a discretionary redemption limitation?

4. Risk Management Standards (Proposed § 247.13)

Section 4(a)(4)(A)(iv) of the GENIUS Act (12 U.S.C. 5903(a)(4)(A)(iv)) provides that the Board ''must issue regulations implementing . . . appropriate operational, compliance, and information technology risk management principles-based requirements and standards, including Bank Secrecy Act and sanctions compliance standards, that[ ] are tailored to the business model and risk profile'' of Board-supervised PPSIs and ''are consistent with applicable law.'' Section 4(a)(4)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(4)(A)(iii)) provides that the Board must issue regulations implementing . . . interest rate risk management standards'' that ''are tailored to the business model and risk profile of [PPSIs] and[ ] do not exceed standards that are sufficient to ensure the ongoing operations of [PPSIs.]'' Proposed § 247.13 implements these requirements with respect to Board-supervised PPSIs. As discussed in more detail below, a Board-supervised PPSI that is a subsidiary of a State member bank would be deemed to be in compliance with the requirements of this section if the Board-supervised PPSI participates in the enterprise-wide risk management framework of its parent State member bank or consolidated banking organization, provided that such framework is in compliance with enterprise-wide risk management requirements applicable to the parent State member bank.

a. Operational and Managerial Standards (Proposed § 247.13(a))

The GENIUS Act provides that the operational, compliance, and information technology risk management requirements and standards must be principles-based. Accordingly, the Board is proposing flexible risk management standards in proposed § 247.13 that are tailored based on the nature, scope, and risk of a PPSI's activities. These standards reflect an understanding that Board-supervised PPSIs will have lower interest rate, liquidity, and credit risk exposures in comparison to a typical insured depository institution engaged in maturity and liquidity transformation. Most of the standards are adapted from the safety and soundness standards applicable to insured depository institutions.[57] In addition, on July 14, 2025, the Board issued a joint statement, together with the OCC and FDIC, on Risk Management Considerations for Crypto-Asset Safekeeping,[58] and the standards in proposed § 247.13 are consistent with the considerations described in the joint statement.

Internal Controls and Information Systems. Under proposed § 247.13(a)(1), a Board-supervised PPSI would be required to have internal controls and information systems to support effective risk management that are tailored to its size and complexity and the nature, scope, and risk of its activities, including taking into account the lower interest rate, liquidity, and credit risk exposures of Board-supervised PPSIs compared to a typical insured depository institution engaged in maturity and liquidity transformation. The internal controls and information systems would be required to provide for: (i) an organizational structure with appropriate segregation of duties and an internal control structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies; (ii) effective risk assessment; (iii) timely and accurate financial, operational, and regulatory reporting, including with respect to reports required under proposed part 247; (iv) adequate procedures to monitor, safeguard, manage, control, and monetize assets, including reserve assets; and (v) compliance with applicable laws and regulations. Internal controls refer to the systems, policies, procedures, and processes effected by the board of directors and other personnel to safeguard Board-supervised PPSI assets, limit or control risks, and ensure compliance with applicable laws and regulations. Effective internal controls help the board of directors and management safeguard the Board-supervised PPSI's resources and comply with laws and regulations, as well as reduce the possibility of significant errors and irregularities, and assist in their timely detection when errors and irregularities do occur. Internal controls must also include an effective risk assessment since a Board-supervised PPSI cannot effectively manage its risks without an understanding of its risk profile, even taking into account the lower interest rate, liquidity, and credit risk exposures of Board-supervised PPSIs compared to a typical insured depository institution engaged in maturity and liquidity transformation.

The Board would expect the internal controls and information systems of a Board-supervised PPSI to reflect the complexity or simplicity of its organizational structure. For example, a smaller and less complex Board-supervised PPSI may be able to manage its risks with policies and procedures that are abbreviated in comparison to those of a larger Board-supervised PPSI. Similarly, smaller and less complex Board-supervised PPSIs may not need to report risk management metrics to senior management and the board of directors of a Board-supervised PPSI at the same frequency or to the same degree as a larger and more complex Board-supervised PPSI.

Internal Audit System. Under proposed § 247.13(a)(2), a Board-supervised PPSI would be required to have an internal audit system that is tailored to its size and complexity and the nature, scope, and risk of its activities and that provides for (i) adequate monitoring of the system of internal controls through an internal audit function, or for a Board-supervised PPSI whose size, complexity, or scope of operations does not warrant a full-scale internal audit function, a system of independent reviews of key internal controls; (ii) independence and objectivity; (iii) qualified persons responsible for the audit function; (iv) adequate independent testing and review of internal controls and information systems, and verification of published information available to customers, calculations for required reserves, and regulatory filings; (v) adequate documentation of tests and findings and any corrective actions; (vi) verification and review of management actions to address deficiencies; and (vii) review by the Board-supervised PPSI's audit committee or board of directors of the effectiveness of the internal audit system. Internal audit systems provide objective, independent reviews of Board-supervised PPSI activities, internal controls, and information systems to help the board of directors and management monitor and evaluate internal control adequacy and effectiveness. An internal audit system, among other items, would be expected to independently test and review systems, as appropriate, related to (1) a Board-supervised PPSI's compliance with the GENIUS Act and rules implementing the GENIUS Act; (2) payment systems; and (3) third-party risk management. Well-planned, properly structured audit programs are essential to effective risk management and internal control systems. Effective internal audit programs are a critical defense against fraud and provide vital

[57] 12 CFR part 208, appendix D–1.

[58] *See* Board, ''Agencies Issue Joint Statement on Risk-Management Considerations for Crypto-Asset Safekeeping'' (July 14, 2025), *https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250714a.htm.*

information to the board of directors about the effectiveness of internal controls systems. An internal audit program's responsibilities include evaluating compliance systems, safeguards around use of payment systems, and risks posed by relationships with and dependence on third parties.

While it is important that internal audit functions be conducted by qualified persons with an appropriate level of independence from other business lines, the proposed rule would not mandate a particular organizational structure (for example, a structure based on the three lines of defense model). Proposed § 247.13(a)(2) would not prescribe a one-size-fits-all approach to risk management. Smaller and less complex Board-supervised PPSIs with a limited risk profile may be able to comply using a simpler, less delineated organizational structure, or may be able to outsource certain functions such as the internal audit function, while larger and more complex Board-supervised PPSIs with more prominent risk-profiles may require organizational structures with more clearly delineated risk management functions, including internal audit personnel.

Asset Growth. Under proposed § 247.13(a)(3), a Board-supervised PPSI's asset growth must be prudent and commensurate with a Board-supervised PPSI's risk management capabilities, operational capacity, and staffing. Rapid expansion of a Board-supervised PPSI's payment stablecoin liabilities and reserve assets without a corresponding increase in its risk management capabilities, operational capacity, and staffing could strain its oversight and monitoring capabilities, which could impair its ability to manage salient risks. While there are no hard limits for how quickly Board-supervised PPSIs may grow, a Board-supervised PPSI must ensure that growth does not undercut its capabilities to comply with the requirements of this proposed rule and other applicable law. For example, rapid issuance of new payment stablecoins would require a commensurately rapid increase in reserve assets, and Board-supervised PPSIs must ensure that they maintain the capabilities to maintain these reserve assets in compliance with proposed § 247.11 and maintain the ability to access and monetize the reserve assets in order to meet redemption requests.

Earnings. Under proposed § 247.13(a)(4), a Board-supervised PPSI would be required to evaluate and monitor its earnings and ensure that its earnings are sufficient to support operations and maintain the capital levels that would be required under the proposal. To satisfy this requirement, a Board-supervised PPSI would, among other things, be expected to monitor economic conditions, such as fluctuations in short-term interest rates, that might impact its earnings. Where a Board-supervised PPSI identifies a development that could negatively impact its earnings, the Board-supervised PPSI would be expected to make adjustments to its business as appropriate to ensure it remains compliant with all applicable capital requirements. To reflect the distinct characteristics of Board-supervised PPSIs, the proposed standards on earnings in proposed § 247.13(a)(4) do not include all the listed elements in paragraph II.H in Appendix D–1 to 12 CFR part 208, from which the earnings standard in proposed § 247.13(a)(4) was adapted. Nevertheless, under the proposed rule, Board-supervised PPSIs would be expected to comply with the overarching requirement to evaluate and monitor their earnings.

Oversight of Third-Party Relationships. Under proposed § 247.13(a)(5), a Board-supervised PPSI would be required to address the risks from its third-party relationships. Board-supervised PPSIs may depend on third-party service providers for various aspects of their operations. Third-party service providers could, for example, support the development of smart contract code that facilitates the burning, minting, transferring or other functions of payment stablecoins; the custody of private keys for smart contracts and other digital assets; and blockchain monitoring to support compliance with Bank Secrecy Act/anti-money laundering and sanctions requirements. Firms involved in tokenizing reserve assets may also be critical third parties: the Board-supervised PPSI may, for example, depend on such firms to ensure the token circulating on a blockchain confers to its holder specific legal rights to the associated asset. Failure to manage the risks associated with such third-party relationships could cause material disruptions in a Board-supervised PPSI's business or lead to financial losses that place the safety and soundness of a Board-supervised PPSI in jeopardy.

To mitigate those risks, proposed § 247.13(a)(5) would require a Board-supervised PPSI to (i) exercise appropriate due diligence in selecting its third party relationships; (ii) require its service providers by contract to implement appropriate measures designed to satisfy the applicable requirements under proposed part 247; and (iii) as appropriate, monitor its third party relationships, including by reviewing audits, summaries of test results, or other equivalent evaluations.

Interest Rate Risk. The GENIUS Act explicitly authorizes interest rate risk management standards under section 4(a)(4)(A)(iii) (12 U.S.C. 5903(a)(4)(A)(iii)). Proposed § 247.13(a)(6) addresses interest rate risk and would require a Board-supervised PPSI to (i) manage interest rate risk in a manner that is appropriate to the size and complexity of the Board-supervised PPSI and the complexity of its assets and liabilities, and (ii) provide periodic reporting to management and the board of directors regarding interest rate risk with adequate information for management and the board of directors to assess the level of risk. It is important for Board-supervised PPSIs to be mindful of interest rate risk—particularly in light of the role of interest rate risk in the failures of previous money market funds, whose investments were supposed to be limited to assets with relatively low weighted maturities or duration.[59]

Insider and Affiliate Transactions. Proposed § 247.13(a)(7) addresses insider and affiliate transactions and is intended to protect the assets and resources of a Board-supervised PPSI from misuse for the benefit of insiders, affiliates, or related entities. The proposed provision would require a Board-supervised PPSI to ensure that transactions between the Board-supervised PPSI and insiders or affiliates do not pose a significant risk of material financial loss to the PPSI. Further, a Board-supervised PPSI must ensure that any such transactions are conducted on terms that are the same or at least as favorable to the Board-supervised PPSI as those prevailing at the time for comparable transactions with or involving non-insiders or non-affiliates. In the absence of comparable transactions, such transactions must be offered on terms and under circumstances that, in good faith would be offered to, or would apply to, non-affiliates or non-insiders. With respect

[59] Mismanagement of interest rate risk has contributed to material losses in money market funds in the United States. See *In the Matter of John E. Backlund, et al.,* Investment Company Act Release No. 23639 (January 11, 1999) (SEC administrative order involving the Community Bankers U.S. Government Money Market Fund liquidated in 1994); *In the Matter of First Multifund Advisory Corp. and Milton Mound,* Initial Decision, File No. 3–5881 (December 29, 1982) (SEC initial decision involving the First Multifund for Daily Income liquidated in 1978). That being said, these funds had exposure to interest rate risk that far exceeded the exposure PPSIs could face, given the Act's limitations on permissible reserve assets.

to a Board-supervised PPSI that is a subsidiary of an insured State member bank, these restrictions do apply to transactions with such insured State member bank.

Question 110: How should the Board ensure that the standards in proposed § 247.13 are "principles-based" while providing sufficient clarity to Board-supervised PPSIs? Should the requirements in proposed § 247.13 be broader or more detailed? [similar to OCC question 109]

Question 111: Should certain of the risk management requirements only apply to large Board-supervised PPSIs? If so, which requirements should only apply to large Board-supervised PPSIs, and what would be the appropriate threshold for determining that a Board-supervised PPSI is a large issuer (e.g., $10 billion in outstanding issuance value)? [similar to OCC question 110]

Question 112: Which standards from 12 U.S.C. 1831p–1 and 12 CFR part 208 appendices D–1 and D–2 should or should not apply to Board-supervised PPSIs? Are there other standards not in 12 U.S.C. 1831p–1 and 12 CFR part 208 appendices D–1 and D–2 that should apply to Board-supervised PPSIs? [similar to OCC question 111]

Question 113: Do the proposed risk management requirements appropriately provide for clear management roles, responsibilities, and accountability? If not, how should the proposed risk management requirements be revised? [similar to OCC question 112]

Question 114: Should Board-supervised PPSIs be required to adopt and adhere to a risk appetite statement? [similar to OCC question 113]

Question 115: Should Board-supervised PPSIs be required to regularly (e.g., on at least an annual basis) review their risk management frameworks and make any changes to appropriately align risk management activities with their business objectives and strategies? [similar to OCC question 114]

Question 116: Should the proposed rule's requirements with respect to interest rate risk management be modified? If so, how? For example, should Board-supervised PPSIs have in place the appropriate policies, procedures, and internal controls for their interest rate risk management programs? What are the advantages and disadvantages of imposing a weighted average maturity requirement to Board-supervised PPSIs, as part of their interest rate risk management programs? What are the advantages and disadvantages of requiring Board-supervised PPSIs to establish risk appetites and limit structures as part of their interest rate risk management programs? What are the advantages and disadvantages of requiring Board-supervised PPSIs to incorporate stress testing as part of their interest risk management programs? Should Board-supervised PPSIs be allowed to use assets that do not qualify as reserve assets as part of an interest rate risk hedging program and if so, why? Should there be restrictions on the types of instruments used for hedging purposes and why? Additionally, should the maturities of the hedging instruments match the maturities of the qualified reserve assets, and why? [similar to OCC question 115]

Question 117: Should the Board include consumer protection-related compliance risk management principles-based requirements and standards in proposed § 247.13? If so, are there specific standards the Board should institute? [similar to OCC question 120]

Question 118: Should the Board include additional requirements concerning Board-supervised PPSIs' management of their ability to satisfy redemption requests and to monetize reserve assets, including by analyzing reasonably anticipated redemption scenarios? [similar to OCC question 123]

Question 119: Should the Board include additional requirements relating to the maintenance of safeguards to prevent the payment of compensation, fees, and benefits that are excessive or that could lead to material financial loss to the Board-supervised PPSI? [similar to OCC question 124]

Question 120: Are the restrictions on insider and affiliate transactions in proposed § 247.13(a)(7) appropriate? What modifications, if any, are warranted? What are the advantages or disadvantages of implementing an approach similar to that the OCC proposed in § 15.13(a)(6) of the its GENIUS Act NPR?[60] *Are the proposed requirements with respect to insider and affiliate transactions appropriately tailored? If not, how should they be modified? The Board has proposed to exempt transactions between a Board-supervised PPSI and its parent insured State member bank, if applicable. Is this exemption appropriate, or should such transactions be covered by some or all of the insider and affiliate transaction restrictions proposed? Should the requirements include any prescriptive qualitative or quantitative limits? Should transactions be documented and reviewed by the board of directors? Should certain transactions require approval by the board of directors? Should Board-supervised PPSIs be required to monitor and validate compliance with the restrictions on insider and affiliate transactions?*

Question 121: Should the Board include any requirements relating to the concentration of management at unaffiliated PPSIs? For example, should the Board include limits on the number of unaffiliated PPSIs for which an individual may serve as an executive officer or senior management official? Should any such limits be tied to the outstanding issuance value of the Board-supervised PPSI? [similar to OCC question 126]

Question 122: Should the Board require Board-supervised PPSIs to acquire insurance against certain risks? For example, should Board-supervised PPSIs be required to hold cyber insurance policies? If so, what should be the minimum coverage requirements? Should the Board require some minimum level of property and casualty insurance? If so, what should the minimum level of coverage be? What disclosures, if any, would it be appropriate for a Board-supervised PPSI to make with respect to its insurance coverage and to whom should those disclosures be directed (e.g., investors or payment stablecoin holders)? What implications with respect to other applicable disclosure regimes should the Board consider when deciding whether to impose any disclosure requirements with respect to insurance coverage? To what extent are the terms and conditions for property and casualty (or other types of) insurance coverage for Board-supervised PPSIs becoming more standardized? What steps, if any, should the Board take to encourage standardization to increase certainty and consistency with respect to insurance coverage across jurisdictions? [similar to OCC question 127]

Question 123: The Board considered requiring a Board-supervised PPSI to (i) appropriately monitor and validate compliance with the requirements of proposed § 247.11 and (ii) manage liquidity and concentration risk in a manner that is appropriate to the business model and risk profile of the Board-supervised PPSI. However, the Board ultimately concluded that compliance with the substantive requirements in proposed § 247.11 was sufficient, and there was little utility in including additional process-focused risk management requirements. What additional value might separate risk management requirements provide?

Question 124: Are the risk management requirements in proposed

[60] *See* 91 FR 10202 (March 2, 2026).

§ 247.13 sufficiently broad to cover the full range of Board-supervised PPSI activities? If not, what activities are not covered? What additional risk management requirements should the Board consider? To the extent Board-supervised PPSIs engage in digital asset service provider activities, what additional risk management requirements, if any, are appropriate?

Question 125: Proposed § 247.13(a)(5) requires Board-supervised PPSIs to manage risks associated with service providers. Does this requirement adequately address the risks from third parties involved in the process of tokenizing reserve assets. If not, what risks are not addressed? What additional requirements, if any, are appropriate to address risks from third parties involved in the process of tokenizing reserve assets?

b. Information Technology and Security Standards (Proposed § 247.13(b))

Information Technology and Security Program. Under proposed § 247.13(b)(1), a Board-supervised PPSI would be required to implement a comprehensive written information security risk and control framework, including a program that assesses and manages information technology and information security risks. Board-supervised PPSIs could be vulnerable to certain information technology and cybersecurity failures or attacks by artificial intelligence tools that are rapidly developing capabilities that allow them to detect and exploit weaknesses in websites and online portals.[61] For example, many stablecoins rely on smart contracts to control minting and burning. A security breach involving such a smart contract or caused by an artificial intelligence tool could lead to the unauthorized minting of new coins without the receipt of additional reserve assets. Payment stablecoin arrangements are also vulnerable to failures in the blockchains on which they circulate, which serve as the ledger of record. A material operational event impacting the blockchain could, for example, undermine a Board-supervised PPSI's ability to identify for redemption purposes the rightful holders of its payment stablecoins or its ability to mint and burn new payment stablecoins. Furthermore, failure of the underlying blockchain could call into question a Board-supervised PPSI's ownership of a tokenized asset. Such a failure could also compromise a Board-supervised PPSI's ability to liquidate the tokenized asset to meet redemptions.

A robust information technology framework, as outlined below, is essential to mitigating these risks. Such a program can help prevent unexpected losses and enhance market confidence in the Board-supervised PPSI's continuing operations and ability to meet its obligations. A Board-supervised PPSI's information technology program should be tailored to its size and complexity and the nature, scope, and risk of its activities.

Board of Directors Approval. Under proposed § 247.13(b)(2), the board of directors of a Board-supervised PPSI, or an appropriate board committee, must approve the Board-supervised PPSI's information technology and security program. The board or board committee must oversee the development, implementation, and maintenance of the program, including the appointment of a qualified Information Technology and Security Officer. The board or committee must also assign specific responsibility for program implementation and review program-related reporting.

Required Elements of Program. Under the proposed § 247.13(b)(3), a Board-supervised PPSI's information technology and security program would be required to include (i) an inventory and classification of assets, processes, and sensitivity of data; (ii) controls supporting and safeguarding sensitive information and processes; (iii) evaluation, validation, and reporting processes to ensure that key information technology systems and controls, including smart contracts, are operating as intended; (iv) periodic independent testing; and (v) a comprehensive and effective incident identification and assessment process and incident response program. The program must ensure that Board-supervised PPSIs are well positioned to protect against the unique cybersecurity risks presented by digital assets. When identifying the key information technology systems to be addressed in the program, a Board-supervised PPSI would be expected to consider all technologies on which it relies. This includes systems operated by the Board-supervised PPSI and its vendors, such as smart contracts. It also includes key information technology systems such as the blockchains on which its payment stablecoins circulate.

The Board would expect a Board-supervised PPSI's information technology and security program to address each relevant information technology system based on the materiality of the risks the system poses. An information technology system involving minimal risks would require fewer controls. A system that poses material risks, in contrast, would require sophisticated evaluation, reporting, and validation processes, and rigorous independent testing at regular intervals.

Business Continuity. Under proposed § 247.13(b)(4), a Board-supervised PPSI's information technology and security program must include measures to ensure continuity of operations and recover critical functions in the face of disruptions, including by conducting business impact analyses, testing vulnerabilities, and testing with critical service providers. Board-supervised PPSIs should ensure they have appropriate controls to reliably address operational issues that may arise with burning and minting new payment stablecoins and should conduct appropriate due diligence before supporting any new distributed ledger. Operational resilience will be particularly important for Board-supervised PPSIs, which will depend on customer confidence in the stable value and availability of their payment stablecoins.

Nonpublic Personal Information. Under proposed § 247.13(b)(5), a Board-supervised PPSI's information technology and security program must include administrative, technical, and physical safeguards designed to (i) ensure the security and confidentiality of records containing nonpublic personal information about a customer; (ii) protect against any anticipated threats or hazards to the security or integrity of such records; (iii) protect against unauthorized access to or use of such records that could result in substantial harm or inconvenience to any customer; and (iv) ensure the proper disposal of such records.

Safe Handling of Digital Assets. Proposed § 247.13(b)(6) provides that a Board-supervised PPSI must develop, implement, and maintain appropriate measures to ensure secure handling of digital assets, including private key management, backup, and recovery, incorporating: (i) relevant technical, operational, strategic, market, legal, and compliance considerations relating to each digital asset and its underlying ledger; and (ii) information on material developments specifically related to supported digital assets and their underlying ledgers.[62] Failure to develop

[61] *See, e.g.,* Robert McMillan and Chip Cutter,''AI Is Finding Bugs That Hackers Can Exploit. Get Ready for Bugmageddon,'' *Wall Street Journal* (April 13, 2026), *https://www.wsj.com/tech/ai/ai-is-finding-bugs-that-hackers-can-exploit-get-ready-for-bugmageddon-baaff236.*

[62] If a Board-supervised PPSI holds digital assets on a customer's behalf, the Board-supervised PPSI's risk management practices must reflect this activity. Consistent with the July 14, 2025, Joint Statement on Risk-Management Considerations for Crypto-Asset Safekeeping, a Board-supervised PPSI holding

appropriate controls to safeguard digital assets could lead to the loss of private keys or other sensitive information that could result in the loss of digital assets or the unauthorized transfer of the digital assets out of the Board-supervised PPSI's control.

Question 126: Are there areas that fall under the categories of technological, operational, compliance, or other risk management principles-based requirements and standards that should be included in proposed § 247.13 but were omitted from the proposed rule? What are the advantages or disadvantages of including additional risk management requirements relating to notifications of unauthorized access to sensitive customer information, such as the requirement OCC proposed in § 15.13(b)(7) of its GENIUS Act NPR, or relating to adjustments of information technology and security programs and information technology resilience, such as the requirements the OCC proposed in § 15.13(b)(6) and (b)(8) of its GENIUS Act NPR ?[63] *Should proposed § 247.13(b) expressly address risks relating to smart contracts, encryption, or any other technology or procedure? Are there standards which were included but are not applicable to Board-supervised PPSIs? The proposed rule would require the appointment of a qualified Information Technology and Security Officer. Should the rule also require the appointment of a qualified Chief Risk Officer and Chief Audit Executive? The Board is considering all possible combinations of the standards in proposed § 247.13 and invites comments on which combination of standards is appropriate as well as whether to remove any of the individual standards in proposed § 247.13. [similar to OCC question 118]*

Question 127: Should the Board consider operational risk management principles-based requirements and standards to address the situation where a Board-supervised PPSI needs to transfer payment stablecoins across different blockchains to satisfy a redemption demand? If so, what kind of requirements and standards should the Board consider to address this situation? For example, should there be specific requirements relating to locking, minting, or burning payment stablecoins to facilitate a transfer? [similar to OCC question 119]

Question 128: Are there additional requirements concerning data privacy that it would be appropriate for the Board to include in proposed part 247? Please describe in detail any such standards. [similar to OCC question 121]

Question 129: What risks, if any, will Board-supervised PPSIs face from the blockchains on which their payment stablecoins circulate? Are the requirements under proposed § 247.13(b) sufficient to address those risks? If not, what additional requirements are appropriate?

Question 130: What information technology risks would Board-supervised PPSIs face from the use of tokenized reserve assets? How, if at all, could the proposed risk management requirements be adjusted to better address such risks? For example, what would be the advantages or disadvantages of including risk management requirements specifically addressing the information technology risks from tokenized reserve assets, such as a requirement that a Board-supervised PPSI's information technology and security program address information technology risks from a Board-supervised PPSI's use of tokenized reserve assets? How detailed should such requirements be?

c. Board-Supervised PPSIs and Enterprise-Wide Risk Management (Proposed § 247.13(c))

Board-supervised PPSIs include subsidiaries of State member banks. Under proposed § 247.13(c), a Board-supervised PPSI that is a subsidiary of a State member bank would be deemed to be in compliance with the requirements of proposed § 247.13 if (i) the Board-supervised PPSI participates in the enterprise-wide risk management framework of its parent State member bank or consolidated banking organization and (ii) that parent State member bank or consolidated banking organization has an enterprise-wide risk management framework that complies with the guidelines in appendix D–1 of 12 CFR part 208.

State member banks are already required to develop and adhere to operational and managerial standards for operational and information technology risks on a consolidated basis.[64] As a result, State member banks already have risk management frameworks to address the matters covered in this section, and such frameworks often cover a State member bank's subsidiaries. The Board recognizes the value of enterprise-wide compliance efforts. They can allow a consolidated entity to use risk and compliance resources more effectively and efficiently, and can enable the board of directors or senior management of a consolidated banking organization to exercise oversight of risk and compliance functions holistically. Accordingly, the proposal would allow the enterprise to extend an existing compliance program to include the Board-supervised PPSI.

To take advantage of this consolidated approach, the enterprise risk management framework could be adapted to account for the unique information technology and operational risks faced by Board-supervised PPSIs. This will generally involve incorporating many of the requirements described in this section, such as a comprehensive information technology program, into the existing enterprise-wide framework. While such changes may be resource-intensive, the Board believes they could ultimately prove more resource-efficient and effective than maintaining separate and independent programs for both the State member bank and the Board-supervised PPSI.

Question 131: Under the Board's proposal, Board-supervised PPSIs that are subsidiaries of State member banks would be deemed to be in compliance with the requirements of this section if (i) the Board-supervised PPSI participates in the enterprise-wide risk management framework of its parent State member bank or consolidated banking organization and (ii) that parent State member bank or consolidated banking organization has an enterprise-wide risk management framework that complies with the Board's safety and soundness guidelines applicable to a State member bank. What are the advantages and disadvantages of this approach? To what extent will State member banks with PPSI subsidiaries need to adapt their enterprise-wide risk management frameworks to address the risks from issuing payment stablecoins? How should the Board determine that the parent State member bank's risk management framework adequately addresses the risks unique to Board-supervised PPSIs?

d. Bank Secrecy Act/Anti-Money Laundering and Sanctions Requirements (Proposed § 247.13(d))

FinCEN and OFAC have issued a separate proposed rule that would implement the GENIUS Act's directive to treat PPSIs as financial institutions

digital assets on a customer's behalf would be required to maintain risk management practices, and information security practices in particular, that reflect the Board-supervised PPSI's capacity to understand a complex and evolving asset class, ability to ensure a strong control environment, and appropriate contingency plans to address unanticipated challenges in effectively providing services to customers.

[63] *See* 91 FR 10202 (March 2, 2026).

[64] 12 CFR part 208, Appendix D–1.

under the Bank Secrecy Act, as well as imposing several unique obligations required by the GENIUS Act.[65] The FinCEN and OFAC proposed rule would also implement the GENIUS Act's directive to require PPSIs to maintain effective sanctions compliance programs. Likewise, FinCEN, the Board, OCC, FDIC, and NCUA have issued a joint proposed rule imposing customer identification program requirements on certain PPSIs.[66] Proposed § 247.13(d) would provide that in order to ensure compliance with Bank Secrecy Act and sanctions requirements, each Board-supervised PPSI must comply with applicable regulations at 31 CFR Chapter V and 31 CFR Chapter X, including any anti-money laundering/countering the financing of terrorism (AML/CFT) program, sanctions program, and reporting requirements. In the interests of reducing burden and promoting consistent requirements, proposed § 247.13(d) would not contain additional requirements beyond those contained in FinCEN and OFAC's proposed rule at this time. Instead, compliance with regulations at 31 CFR Chapter V and 31 CFR Chapter X, as promulgated by FinCEN and OFAC, would constitute compliance with proposed § 247.13(d).

The proposed rule would create supervision and enforcement frameworks for Board-supervised PPSIs' AML/CFT programs. The proposed rule defines key terms and describes the Board's enforcement and supervision policy with respect to AML/CFT program implementation failures. The enforcement requirements only apply to actions by the Board.

Definitions. The proposed rule would define several terms used throughout this section. The term ''AML/CFT requirement'' would mean certain requirements of the Bank Secrecy Act, the GENIUS Act, or of the regulations in title 31, Chapter X applicable to Board-supervised PPSIs.

The term ''AML/CFT enforcement action'' would mean any formal or informal action taken by the Board under authority of section 6 of the GENIUS Act (12 U.S.C. 5905) or other applicable law that seeks to penalize, remedy, prevent, or respond to noncompliance with past or ongoing violations of, or past or ongoing deficiencies relating to, an AML/CFT requirement. The term includes a cease-and-desist order, written agreement, consent order, or memorandum of understanding, or the assessment of a civil money penalty. It does not include criminal enforcement.

The term ''significant AML/CFT supervisory action'' would mean any written communication or other formal supervisory determination issued by the Board that identifies one or more alleged deficiencies, weaknesses, violations of law, or unsafe or unsound practices or conditions relating to an AML/CFT requirement; communicates supervisory expectations to a Board-supervised PPSI regarding actions or remedial measures required to correct the deficiency, weakness, violation, or practice or condition; and contemplates significant or programmatic actions or remedial measures to be taken by the Board-supervised PPSI. The term does not include examiner observations, suggestions, or other informal comments.

Enforcement and Supervision Policy. The proposed rule would articulate the Board's enforcement and supervision policy as it relates to AML/CFT programs.[67] Except with respect to a significant or systemic failure to implement an established AML/CFT program in accordance with applicable regulations at 31 CFR Chapter X, a Board-supervised PPSI that has properly established an AML/CFT program would not be subject to an AML/CFT enforcement action or to a significant AML/CFT supervisory action based on the program requirements issued by FinCEN. At the same time, the proposed rule would clarify that nothing in this policy would restrict an AML/CFT enforcement action or a significant AML/CFT supervisory action with respect to a failure to properly establish an AML/CFT program. This proposal is only intended to affect actions by the Board.

In addition to these policies, the FDIC, NCUA, and OCC have proposed to include two provisions regarding consultation and information sharing with FinCEN.[68] The first provision would establish a FinCEN notice and consultation framework applicable when the FDIC, NCUA, and OCC intend to initiate an AML/CFT enforcement action or a significant AML/CFT supervisory action. The second provision would allow PPSIs to share any information with the FinCEN Director that relates to an existing or potential AML/CFT enforcement action or significant AML/CFT supervisory action. The Board invites comment on whether it should consider including the same or similar provisions in its final rule, including with respect to the two options for sharing information outlined in the other proposals.

Question 132: Are the requirements in proposed § 247.14(d) sufficiently clear? Are there additional requirements and standards concerning Bank Secrecy Act and sanctions compliance that it would be appropriate for the Board to include in proposed § 247.14(d)?

Question 133: What clarification, if any, is needed for Board-supervised PPSIs to determine what constitutes a ''significant or systemic failure'' to implement an established AML/CFT program? Is clarification needed for Board-supervised PPSIs to determine what constitutes a ''failure to establish an AML/CFT program''?

Question 134: The OCC, FDIC, and NCUA included two provisions in their proposed rules that are not included in the Board's proposed rule regarding consultation and information sharing with FinCEN. Should the Board include the same or similar provisions in its rule?

Question 135: The definition of significant AML/CFT supervisory action includes the term ''any written communication.'' Is the term ''any written communication'' too broad? Are there downsides and negative consequences to including the term ''any written communication'' in the proposed regulatory text? If so, please describe. Should the term ''any written communication'' be more clearly defined or removed altogether?

Question: 136: Is the definition of the term ''significant AML/CFT supervisory action'' sufficiently clear? Does the inclusion of ''unsafe or unsound practices or conditions'' introduce confusion about what types of supervisory actions are covered, since those terms are not found in the Bank Secrecy Act?

Question 137: Should proposed § 247.13(d) address the extent to which, or whether, Board-supervised PPSIs are subject to other Board regulations imposing obligations related to the Bank Secrecy Act, sanctions, and suspicious activity reporting, and if so, how? Would the requirements in the proposed rule conflict with these existing obligations in any way that would make complying with both difficult or impossible?

Question 138: Should proposed § 247.13(d) address the extent to which, or whether, Board-supervised PPSIs are subject to other Board regulations imposing obligations related to the Bank Secrecy Act, sanctions, and suspicious activity reporting, and if so, how? Would

[65] 91 FR 18582 (Apr. 10, 2026).

[66] 91 FR 37234 (June 22, 2026).

[67] The proposal is not intended to and does not affect or restrict criminal enforcement under the Bank Secrecy Act or the related authority of the Department of Justice.

[68] *See* 91 FR 28956 (May 18, 2026) (NCUA); 91 FR 34171 (June 5, 2026) (FDIC); 91 FR 37840 (June 24, 2026) (OCC).

the requirements in the proposed rule conflict with these existing obligations in any way that would make complying with both difficult or impossible?

5. Audits, Reports, and Supervision (Proposed § 247.14)

a. Examinations (Proposed § 247.14(a)–(g))

Section 6(a)(1) of the GENIUS Act (12 U.S.C. 5905(a)(1)) authorizes primary Federal payment stablecoin regulators, including the Board, to examine and otherwise supervise PPSIs, as defined in the statute, that are not State-qualified PPSIs with an outstanding issuance of less than $10 billion in payment stablecoins. Section 6(a)(3) of the GENIUS Act (12 U.S.C. 5905(a)(3)) authorizes the Board to examine a Board-supervised PPSI ''to assess the nature of its operations and its financial condition; the financial, operational, technological, and other risks associated with [the Board-supervised PPSI] that may pose a threat'' to its safety and soundness ''or the stability of the financial system of the United States; and the systems of the [Board-supervised PPSI] for monitoring and controlling the risks . . .'' Pursuant to section 6(a)(4)(C) of the GENIUS Act (12 U.S.C. 5905(a)(4)(C)), the Board may only request examinations at a cadence and in a format that is similar to that required for similarly situated entities regulated by the Board.

Proposed § 247.14(a) provides that the Board will conduct a full-scope examination of every Board-supervised PPSI subject to its supervision at least once during each 12-month period, unless otherwise specified in proposed § 247.14(d). Such examinations may be undertaken in conjunction with, or separately from, an examination of the parent State member bank. A full scope examination refers to the comprehensive review of a Board-supervised PPSI's financial condition, risk management practices, compliance with laws and regulations, and overall safety and soundness. The Board's proposed exercise of its examination authority over Board-supervised PPSIs is similar to the Board's current examination practices with respect to State member banks.[69] This mirroring ensures the Board is requesting examinations and reports at a cadence and in a format that is similar to that required for similarly situated entities the Board regulates, as required by section 6(a)(4)(C) of the GENIUS Act (12 U.S.C. 5905(a)(4)(C)).

Extended Exam Cycle for Certain Board-Supervised PPSIs. Consistent with the Board's statutory authority to supervise Board-supervised PPSIs, the Board proposes that § 247.14(d) would provide the Board with the option to examine some Board-supervised PPSIs on an 18- to 36-month cycle, as determined by the Board in its sole discretion, if the issuers satisfy the following conditions: (i) the Board-supervised PPSI currently is not subject to a formal enforcement proceeding or order; (ii) no person acquired control, as specified in proposed § 247.2, of the Board-supervised PPSI during the preceding 12-month period in which a full-scope examination would have been required but for proposed § 247.14(d); (iii) the Board-supervised PPSI has an outstanding issuance value of less than $1 billion, indexed to nominal U.S. GDP, or less than $25 billion, indexed to nominal U.S. GDP, in total monthly trading volume; and (iv) the Board-supervised PPSI is in compliance with all of the reserve requirements set forth in proposed § 247.11 and the reporting requirements in proposed § 247.14. The proposed criteria for certain Board-supervised PPSIs to qualify for an 18- to 36-month examination cycle are similar to the factors the Board considers for State member banks under 12 CFR 208.64(b).

Authority to Conduct More Frequent Examinations. Consistent with the Board's statutory authority under the GENIUS Act and the Board's supervisory authority over State member banks, proposed § 247.14(e) allows the Board to conduct examinations of Board-supervised PPSIs as frequently as the agency deems necessary, including examinations of a limited scope.[70] The Board has proposed this provision to ensure the agency has clear authority to conduct ad hoc examinations when emergencies or risks to the safety and soundness of a Board-supervised PPSI or the financial stability of the United States require the agency to deviate from its routine 12- or 18- to 36-month examination cycle.

Access to Books and Records. Proposed § 247.14(b) requires that, upon request, Board-supervised PPSIs must grant Board examiners prompt and complete access to all officers, directors, employees, agents, and relevant books, records, or documents of any type. The Board, through its examination authority over State member banks, has authority to access the officers, agents, and books and records of these institutions.[71] The books and records of a Board-supervised PPSI include, but are not limited to, information retained on distributed ledgers. Sections 6(a)(1), (3), and (4) of the GENIUS Act (12 U.S.C. 5905(a)(1), (3), and (4)) give the Board similar authority to supervise and examine Board-supervised PPSIs. Proposed § 247.14(b) applies the Board's examination authority to Board-supervised PPSIs in the same manner that it is applied to State member banks. Additionally, proposed § 247.14(c) clarifies that the Board may conduct examinations either on site or remotely. Proposed § 247.14(f) provides that all Board-supervised PPSIs must maintain a complete set of books and records in English. Proposed § 247.14(g) requires all Board-supervised PPSIs to develop and implement a records retention policy that ensures that the Board-supervised PPSI can demonstrate compliance with the GENIUS Act, this part, and all applicable laws and regulations.

Question 139: Proposed § 247.14(d) sets forth criteria under which a Board-supervised PPSI could qualify for an extended examination cycle. Are those criteria properly calibrated? Is the timeframe for an extended examination cycle appropriate? Should the Board consider decreasing or increasing the range for an extended examination cycle? Should the Board consider both monthly trading volume and outstanding issuance value when determining whether to employ an extended examination cycle? Are the proposed outstanding issuance value of less than $1 billion and the proposed total monthly trading volume of less than $25 billion, each indexed to nominal U.S. GDP, appropriate? Should those thresholds be higher or lower, and why? Are there other factors that should be included, such as redemption rates, asset composition, or creditworthiness? If so, how should the Board consider those factors? [similar to OCC question 130]

Question 140: What are the advantages and disadvantages of the Board conducting examinations of a Board-supervised PPSI that is a subsidiary of an insured State member bank in conjunction with its examination of the insured State member bank? Should the Board instead conduct examinations separately? Should the Board's approach vary based on any particular factors, like the size of the subsidiary Board-supervised PPSI relative to the insured State member bank or the interconnections between the two entities?

[69] *See* 12 CFR 208.64.

[70] *See id.;* 12 U.S.C. 5905(a)(3), (4)(C).

[71] 12 U.S.C. 248(a), 325, 326, 483, 602, 1820(d).

b. Reporting (Proposed § 247.14(h)–(k), (n)–(o))

Section 6(a)(2) of the GENIUS Act (12 U.S.C. 5905(a)(2)) requires that each PPSI ''shall, upon request, submit to the appropriate Federal payment stablecoin regulator a report on . . . the financial condition of the [PPSI]; the systems of the [PPSI] for monitoring and controlling financial and operating risks; compliance by the [PPSI] (and any subsidiary thereof) with [the GENIUS Act]; and the compliance of the Federal qualified nonbank [PPSI] with the requirements of the Bank Secrecy Act and with laws authorizing the imposition of sanctions and implemented by the Secretary of the Treasury.'' Section 6(a)(4) of the GENIUS Act (12 U.S.C. 5905(a)(4)) requires the Board to take certain actions to promote efficiency in the supervision and examination of Board-supervised PPSIs. The Board, in supervising and examining Board-supervised PPSIs, to the fullest extent possible, must use existing supervisory reports and other supervisory information and avoid duplication of examination activities, reporting requirements, and requests for information.

Submission of Reports. Proposed § 247.14(j) implements section 6(a)(2) of the GENIUS Act (12 U.S.C. 5905(a)(2)) by requiring each Board-supervised PPSI subject to the requirements of section 6(a)(1) of the Act (12 U.S.C. 5905(a)(1)) to, upon request, submit to the Board a report on: (i) the financial condition of the Board-supervised PPSI; (ii) the systems of the Board-supervised PPSI for monitoring and controlling financial and operating risks; (iii) compliance by the Board-supervised PPSI (and any subsidiary thereof) with the GENIUS Act, including section 4(a)(5) of the Act (12 U.S.C. 5903(a)(5)), and proposed part 247.

Confidential Weekly Reports. In addition to the regulations codifying the reporting requirements in section 6(a)(2) of the GENIUS Act (12 U.S.C. 5905(a)(2)),[72] pursuant to its supervisory authority in section 6(a)(1) of the Act (12 U.S.C. 5905(a)(1)), the Board is proposing in § 247.14(h) to require Board-supervised PPSIs to submit on a weekly basis, in the manner and form specified by the Board, a confidential report containing the information requested in the form that would be available on the Board's public website. At a high level, the Board would likely request that a Board-supervised PPSI provide information regarding the issuance and redemption, trading volume, and reserve assets for each payment stablecoin it issues. The report would likely require Board-supervised PPSIs to include information relating to the blockchains the payment stablecoin is listed on, outstanding issuance value, secondary market activity and price movement, redemption volume and times, detailed information regarding reserve assets, and other relevant information. The Board believes that requiring a Board-supervised PPSI to provide a confidential set of data on a weekly basis for each payment stablecoin it issues would allow the Board to understand the Board-supervised PPSI's operations and the risks unique to its business model. This regular data reporting would allow the Board to tailor its examinations to be risk-based, which would reduce the burden of examinations by focusing the scope of examinations. Further, the Board believes that this regular reporting framework would allow the Board to identify and respond more quickly to emerging risks. The Board also believes the information requested is currently tracked on a regular basis by stablecoin issuers.

Quarterly Reports of Financial Condition and Income. The Board is proposing in § 247.14(i) a separate provision that would require Board-supervised PPSIs to submit quarterly reports of financial condition and income to the Board, including, but not limited to, an income statement, which includes gross income, expenses, and net income and a balance sheet which includes assets including reserve assets and their total fair value, liabilities including stablecoin liabilities and their total outstanding issuance value, capital, changes in equity, and assets under custody, if any, in a standardized format as prescribed by the Board, within 30 days of the end of the prior quarter. The Board proposes this provision to ensure that Board-supervised PPSIs produce regular, standardized statements of financial condition and income to the Board and include additional information beyond the composition report required under proposed § 247.11(d) and the confidential weekly reporting required under proposed § 247.14(h), including information regarding the Board-supervised PPSI's gross income, expenses, net income, assets including reserve assets, liabilities including stablecoin liabilities, changes in equity, and assets under custody, if any. The reports required under this provision would mirror, with appropriate adjustments, the quarterly reports that State member banks provide to the Federal Financial Institutions Examination Council's Central Data Repository through their quarterly Consolidated Reports of Condition and Income filings, commonly referred to as Call Reports.[73] The information required to be reported under this section generally will be streamlined substantially relative to Call Reports, in light of the comparatively simple business model of a Board-supervised PPSI and because any State member bank parents of such Board-supervised PPSI already submit Call Reports to the Board. Standardizing these reporting requirements will enhance the Board's ability to supervise Board-supervised PPSIs and provide clarity as to the information a Board-supervised PPSI must report. The Board intends to publish the information provided in the quarterly report to ensure transparency and that the public has an understanding of a Board-supervised PPSI's financial condition and income on an ongoing basis.

The Board also proposes to require that each quarterly report of financial condition and income includes a declaration from the PPSI's Chief Financial Officer, or the individual performing an equivalent function, that the report is true and correct to the best of their knowledge and belief. The correctness of the quarterly report of condition and income shall also be attested to by the signatures of the directors and senior management of the Board-supervised PPSI other than the officer making such declaration, with the attestation stating that the report has been examined by them and to the best of their knowledge and belief is true and correct. The Board proposes requiring these declarations and attestations to ensure that Board-supervised PPSI's officers and directors are accountable for the accuracy of the Board-supervised PPSI's reports of financial condition and income.

Ongoing Compliance Reporting. Proposed § 247.14(k) implements section 5(i) of the GENIUS Act (12 U.S.C. 5904(i)). Consistent with the statute, under the proposed rule, not later than 180 days after the approval of an application under proposed subpart D of part 247, and on an annual basis thereafter, a Board-supervised PPSI must submit to the Board a certification

[72] With regards to reporting by a Board-supervised PPSI as to its assets under custody, section 10(d) of the GENIUS Act (12 U.S.C. 5909(d)) provides an additional statutory grant of authority.

[73] Instructions for Preparation of Consolidated Reports of Condition and Income—FFIEC 031 and FFIEC 041, available at *https://www.ffiec.gov/resources/reporting-forms/ffiec031.*

by its board of directors that the Board-supervised PPSI has implemented anti-money laundering and economic sanctions compliance programs that are reasonably designed to prevent the Board-supervised PPSI from facilitating money laundering, in particular, facilitating money laundering for cartels and organizations designated as foreign terrorist organizations under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189) and the financing of terrorist activities, consistent with the requirements of the GENIUS Act.

Use of Existing Reports and Avoidance of Duplication. Proposed § 247.14(m) and (n) implement the requirements of section 6(a)(4)(A) and (B) of the GENIUS Act (12 U.S.C. 5905(a)(4)(A) and (B)) by mirroring the statutory requirements that, as a part of its supervision and examination of Board-supervised PPSIs, the Board, to the fullest extent possible, will use existing supervisory reports and other supervisory information and avoid duplication of examination activities, reporting requirements, and requests for information. The Board will follow this approach, including in developing and issuing related examination handbooks and policies. The Board believes this is the optimal approach because it will allow the Board to quickly adapt and fine-tune its supervisory and examination policies to maximize both efficiency and burden reduction. This approach is also consistent with the approach that the Board takes for other entities under its jurisdiction.

Question 141: Should the Board alter the proposed reporting or examination requirements? If so, how? Is there additional information that should be included in the required reports or information that is not included in the proposed rule? Is there information included in the required reports or information that should not be included in the proposed rule? [similar to OCC question 129]

Question 142: In proposed § 247.14(h), the Board proposes to collect confidential weekly data from Board-supervised PPSIs to minimize the examination burden on such entities. Has the Board identified in the proposed form the appropriate data fields and categories of information to collect from a Board-supervised PPSI on a weekly basis to understand the operations and risks unique to its business model? If not, are there data fields that the Board should not request on a weekly basis and are there any additional data fields beyond those proposed that the Board should collect on a weekly basis from a Board-supervised PPSI to better assist in understanding the operations and risks unique to its business model? Should the Board collect secondary market transaction data (e.g., trading price and volume)? Or should the Board only collect primary market transaction data? Would it be too burdensome for Board-supervised PPSI to provide the proposed weekly data to the Board electronically on a daily or real-time basis? Should the Board collect additional data regarding the custody of reserve assets (or other covered assets)? Should the data collected be made public? If, so, on what timeframe should the data be made public? To what extent, if any, would a Board-supervised PPSI be anticipated to track the information required under the form referred to in proposed § 247.14(h) on a regular or real-time basis for its own use in the absence of a requirement to report it? To what extent would the proposed weekly and quarterly reporting requirements tend to reduce the frequency at which the Board would need to examine Board-supervised PPSI? Are there other reporting requirements that the Board could request that might reduce the frequency at which the Board would need to examine Board-supervised PPSIs? [similar to OCC question 131]

Question 143: In proposed § 247.14(i), the Board would require all Board-supervised PPSI to submit a quarterly report of financial condition and income. Should the Board tailor this requirement for Board-supervised PPSI under a certain threshold? If so, what should the threshold be? For a Board-supervised PPSI under the threshold, should the Board require less frequent reporting (e.g., every six months) and/or change the data Board-supervised PPSI under the threshold are required to submit (e.g., require less data)? If a Board-supervised PPSI, or its insured State member bank parent, currently files a Call Report, should it also be required to submit the quarterly report required under proposed § 247.14(i)? If so, why? If not, why not? If a Board-supervised PPSI, or its insured State member bank parent, currently files a Call Report, should the quarterly report under proposed § 247.14(i) be attached to the Call Report as an appendix as opposed to a separate filing? If so, why? If not, why not? Are there changes that should be made to the Call Report to ensure appropriate reporting while limiting duplicative reporting requirements? Should reports required under proposed § 247.14(i) and proposed part 247 more generally be coordinated and developed on an interagency basis across the Federal payment stablecoin regulators? [similar to OCC question 132]

Question 144: In addition to requiring a monthly report of a Board-supervised PPSI's reserve asset composition, should the Board also require a Board-supervised PPSI to publish a report of the reserve asset composition as of a day randomly selected each month by the Board-supervised PPSI issuer's registered public accounting firm? [similar to OCC question 133]

c. Audits (Proposed § 247.14(*l*))

Section 4(a)(10) of the GENIUS Act (12 U.S.C. 5903(a)(10)) requires that a PPSI with more than $50 billion in consolidated total outstanding issuance value that is not subject to certain reporting requirements under Federal securities laws prepare, in accordance with GAAP, ''an annual financial statement, which shall include the disclosure of any related party transactions, as defined by [GAAP].'' Section 4(a)(10) further provides that a registered public accounting firm must perform an audit of the annual financial statement. The audited annual financial statement must be made publicly available on the PPSI's website and be submitted annually to the PPSI's primary Federal payment stablecoin regulator.

Proposed § 247.14(*l*) implements the requirements of section 4(a)(10) of the GENIUS Act (12 U.S.C. 5903(a)(10)) with respect to Board-supervised PPSIs. Under the proposed rule, each Board-supervised PPSI with more than $50 billion in outstanding issuance value, that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)),[74] must prepare, in accordance with GAAP, an annual financial statement that must include the disclosure of any related party transactions, as defined by GAAP. Proposed § 247.14(*l*)(1) provides that a registered public accounting firm must perform an audit of the financial statements in accordance with all applicable auditing standards established by the Public Company Accounting Oversight Board, including those relating to auditor independence, internal controls, and related party transactions. The Board interprets ''applicable auditing standards'' under section 4(a)(10)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(10)(A)(iii)) to mean those that would apply if the Board-supervised PPSI were subject to

[74] This requirement would not apply to an entity whose parent company is a reporting entity to the extent that the information of the entity would be reflected in applicable reports.

the reporting requirements under sections 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)). The standards would be enforced by the Board for Board-supervised PPSIs that are subject to the audit requirement under section 4(a)(10)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(10)(A)(iii)). Consistent with this framework, the Board may at any time request that a registered public accounting firm provide to the Board certain additional information or documents relating to information provided by the Board-supervised PPSI. The registered public accounting firm must agree to provide copies of any working papers, policies, and procedures relating to services in connection with the audit required under section 4(a)(10)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(10)(A)(iii)).[75] Proposed § 247.14(*l*)(2) requires the Board-supervised PPSI to: (i) make the audited financial statement publicly available on its website, and (ii) submit the audited financial statement annually, within 120 days after the end of its fiscal year, to the Board. If a Board-supervised PPSI is unable to timely file all or any portion of its financial statements, proposed § 247.14(*l*)(3) would require the Board-supervised PPSI to submit a written notice of late filing to the Board that must: (i) disclose the Board-supervised PPSI's inability to file all, or specified portions, of its annual financial statement and the reasons therefore in reasonable detail; (ii) include the date by which the financial statement will be filed; and (iii) be filed on or before the deadline for filing the financial statement.

Question 145: How can the Board best minimize duplication of reports, including for Board-supervised PPSIs subject to the audit requirement contained in proposed § 247.14(l)? Should the Board include in the rule text its interpretation of "applicable auditing standards" under section 4(a)(10)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(10)(A)(iii)) to mean those that would apply if the Board-supervised PPSI were subject to the reporting requirements under sections 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m and 78o(d))? Should the Board also include in the rule text that the standards would be enforced by the Board for Board-supervised PPSIs subject to the audit requirement under section 4(a)(10)(A)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(10)(A)(iii))? Should the Board also include in the rule text that it may at any time request that a registered public accounting firm provide to the Board certain additional information or documents relating to information provided by the Board-supervised PPSI and that the registered public accounting firm must agree to provide copies of any working papers, policies, and procedures relating to services in connection with the audit required under section 4(a)(10)(A)(iii)? [similar to OCC question 134]

d. Change in Control

The Board is not, at this time, proposing to include any requirements regarding persons seeking to acquire control of a Board-supervised PPSI in its proposed rule. Instead, the Board expects to include a condition on this matter in any approval of an application by a State member bank seeking approval for a subsidiary to issue payment stablecoins under proposed subpart D of part 247. The condition would impose a requirement that the Board-supervised PPSI, and all officers, directors, and principal shareholders of the Board-supervised PPSI, cause any person seeking to acquire control of the Board-supervised PPSI to follow the procedures of the Change in Bank Control Act (12 U.S.C. 1817(j)) and the Board's Regulation Y (12 CFR part 225) as if the Board-supervised PPSI was an insured depository institution. However, such condition would only apply if, following consummation of the proposed transaction, the Board-supervised PPSI would remain a subsidiary of the State member bank. If a person proposes to acquire control of a Board-supervised PPSI and following consummation of that transaction, the PPSI would no longer be controlled by any State member bank, that person would not be required to follow the procedures in the Change in Bank Control Act or the Board's Regulation Y. The Board has authority to impose commitments and conditions in connection with the approval of an application in order to address specific concerns and ensure that the proposed transaction is consistent with the relevant statutory factors and provisions of the GENIUS Act.[76]

The Board expects to impose this condition to facilitate the Board's ongoing examination and supervision of Board-supervised PPSIs. Requiring notice of changes in control will assist the Board in carrying out its mandate to examine Board-supervised PPSIs and the operations of State member banks and is consistent with the Board's authority to supervise, request reports, and conduct examinations pursuant to section 6(a) of the GENIUS Act (12 U.S.C. 5905(a)) and the Board's authorities under the Federal Reserve Act.[77] In addition, requiring notice regarding changes in control will help the Board monitor for and address evasion of the requirements of the GENIUS Act. For example, there may be instances where changes in control implicate the risk management requirements of the GENIUS Act and Bank Secrecy Act/anti-money laundering or sanctions requirements. Similarly, section 4(f) of the GENIUS Act (12 U.S.C. 5903(f)) includes a prohibition on any individual who has been convicted of "a felony offense involving insider trading, embezzlement, cybercrime, money laundering, financing of terrorism, or financial fraud" from serving as an officer or director of a PPSI. Without the opportunity to review a proposed change of control, the Board could not appropriately monitor compliance with this provision.

Further, under section 5(c)(2) and 5(c)(3) of the Act (12 U.S.C. 5904(c)(2) and (3)), the Board must consider certain factors related to the proposed officers, directors, and principal shareholders of a proposed Board-supervised PPSI. Absent a requirement to submit a notice regarding a change in control, a State member bank could receive approval for a subsidiary to issue payment stablecoins with a set of officers, directors, and principal shareholders of the proposed Board-supervised PPSI that do not raise concerns under sections 5(c)(2) and (3) of the GENIUS Act and then transfer control to persons that do implicate concerns under those provisions or that otherwise raise concerns regarding the ability of the PPSI to comply with the Act and its implementing regulations.

Question 146: The Board has indicated it expects to impose a condition regarding change of control procedures in any approval of an application by a State member bank seeking approval for a subsidiary to issue payment stablecoins under subpart D of part 247. The Board has indicated that such condition would apply only if the Board-supervised PPSI would remain a subsidiary of the State member bank following consummation of the proposed transaction. What are the advantages and disadvantages of this approach? Should the Board consider expanding this requirement to apply to other changes of control? What clarifications would be beneficial

[75] *See* 12 U.S.C. 1831m(g); *see also* 12 CFR part 363.

[76] *See* 12 U.S.C. 5904(c)(3)(B), 5905(b)(2).

[77] *See, e.g.,* 12 U.S.C. 248(a), 325, 326, 483, 602.

regarding the operation of this potential condition? Should the Board consider including this requirement in part 247, rather than solely as a condition of an approved application? What are the burdens and benefits of requiring future potential acquirors of a PPSI to follow the procedures in the Change in Bank Control Act (12 U.S.C. 1817(j)) and the Board's Regulation Y, 12 CFR part 225?

6. Capital (Proposed §§ 247.15–18)

Section 4(a)(4)(A)(i) of the Act (12 U.S.C. 5903(a)(4)(A)(i)) requires the Board to issue regulations implementing capital requirements for Board-supervised PPSIs that ''are tailored to the business model and risk profile of,'' and ''do not exceed requirements that are sufficient to ensure the ongoing operations'' of, Board-supervised PPSIs.[78] Adequate regulatory capital levels are essential to the operational integrity of payment stablecoin arrangements. Board-supervised PPSIs are exposed to a range of risks, including financial risks (for example, credit risks stemming from uninsured deposits) and non-financial risks (for example, security breaches involving a smart contract that lead to unauthorized payment stablecoin minting). Robust capital levels would enable a Board-supervised PPSI to absorb losses related to such risks and help to ensure that it can continue operating, including issuing and redeeming payment stablecoins, even under stressful conditions.

Moreover, in order for payment stablecoins to perform their core function of serving as a means of payment or settlement, it is essential for a Board-supervised PPSI to have capital in an amount that is sufficient to ensure it can continue operations in the face of unexpected losses.[79] Uncertainty about a Board-supervised PPSI's ability to sustain ongoing operations could raise questions about the stability of the value of the Board-supervised PPSI's payment stablecoin. Such questions could, in turn, make potential payees reluctant to accept the Board-supervised PPSI's payment stablecoin, which may impede its adoption.[80]

To meet these policy goals and satisfy the statutory standard, the Board is proposing to use a simple, standardized risk-based capital framework. A well-calibrated, standardized capital framework would help promote consistency, transparency, and comparability across Board-supervised PPSIs. The Board considered adopting a non-standardized framework under which a Board-supervised PPSI could assess and propose its own capital needs for the Board's consideration and approval. However, such a framework could result in disparate outcomes for highly similar entities engaged in a narrow range of activities. It also would be less transparent to stablecoin holders and other interested parties. Further, a non-standardized approach increases the likelihood that risks could be underassessed by a PPSI. For example, a Board-supervised PPSI could incorporate unrealistic assumptions into its risk models, leading it to conclude that a lower level of capital is justified. A standardized approach, which uses fixed formulas, would mitigate these risks and make monitoring, supervision, and enforcement more efficient.

The Board expects that Board-supervised PPSIs will generally focus their business models on issuing and redeeming payment stablecoins and managing reserve assets.[81] Board-supervised PPSIs face a range of financial risks from managing reserve assets, including credit risks related to uninsured eligible deposit claims, as well as counterparty credit and interest rate risks. Of these, the credit risk from holding reserve assets in the form of uninsured eligible deposit claims and the counterparty credit risk stemming from undercollateralized reverse repurchase agreements are the most material in part given the statutory limitations on reserve assets. Accordingly, the Board's approach to capturing financial risks from managing reserve assets would focus on credit risk from uninsured eligible deposit claims and from undercollateralized reverse repurchase agreements.

While the capital requirement for uninsured eligible deposit claims would capture the primary financial risk associated with issuing and redeeming payment stablecoins and managing reserve assets, Board-supervised PPSIs could face other financial risks. For example, a Board-supervised PPSI may hold payment stablecoins as principal under proposed § 247.10(a)(6)(i) and may hold non-payment stablecoin digital assets as principal to facilitate customer transactions or test distributed ledger-based platforms under proposed § 247.10(a)(6)(iv). Risks from these activities include, for example, credit risk and market risks associated with holding digital assets used to pay gas fees. To address such risks, the proposal would impose additional capital requirements based on the Board's capital rule for regulated banking organizations. Specifically, to calculate capital requirements for financial risks that could arise from non-reserve assets, a Board-supervised PPSI would use the capital requirements and definition of capital as specified in 12 CFR part 217.

Finally, the proposal would include capital requirements to address a Board-supervised PPSI's operational risks. Capital requirements for operational risk would include two components: (i) a capital requirement based on outstanding payment stablecoin issuance and (ii) a capital requirement based on non-reserve asset revenue to capture other operational risks. Together, these two components would capture primary operational risks from issuing and redeeming payment stablecoins and managing reserve assets, which correlate with outstanding issuance value, as well as operational risks from other activities, such as providing stablecoin custody services or trading non-reserve assets, for which revenue is a better proxy.

a. Definition of Capital (Proposed § 247.16)

Proposed § 247.16 provides the definition of capital for purposes of the requirements set forth in proposed §§ 247.15–18, which, as explained in more detail below, are intended to capture the financial and operational risks faced by Board-supervised PPSIs. Proposed § 247.16(a) would define a Board-supervised PPSI's regulatory capital as tangible equity, which excludes goodwill and other intangible assets, such as intellectual property, as described below. Tangible equity would comprise the following capital elements: common stock, cumulative and non-cumulative perpetual stock, often in the form of preferred stock, retained earnings, and accumulated other comprehensive income (AOCI), all as reported under GAAP. Tangible equity

[78] Section 4(a)(4)(A)(i)(III) of the Act (12 U.S.C. 5903(a)(4)(A)(i)(III)) also provides that the Board may impose a capital buffer tailored to the business model and risk profile of Board-supervised PPSIs, provided that is determined to be necessary to ensure the ongoing operations of Board-supervised PPSIs. *See also* 12 U.S.C. 3901 *et seq.,* which applies to subsidiaries of insured banks.

[79] Section 2(22) of the Act (12 U.S.C. 5901(22)) defines a payment stablecoin as a ''digital asset that is designed to be or used as a means of payment or settlement.''

[80] *See* Gary B. Gorton and Jeffery Zhang, *Taming Wildcat Stablecoins* (2023), available at *https://chicagounbound.uchicago.edu/context/uclrev/article/6342/viewcontent/03_Zhang__Gorton_ART_Final..._Taming_Wildcat_Stablecoins.pdf* (arguing that stablecoins must meet a no-questions-asked principle, which ''requires that the money be accepted in a transaction without due diligence on its value'').

[81] As stated in section II.B.1.a of this **SUPPLEMENTARY INFORMATION**, the Board expects that Board-supervised PPSIs will not incur material liabilities other than payment stablecoin liabilities or maintain significant assets other than those listed in proposed § 247.11(b) without the Board's permission.

is an important measure of a Board-supervised PPSI's financial health and stability because it reflects the amount of capital available to absorb unexpected losses during a stress event without relying on external financial support. Proposed § 247.15(d) would require each Board-supervised PPSI to maintain an amount of tangible equity sufficient to ensure ongoing operations. As discussed below, to help ensure that a Board-supervised PPSI's capital can effectively absorb losses during periods of market and economic stress, the proposal would exclude from eligible tangible equity any instrument with features that could cause the condition of a Board-supervised PPSI to weaken during periods of market and economic stress.[82]

Common stock instruments generally exhibit the most loss absorbency, because any dividends are discretionary; there is no expectation by payment stablecoin holders that the issuer of common stock will buy back, cancel, or redeem the instrument; and the instrument does not include any term or feature that might give rise to such an expectation. Together, these conditions ensure that any operating funds generated through common stock can be used for any business needs of the Board-supervised PPSI. Thus, under proposed § 247.16(b)(1), any common stock instrument (plus any related surplus) issued by the Board-supervised PPSI, net of treasury stock, would qualify as a component of tangible equity if the instrument meets the following criteria: (i) the instrument is paid-in, is issued directly by the Board-supervised PPSI, and represents the most subordinated claim in a receivership, insolvency, liquidation, or similar proceeding of the Board-supervised PPSI; (ii) the instrument has no maturity date and can only be redeemed via discretionary repurchases; (iii) any cash dividend payments are fully discretionary and may be paid only after all legal and contractual obligations of the Board-supervised PPSI have been satisfied, including payments due on more senior claims; (iv) the holders of the instrument bear losses as they occur equally, proportionately, and simultaneously with the holders of all other common stock instruments before any losses are borne by holders of claims on the Board-supervised PPSI (including payment stablecoin holders) with greater priority in a receivership, insolvency, liquidation, or similar proceeding; and (v) if the Board-supervised PPSI purchases or buys back the instrument, the Board-supervised PPSI must either (A) replace the amount of the purchased instrument with an equivalent amount of an instrument or instruments that meet the criteria under proposed § 247.16(b)(1); or (B) demonstrate to the satisfaction of the Board that, following the purchase or buy-back, the Board-regulated institution will continue to hold capital commensurate with its risk.

Under proposed § 247.16(b)(2), tangible equity would also include cumulative and non-cumulative perpetual stock (plus any related surplus) issued by the Board-supervised PPSI, net of treasury stock, that meets the following criteria: (i) the paid-in amount is classified as equity under GAAP; (ii) the instrument is paid-in and issued directly by the Board-supervised PPSI; (iii) the instrument has no maturity date and does not contain a dividend step-up or any other term or feature that could create an incentive to redeem; (iv) the instrument is not secured, not covered by a guarantee of the Board-supervised PPSI or any of its affiliates, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument; (v) the instrument is subordinate to all claims except those of common shareholders, including the claims of general creditors and subordinated debt holders of the Board-supervised PPSI, in receivership, insolvency, liquidation, or similar proceeding; (vi) the instrument, by its terms, provides for the payment of dividends only after approval by the board of directors of the Board-supervised PPSI; (vii) if callable by its terms, the instrument would only be permitted to be callable after a minimum of five years following issuance, except that the terms of the instrument may allow it to be called earlier than five years upon the occurrence of a regulatory event that precludes the instrument from being included in tangible equity or a tax event. In addition, if the instrument is callable by its terms, the Board-supervised PPSI may not, at the time the instrument was issued, create, through any action or communication, an expectation that the call option would be exercised; and prior to exercising the call option, or immediately thereafter, the Board-supervised PPSI would be required to either replace the amount of the instrument to be called with an equivalent amount of an instrument or instruments satisfying the criteria in either proposed § 247.16(b)(1) or (b)(2) or demonstrate to its supervisor that, following the redemption, it will continue to hold capital commensurate with its risk.

Additionally, under proposed § 247.16(b)(3), tangible equity would include retained earnings that represent accumulated profits that have been generated by the Board-supervised PPSI and not distributed to shareholders. As internally generated capital, retained earnings are available to absorb losses on a going-concern basis and therefore contribute to the Board-supervised PPSI's loss-absorbing capacity.

Finally, under the proposed § 247.16(b)(4), tangible equity would include all AOCI components as reported under GAAP. AOCI includes accumulated unrealized gains and losses on certain assets and liabilities, where such unrealized gains and losses have not been included in net income but are included in equity under GAAP. For example, the proposal would require all net unrealized gains and losses on holdings of available-for-sale debt securities from changes in fair value to flow through to tangible equity capital, including gains and losses on debt securities that result primarily from fluctuations in benchmark interest rates. The changes in value of available-for-sale securities because of interest rate movements are generally more pronounced when the remaining maturity of the securities is longer. Because Board-supervised PPSIs are only permitted to hold as reserve assets those Treasury securities that are issued with, or have a remaining maturity of 93 days or less, the change in value of these securities because of interest rate movements is not likely to generate material amounts of AOCI.[83]

Proposed § 247.16(c) would exclude goodwill and other intangible assets, such as intellectual property rights, from tangible equity. These required deductions acknowledge the difficulties of valuing, and potential heightened volatility in the valuation of, such assets. The deductions also reflect the general unavailability of such assets for satisfying the redemption claims of payment stablecoin holders or supporting a Board-supervised PPSI during a business disruption.

Under proposed § 247.15(e)(3), as part of the proposal's reservation of authority

[82] The proposed required features of tangible equity instruments generally align with the features required for capital instruments for Board-regulated banking organizations under 12 CFR 217.20, with certain modifications intended to simplify the proposed definition of regulatory capital for Board-supervised PPSIs given their business model and risk profile.

[83] Board-supervised PPSIs may also be permitted to hold other instruments that are ''similarly liquid Federal Govenment-issued asset[s]'' under section 4(a)(1)(A)(vii) of the Act (U.S.C. 5903(a)(1)(A)(vii)). However, the Board is not proposing at this time to approve any such assets.

provisions, the Board may require a Board-supervised PPSI to exclude from regulatory capital all or a portion of its tangible equity if the Board determines that a particular common stock or any cumulative or non-cumulative perpetual preferred stock instrument has characteristics or terms that diminish the Board-supervised PPSI's ability to absorb losses, or otherwise presents concerns regarding its ongoing operations. This proposed provision would help the Board ensure that a Board-supervised PPSI's capital instruments are sufficient to absorb losses during a time of stress and allow the Board-supervised PPSI to continue its operations.

Question 147: The Board seeks comment on the proposed definition of capital for Board-regulated PPSIs. What, if any, alternative definition of capital should the Board consider (for example, common equity tier 1 capital or additional tier 1 capital, or both, that apply to banking organizations), and why? What, if any, clarifications should the Board consider regarding the inclusion of AOCI, or the deduction of intangible assets from the amount of capital required?

Question 148: The Board seeks comment on whether the Board should require a Board-supervised PPSI to have more than 50 percent of its tangible equity in the form of voting common stock, any related surplus, and retained earnings. What are the advantages and disadvantages of this limit and why? What other requirements should the Board consider to help ensure that a Board-supervised PPSI does not fund reserve asset capital requirements with solely perpetual preferred stock?

Question 149: The Board seeks comment on whether the Board should impose a limit on the amount of cumulative perpetual preferred stock in regulatory capital for PPSIs. If so, what should this limit be and why?

b. Minimum Capital Requirements (Proposed § 247.15)

Proposed § 247.15 would establish minimum capital requirements applicable to all Board-supervised PPSIs at all times. Under proposed § 247.15(b), such minimum capital requirements would consist of the following components: (i) a capital requirement for the credit risk of uninsured eligible deposit claims; (ii) a capital requirement for the counterparty credit risk of undercollateralized reverse repurchase agreements; (iii) an indirect exposure requirement capturing credit risk from uninsured eligible deposit claims and undercollateralized reverse repurchase agreements with respect to reserve assets that are securities issued by an investment company registered under 15 U.S.C. 80a–8(a), or other registered government money market fund, that is invested solely in a subset of the assets that are permissible for PPSIs to hold as reserve assets directly (for purposes of this section ''eligible funds''); (iv) capital requirements that capture financial risks from non-reserve assets; and (v) an operational risk capital requirement for activities such as issuing and redeeming payment stablecoins and managing reserve assets, as well as for other activities. Each component is discussed in more detail below.

i. Capital Requirement for Credit Risk From Reserve Assets

Credit risk arises from the possibility that an obligor, including a borrower or counterparty, will default on its obligations. Board-supervised PPSIs holding reserve assets in the form of uninsured eligible deposit claims would face credit risk from insured depository institutions. Board-supervised PPSIs would also be exposed to credit risk from counterparties in reverse repurchase agreements that are undercollateralized after taking into account certain haircuts. Proposed § 247.17(a)(1) and (2) account for these credit risks.

Direct Exposure Requirement for Uninsured Eligible Deposit Claims (proposed § 247.17(a)(1)). Proposed § 247.17(a)(1) would impose a two-percent capital requirement for uninsured eligible deposit claims held as reserve assets. Insured eligible deposit claims against insured depository institutions do not carry material credit risk, since they are guaranteed by the FDIC or NCUA. However, uninsured eligible deposit claims carry credit risk. While insured depository institution failures are rare, they do occur. If a Board-supervised PPSI includes in its reserve assets any uninsured eligible deposit claims against an insured depository institution, and that institution fails, the Board-supervised PPSI might not be able to recover the full amount of the monetary value standing to the credit of its deposit account with that institution on a timely basis. Moreover, such an insured depository institution's failure could, depending on the Board-supervised PPSI's exposure, lead a Board-supervised PPSI to violate the one-to-one-requirement under proposed § 247.11(a)(1)(iii), which could threaten the Board-supervised PPSI's ongoing operations. Board-supervised PPSIs can spread any uninsured eligible deposit claims held as reserve assets against multiple insured depository institutions, thereby reducing the impact of any one insured depository institution's failure.

The requirement under proposed § 247.17(a)(1) would help to ensure that a Board-supervised PPSI is well-positioned to absorb losses stemming from the potential failure of any insured depository institution against which the Board-supervised PPSI has uninsured eligible deposit claims as reserve assets. In addition, if a Board-supervised PPSI holds some of its reserve assets in the form of uninsured eligible deposit claims against an insured depository institution experiencing stress, the proposed capital requirement could help bolster market confidence that the Board-supervised PPSI's payment stablecoins will remain fully backed, thereby helping to reduce the probability of a run on the Board-supervised PPSI that could threaten its ongoing operations.[84] In calibrating the two-percent capital requirement for exposures to uninsured eligible deposit claims against insured depository institutions, the Board considered as a reasonable proxy the credit risk framework applicable to banking organizations, which applies a comparable capital requirement.[85] The proposed calibration reflects the fact that insured depository institutions are highly regulated and supervised and thus pose relatively low credit risk.

Question 150: The Board seeks comment on the proposed treatment for exposures to the credit risk of uninsured eligible deposit claims against insured depository institutions. What are the advantages and disadvantages of the proposed two-percent credit risk requirement for uninsured eligible deposit claims? What, if any, alternative calibrations (for example, between a

[84] For example, in March 2023, USDC came under stress after the FDIC was appointed as receiver of Silicon Valley Bank since Circle, the issuer of USDC, held approximately $3.3 billion of USDC reserve assets in the form of uninsured deposit claims against Silicon Valley Bank. Vicky Ge Huang, Hannah Miao, and Caitlin Ostroff, ''Circle's USDC Stablecoin Breaks Peg with $3.3 Billion Stuck at Silicon Valley Bank,'' Wall Street Journal (March 11, 2023), *https://www.wsj.com/articles/crypto-investors-cash-out-2-billion-in-usd-coin-after-bank-collapse-1338a80f.* That episode is a good illustration of how credit risk can impact stablecoin arrangements, and the important role capital can play. *See* Gordon Y. Liao, et al. *Risk-based Capital for Stable Value Tokens* (June 30, 2024), at 24, available at *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4926568.*

[85] 12 CFR 217.32 assigns a 20 percent risk weight to assets in the form of eligible deposit claims against depository institutions. Based on the ''total capital'' requirement of eight percent for banking organizations, 12 CFR 217.10(a)(1)(iii), the 20 percent risk weight effectively results in a 1.6 percent capital requirement. *See also* 12 CFR 208.43(b)(2)(i).

range of one percent and four percent) of the credit risk requirement for uninsured eligible deposit claims should the Board consider and why? What are the advantages and disadvantages of establishing credit risk requirements based on indicators of creditworthiness of insured depository institutions? For example, what are the advantages and disadvantages of requiring a Board-supervised PPSI to apply (i) a two-percent credit risk requirement for uninsured eligible deposit claims against Grade A (investment grade) banks, (ii) a three-percent requirement for Grade B (speculative grade) banks, and (iii) a four-percent requirement for Grade C (sub-speculative grade) insured depository institutions?

Direct Exposure Requirement for Undercollateralized Reverse Repurchase Agreements (proposed § 247.17(a)(2)). Board-supervised PPSIs could also face counterparty credit risk arising from permissible reverse repurchase agreement transactions. Under proposed § 247.11(b)(5), a reverse repurchase agreement may be entered into under certain conditions on a cleared basis, tri-party basis, or uncleared bilateral basis. Under proposed § 247.11(b)(5), acceptable collateral for reverse repurchase agreements could consist of U.S. Treasury bills, notes, or bonds, with no restrictions on original or remaining maturity. Therefore, in the event of a counterparty default, a Board-supervised PPSI could receive long-dated Treasury securities with an extended time to maturity, which are impermissible reserve assets under proposed § 247.11(b).

To address these risks, proposed § 247.17(a)(2) would impose a capital requirement equal to two percent of the amount by which a reverse repurchase agreement is undercollateralized after considering the haircuts discussed below. For purposes of this requirement, a reverse repurchase agreement would be undercollateralized if the amount of collateral held by the Board-supervised PPSI under the reverse repurchase agreement or a single-product netting set [86] of qualifying repo transactions [87] were less than the amount lent to the reverse repurchase agreement counterparty after the following haircuts are applied:

Residual maturity of treasury collateral	Haircut to the fair value of the collateral (%)
93 days or less	0.0
Greater than 93 days and less than or equal to 1 year	0.35
Greater than 1 year and less than or equal to 5 years	1.41
Greater than 5 years	2.83

For example, if a Board-supervised PPSI were to enter into a reverse repurchase agreement as purchaser of Treasury securities with a two-year maturity, a 1.41-percent haircut would apply. In that case, the fair value of Treasury securities used as collateral would need to exceed the dollar amount paid to the reverse repurchase agreement counterparty by 1.41 percent for the capital requirement to equal zero for this transaction. To the extent that the value of the collateral, after considering the appropriate haircut, falls below the dollar amount paid to the counterparty, each dollar of this shortfall would be subject to a two-percent capital requirement.

The proposed haircuts are based on the standard supervisory market price volatility haircuts set forth by the Board in 12 CFR 217.37(c), but have been modified (i) to exempt from any haircut U.S. Treasuries with a maturity of 93 days or less, which are eligible reserve assets, and (ii) to reduce the margin period of risk from ten days to five days.[88] The margin period of risk is the time between the last exchange of collateral and when a counterparty's positions are closed out or replaced following a default. The standard supervisory market price volatility haircuts are calibrated based on a ten-day margin period of risk. In this context, however, a five-day margin period is warranted, given that counterparty credit risk to Board-supervised PPSIs would apply only in reverse repurchase agreements, which allow relatively speedy access to collateral.[89] The collateral haircut approach would apply to reverse repurchase agreement transactions to help address counterparty risk while recognizing the risk-mitigating effects of collateral.

Under the proposal, sufficiently collateralized reverse repurchase agreements would not be subject to any capital requirement. Because section 4(a)(1)(A)(v) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(v)) and proposed § 247.11(b)(5) require reverse repurchase agreements to be ''subject to overcollateralization in line with standard market terms,'' the counterparty credit capital charge for these transactions is expected to be small or zero.

Question 151: The Board seeks comment on the proposed treatment for reverse repurchase agreements. What are the advantages and disadvantages of the proposed two-percent capital requirement for undercollateralized reverse repurchase agreements? What alternatives, if any, should the Board consider? For example, what would be the advantages and disadvantages of not imposing any capital requirement with respect to centrally cleared and tri-party repurchase or reverse repurchase transactions? Commenters are encouraged to provide supporting evidence and data that the Board could consider.

Question 152: The Board seeks comment on the appropriateness of requiring Board-supervised PPSIs to calculate credit risk requirements for reverse repurchase agreements. What are the advantages and disadvantages of calibrating the minimum capital requirement for reverse repurchase agreements based on the market price volatility haircuts that apply to banking organizations (12 CFR 217.37) adjusted by the remaining maturity of the collateral and the credit risk of the Board-supervised PPSI's counterparty? What, if any, alternative calibration of capital requirements for reverse repurchase agreements should the Board consider and why? What would be advantages and disadvantages of applying different or heightened

[86] Under the proposal, a ''netting set'' means is a group of qualifying repo transactions with a single counterparty that are subject to a qualifying master netting agreement. In the context of a Board-supervised PPSI, the existence of a netting set might be relevant if a Board-supervised PPSI were to simultaneously have reverse repurchase and repurchase agreements with the same counterparty. If a netting set exists, the counterparty exposure measure is calculated for the netting set as a whole rather than for individual products within the netting set.

[87] The proposal would define ''qualifying repo transactions'' in a manner similar to the definition of ''repo-style transactions'' in 12 CFR 217.2 with certain adjustments for consistency with this proposal. The proposal would define ''qualifying master netting agreement'' in a manner similar to the definition of the same term in 12 CFR 217.2 but would include additional requirements that the agreement not contain a walkaway clause, consistent with the definition under the 2013 capital rule, 78 FR 62018 (Oct. 11, 2013), and consistent with the recent proposal amending the Board's capital rule, *see* 91 FR 14952, 15148 (March, 27, 2026).

[88] 12 CFR 217.37(c)(3)(iii) permits repo-style transactions to use reduced haircuts based on a shorter five-day margin period of risk, as opposed to the ten-day margin period of risk that is reflected in the standard haircuts. Since the only counterparty credit risk from reserve assets for Board-supervised PPSIs would arise from reverse repurchase agreements, the haircuts that apply to Board-supervised PPSIs are calculated by multiplying the standard haircuts for a ten-day margin period of risk by the square root of ½ (which is approximately 0.707) to reduce the margin period of risk to five days.

[89] The capital requirements for banking organizations permit use of haircuts that reflect a shorter five-day margin period of risk for repurchase and reverse repurchase agreement transactions. *See* 12 CFR 217.37(c)(3)(iii).

requirements for reverse repurchase agreements that do not meet the definition of "qualifying repo transaction" in the proposal? Commenters are encouraged to provide supporting evidence and rationales.

Question 153: The Board seeks comment on the capital requirements for reverse repurchase agreements. The proposal would measure the risks of counterparty credit exposures by adapting the collateral haircut approach in the current capital rule, 12 CFR 217.37, to the context of Board-supervised PPSIs. What are the advantages and disadvantages of instead adapting the proposed collateral haircut approach outlined in the notice of proposed rulemaking titled "Regulatory Capital Rules: Regulatory Capital and Standardized Approach for Risk-Weighted Assets"?[90] *In particular, what are the advantages and disadvantages of calculating exposure based on the formula in the proposed approach, described in section II.D.2.b of the* SUPPLEMENTARY INFORMATION *of that proposal?*[91]

Indirect Exposure Requirement (proposed § 247.17(a)(3)). Proposed § 247.11(b)(6) permits Board-supervised PPSIs to hold reserve assets as shares of eligible funds that invest solely in certain other eligible reserve assets, including eligible deposit claims and reverse repurchase agreements. Whether held directly by the Board-supervised PPSI, or indirectly through ownership of shares in an eligible fund, these exposures give rise to credit risk. Therefore, for Board-supervised PPSIs that hold shares of eligible funds as reserve assets, proposed § 247.17(a)(3) would impose a capital requirement based on the underlying assets held by the eligible fund.[92] Specifically, a Board-supervised PPSI would be required to look through to the underlying exposures of eligible funds to calculate a credit risk requirement as if the exposures were held directly by the Board-supervised PPSI.

The Board is not prescribing a specific methodology to calculate the look-through requirement for eligible funds. While a Board-supervised PPSI could gather information on each individual holding of an eligible fund to calculate capital requirements, other approaches could be appropriate as well. For example, a Board-supervised PPSI could estimate the share of its uninsured eligible deposit claims against an insured depository institution held by an eligible fund based on cash reported on Form N–MFP, a monthly reporting form for money market funds, as a monthly average over the quarter.[93] Alternatively, if an eligible fund has a policy of collateralizing reverse repurchase agreements such that they would yield no capital requirement under this proposed treatment, for example, based on the policies described in its prospectus or mandate, the Board-supervised PPSI could report a zero capital requirement based on the policies without collecting data on individual positions.

Question 154: The Board seeks comment on whether the proposed capital requirement to look through to the underlying assets of an eligible fund is appropriate. What are the advantages and disadvantages of this approach? To what extent are eligible funds expected to hold uninsured eligible deposit claims and undercollateralized reverse repurchase agreements? What operational complexities could this requirement to look through the eligible fund pose for Board-supervised PPSIs? What, if any, alternative approaches to determining a capital requirement for eligible funds should the Board consider, and why? What would be the advantages or disadvantages of providing a more prescriptive approach for calculating this indirect exposure requirement? What would be the advantages or disadvantages of imposing a heightened requirement for Board-supervised PPSIs that do not have the data necessary to comply with the look-through approach (for example, the data available is not published at least quarterly or the data published is not sufficiently granular), such as (i) assuming all cash held by the eligible fund are uninsured eligible deposit claims and all U.S. Treasuries serving as collateral for reverse repurchase agreements have more than 5 year maturity or (ii) a 5% capital requirement for holdings of such funds?

Reservation of Authority. For circumstances in which these proposed capital requirements would not be commensurate to capture a Board-supervised PPSI's credit risk, proposed § 247.15(e)(4)(i) would enable the Board to assign a different credit risk requirement for uninsured eligible deposit claims or undercollateralized reverse repurchase agreements than otherwise discussed in section II.B.6.b.i of this SUPPLEMENTARY INFORMATION. Furthermore, proposed § 247.15(e)(4)(ii) would allow the Board to require a Board-supervised PPSI to adjust its methodology for calculating its indirect credit risk requirement under proposed § 247.17(a)(3).

ii. Capital Requirements for Non-Reserve Asset Financial Risks (Proposed §§ 247.17(b); 247.15(e)(4))

Proposed § 247.17(b) would subject a Board-supervised PPSI's exposures to assets other than reserve assets under proposed § 247.11(a)(1) to the requirements of the Board's capital rule in 12 CFR part 217. Specifically, proposed 247.17(b)(1) would require a Board-supervised PPSI to calculate capital requirements for its assets that are not reserve assets held under § 247.11(a)(1) using the same approach that its parent banking organization applies. If a Board-supervised PPSI does not have a parent that is subject to 12 CFR part 217, its non-reserve assets would be subject to the capital requirements under 12 CFR part 217 as if the Board-supervised PPSI were a State member bank. Board-supervised PPSIs would not be required to apply the operational risk capital requirements in 12 CFR part 217 because those risks would be captured by the PPSI-specific operational risk capital requirement outlined in section II.6.b.iv of this SUPPLEMENTARY INFORMATION. Under proposed § 247.17(b)(2)(iv), a Board-supervised PPSI would also be required to use the standardized approach in 12 CFR part 217, subpart D to calculate risk-weighted assets. This approach would be simpler and impose less burden on Board-supervised PPSIs.

Under 12 CFR part 217, Board-supervised PPSIs would have leverage- and risk-based requirements for non-reserve assets that are in the form of ratios and for which the numerator is common equity tier 1, tier 1, and total capital, as described in 12 CFR 217.20. These capital requirements for non-reserve assets differ in form and structure from the capital requirements for reserve assets and operational risks under this proposal, which are dollar amounts in the form of tangible equity.

In some cases, instruments that qualify as tangible equity may also satisfy the requirements for the capital components in the Board's capital rule, 12 CFR 217.20. The proposal would ensure that capital is not double-counted and cannot be used to satisfy both (i) the minimum requirements in proposed §§ 247.17(a) and 247.18 and (ii) the capital requirements of 12 CFR part 217, as applied to Board-supervised PPSIs in § 247.17(b). To achieve this,

[90] 91 FR 15332 (March 27, 2026).

[91] *Id.* at 15347.

[92] The proposed approach would essentially be similar to the capital requirement for a State member bank's exposures to an investment fund as describe in 12 CFR 217.53.

[93] Specifically, a money market fund's share of uninsured eligible deposit claims could potentially be estimated as the amount reported on Item A.14.a. (cash) minus $250,000 divided by the sum of the amounts reported on Items A.14.a., A.14.b., and A.14.c.

proposed § 247.17(b)(ii) would require a Board-supervised PPSI to designate tangible equity instruments held to satisfy the minimum capital requirements (for reserve asset financial risks and operational risks) and capital adequacy standards under this proposal as excluded tangible equity instruments. Such instruments would, for purposes of calculating capital requirements under 12 CFR part 217, be deducted from the applicable capital component in 12 CFR 217.20. Board-supervised PPSIs could designate additional tangible equity instruments beyond what is held to satisfy the minimum requirement for reserve asset financial risks and operational risks as excluded tangible equity instruments, such as tangible equity held for management buffers or other reasons.

The proposed approach to capitalizing financial risks for non-reserve assets is substantially different from the standardized approach the Board is proposing for reserve assets. As noted in section II.B.2 of this **SUPPLEMENTARY INFORMATION**, the GENIUS Act imposes various limitations on reserve assets, which result in a narrow set of relevant financial risks that can be captured by a simple standardized approach. Non-reserve assets, in contrast, are potentially exposed to broader risks. The additional activities described in proposed § 247.10(b), for example, could potentially give rise to exposures to a wide range of assets. The capital framework under 12 CFR part 217 is sufficiently robust and flexible to address the risks from exposures to these assets. Moreover, applying uniform capital requirements for non-reserve assets to an insured State member bank and its Board-supervised PPSI subsidiary could help reduce incentives for arbitrage, to the extent a banking organization could choose in which entity to hold the non-reserve assets.

If the Board determines that a Board-supervised PPSI's capital requirements under proposed § 247.17(b) are not commensurate with the risks of the Board-supervised PPSI's non-reserve assets, then the reservation of authority in proposed § 247.15(e)(5) would permit the Board to require the Board-supervised PPSI to adjust its requirements under § 247.17(b) or its approach for complying with the requirements under 12 CFR part 217. This provision would allow the Board to adjust the applicable capital requirements as necessary to account for unanticipated risks from non-reserve assets.

Question 155: For the purpose of calculating credit and market risk capital requirements for non-reserve assets using requirements applicable for banking organizations subject to 12 CFR part 217, what are the costs and benefits of the proposed approach? What are other alternative approaches should the Board consider and why? For example, to maintain consistency in the calculation of capital requirements for reserve assets under proposed § 247.17(a), what are the advantages and disadvantages of requiring a Board-supervised PPSI to calculate the capital requirements for non-reserve assets by applying the corresponding risk weights under 12 CFR part 217, subpart D multiplied by eight percent to align with the minimum "total capital" requirement for such assets under the capital rule? Additionally, what are the advantages and disadvantages of allowing Board-supervised PPSIs to use subpart E of the Board's capital rule to calculate the risk weights for non-reserve assets?

Question 156: The Board seeks comment on potential alternatives that could reduce operational complexity when calculating capital requirements for the market and credit risk of non-reserve assets. What are the advantages and disadvantages of permitting Board-supervised PPSIs to use alternative, and potentially simpler, methods to calculate these capital requirements so long as these alternative methods yield capital requirements that are at least as conservative as those prescribed under 12 CFR part 217? What are the advantages and disadvantages of requiring supervisory approval to use such an alternative approach?

iii. Capital Requirements for Operational Risks (Proposed §§ 247.18; 247.15(e)(4))

Proposed § 247.18 would impose an operational risk requirement to a Board-supervised PPSI based on both (i) the value of outstanding payment stablecoins issued by the Board-supervised PPSI, and, if applicable, (ii) the Board-supervised PPSI's revenues excluding those related to reserve assets. This requirement is intended to capture the operational risks Board-supervised PPSIs face in connection with issuing and redeeming payment stablecoins and managing payment stablecoin reserve assets, as well as risks that arise from non-reserve assets holdings and off-balance sheet activities, including providing custody services.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or events that disrupt business operations. It does not include other losses because of business performance, such as changes in business strategy or customer demand. Board-supervised PPSIs face a range of operational risks in connection with issuing and redeeming payment stablecoins and managing reserve assets. Some of those risks overlap with operational risks faced by other financial institutions. Other risks, however, are relatively novel given Board-supervised PPSIs' reliance on distributed ledger technology as the foundational infrastructure for payment stablecoins as well as technology such as smart contracts.[94] In many cases, distributed ledger technology offers new functionality that can help mitigate operational risks. Programmable blockchains, for example, can facilitate delivery-versus-payment transactions that mitigate settlement risk.[95]

Nevertheless, these technologies pose unique risk considerations. For example, a Board-supervised PPSI's ability to safeguard minting, burning, and freezing of payment stablecoins depends on the integrity of its smart contracts, including the associated private keys. A hack of the smart contract could lead to unauthorized minting of unbacked payment stablecoins,[96] which could undermine the Board-supervised PPSI's compliance with the one-to-one requirement and put its ability to continue operations at risk. While cybersecurity threats are common to many, if not all, financial institutions, Board-supervised PPSIs' reliance on smart contracts to orchestrate minting and burning combined with the ability to transfer payment stablecoins instantly on a 24/7 basis raises unique risk considerations,[97] as illustrated by recent major hacks involving assets on distributed ledgers, including stablecoins,[98] and the potentially

[94] Gordon Liao, et al., *Risk-based Capital for Stable Value Tokens* (June 30, 2024), available at *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4926568.*

[95] Cy Watsky, "Tokenized Assets on Public Blockchains: How Transparent is the Blockchain?" FEDS Notes (April 03, 2024).

[96] While not specific to stablecoins, an analysis of high impact smart contract exploits between 2022–2025 revealed total losses of over $1 billion. Gerardo Iuliano and Dario Di Nucci, *Smart Contract Vulnerabilities, Tools, and Benchmarks: an Updated Systematic Literature Review* (Jan. 14, 2026), available at *https://arxiv.org/abs/2412.01719.*

[97] MITRE's AADAPT (Adversarial Actions in Digital Asset Payment Technologies) knowledge base outlines adversarial tactics and techniques against smart contracts, among other areas. MITRE AADAPT, available at *https://aadapt.mitre.org.*

[98] For example, in 2022, a hack of the Ronin Network included the theft of millions of USDC stablecoins which were swiftly exchanged for other tokens on decentralized exchanges. "North Korea's

increased risk of hacks in the future using artificial intelligence tools.[99]

In addition to unauthorized minting and burning, Board-supervised PPSIs may face a range of other operational risks including disparities between stablecoins issued on-chain and reserve assets, coding errors in smart contracts, and errors in transaction processing (such as sending redemption funds to the incorrect recipient). Also, a Board-supervised PPSI may face operational failures impacting a blockchain on which the Board-supervised PPSI's payment stablecoins transact.[100]

Board-supervised PPSIs may also face substantial legal risks and attendant litigation costs. For example, the relative nascency of the technology and the Board-supervised PPSI business models may heighten legal risk related to intellectual property issues. Further, like any other firm, Board-supervised PPSIs could be subject to civil money penalties or other fines for regulatory violations. Such fines and penalties may be imposed by U.S. or foreign authorities.

To help ensure that Board-supervised PPSIs are well-positioned to absorb losses related to such risks, the Board is proposing a simple operational risk requirement that would provide for relatively consistent treatment across Board-supervised PPSIs. Under proposed § 247.18(a), the operational risk requirement for Board-supervised PPSIs would be equal to a loss scalar multiplied by a baseline operational risk requirement.

Baseline Operational Risk Requirement. The baseline operational risk requirement under proposed § 247.18(b)(1) would incorporate a Board-supervised PPSI's (i) outstanding payment stablecoin issuance value, calculated as the average of daily values over the reporting quarter, and (ii) its non-reserve asset revenue, including revenue from custodial activities (non-reserve asset revenue). The component based on outstanding payment stablecoin issuance value would reflect the size of the payment stablecoin business of a Board-supervised PPSI and hence would be a proxy for its operational risk with respect to issuing and redeeming payment stablecoins and managing reserve assets. The component based on revenue would account for operational risks of activities that are not well captured by outstanding payment stablecoin issuance, including providing stablecoin custody services or holding non-reserve assets. The baseline operational risk requirement would be calculated based on the following table, which would have the dollar values indexed to nominal U.S. GDP:

If the outstanding issuance value of the Board-Supervised PPSI is:	The baseline operational risk requirement is:
Less than or equal to $20 billion	2.0% of the outstanding issuance value plus 25% of the three-year average of non-reserve asset revenues.
Greater than $20 billion and less than or equal to $50 billion	$400 million plus 1.5% of the excess outstanding issuance value over $20 billion plus 25% of the three-year average of non-reserve asset revenues.
Greater than $50 billion	$850 million plus 1.0% of the excess outstanding issuance value over $50 billion plus 25% of the three-year average of non-reserve asset revenues.

The table reflects a graduated requirement that declines with payment stablecoin issuance volume. Specifically, the issuance-based portion of the baseline operational risk requirement would equal the sum of two percent of the first $20 billion of outstanding stablecoins, 1.5 percent of the next $30 billion of outstanding stablecoins, and one percent of outstanding stablecoins exceeding $50 billion.

The revenue-based portion of the operational risk requirement would be 25 percent of the three-year average of annual non-reserve asset revenues of the Board-supervised PPSI. For example, at the end of the third calendar quarter of 2025, the revenue-based portion of the requirement would be based on the average of the revenue values for the fourth quarter of 2022 through the third quarter of 2023, the fourth quarter of 2023 through the third quarter of 2024, and the fourth quarter of 2024 through the third quarter of 2025. The use of a three-year average would balance the objectives of stability and responsiveness. It is long enough to not be overly sensitive to temporary fluctuations, but not so long that it would fail to capture significant changes in a Board-supervised PPSI's activities. Revenues from reserve assets (such as interest payments on or gain from the sale of reserve assets) would be excluded from this measure since their operational risks would be captured by the operational risk requirement based on outstanding issuance value. Narrowly limiting the exclusion to revenue from reserve assets would set a clear boundary around which types of revenues could be excluded from the revenue-based portion of the requirement and minimize opportunities for Board-supervised PPSIs to reclassify revenues and thus exclude them from the operational risk capital requirement.

The proposed graduated approach would reflect the Board's expectation that operational risks may not scale linearly with outstanding issuance value.[101] For example, in the case of unauthorized minting, a perpetrator that exploits a vulnerability in a payment stablecoin smart contract to issue payment stablecoins to a wallet the perpetrator controls would generally need to exchange the stolen payment stablecoins for other assets before the Board-supervised PPSI is able to freeze or burn them. Crucially, the difficulty of executing such an exchange can increase with the amount of payment

Lazarus Group Identified as Exploiters Behind $540 million Ronin Bridge Heist,'' Elliptic (April 14, 2022), *https://elliptic.co/blog/540-million-stolen-from-the-ronin-defi-bridge.* In 2025, after a hack of Bybit, hackers rapidly laundered the stolen funds through mixers, cross-chain bridges, and decentralized exchanges using thousands of wallets. ''Targeted Report on Stablecoins and Unhosted Wallets—Peer-to-Peer Transactions,'' FATF (March 2026), *https://www.fatf-gafi.org/en/publications/Virtualassets/targeted-report-stablecoins-unhosted-wallets.html.*

[99] *See, e.g,* Robert McMillan and Chip Cutter,''AI Is Finding Bugs That Hackers Can Exploit. Get Ready for Bugmageddon,'' *Wall Street Journal* (April 13, 2026), *https://www.wsj.com/tech/ai/ai-is-finding-bugs-that-hackers-can-exploit-get-ready-for-bugmageddon-baaff236.*

[100] *See* Gordon Liao et al. at Table A1 for a catalog of operational risks PPSIs face. *See also* ''Proposed Criteria for Controls Supporting Token Operations: Specific to Asset-Backed Fiat-Pegged Tokens,'' AICPA (June 2025).

[101] One working paper notes that ''Upfront investments and on-going choices over technology and infrastructure, such as the type and number of blockchains on which tokens are deployed, the smart contract parameters governing speed and size limits, and the extensiveness of compliance checks, are all variables that have significant impact on risk outcomes but do not necessarily scale with token circulation or balance sheet size.'' *See* Gordon Liao, et al., at 9.

stablecoins stolen in the unauthorized minting. First, the larger the unauthorized minting of payment stablecoins, the more likely it is to be detected, either by the Board-supervised PPSI itself or by an external observer monitoring the blockchain.[102] As a result, in the case of larger exploits, the perpetrator would generally have less time to launder the stolen payment stablecoins.[103] Second, there are natural constraints on the quantity of payment stablecoins that can be off-loaded in a short period of time. Malicious actors are likely to look to non-compliant services and exchanges (for example, decentralized exchanges or centralized exchanges that do not comply with AML/CFT requirements) to offload their stolen payment stablecoins.[104] However, their ability to do so would be limited by the liquidity available on these exchanges.[105] These dynamics suggest that the gross operational losses may not increase proportionally to a PPSIs' outstanding issuance value. The Board's proposed graduated approach to calculating operational risk requirements is intended to reflect this issue.

To calibrate the baseline operational risk requirements, the Board considered banking organizations' operational losses from investment management and agency services relative to fiduciary income, as set forth in the table below.[106]

Table II.B.6.b.iii. Ratio of annual operational losses from investment management and agency services to income from fiduciary activities for individual bank holding companies (FR Y–14 fillers).

Average	1.3%
90th percentile	2.3%
95th percentile	4.6%
99th percentile	13.3%

Given there are some similarities between payment stablecoin issuance and banking organization investment management and agency services, these data provide a useful benchmark for assessing PPSI operational risk. Nevertheless, the analogy has limitations. Unlike banking organizations that engage in investment management and agency services, PPSIs issue their own liabilities—payment stablecoins—as principal, which are then used as a means of payment and settlement. As a result, PPSIs face different risks, such as the risk that an operational failure will lead to a discrepancy between the value of the reserve assets and the value of the payment stablecoins in circulation. Moreover, as described above, in issuing and redeeming their payment stablecoins, PPSIs will rely on technology that presents novel operational risks, including heightened legal risks.

For these reasons, the operational risks PPSIs face are likely to be substantially higher than those incurred by banking organizations engaged in agency services, investment management, and fiduciary activities. There is currently insufficient available data to quantify the levels of existing stablecoin issuers' operational losses. As such, the proposal would set a capital requirement equivalent to 25 percent of revenue, which is roughly double the 99th percentile loss indicated in the investment management and agency services data. That calibration relies on the evaluation of novel operational risks Board-supervised PPSIs would generally face, the operational losses that crypto-asset firms incurred over the last several years, and the potential for higher legal losses.

Applying this calibration to the revenue-based portion of the baseline operational risk requirement is straightforward. However, to apply the calibration to the issuance-based portion of the baseline operational risk requirement required converting the 25 percent of revenues to some percent of outstanding issuance value, which the proposal accomplishes by assuming that revenues represent a return on assets of approximately four percent based on short-term interest rates.[107] In that case, 25 percent of revenues corresponds approximately to a requirement of one percent of assets, which is the marginal capital requirement that would apply to the largest Board-supervised PPSIs under the proposed graduated approach. That is the most relevant comparison group, since the banking organizations that report FR Y–14 data are among the largest banking organizations.

In addition to help ensure the ongoing operations of Board-supervised PPSIs in the presence of operational risk, this calibration would provide additional benefits. Board-supervised PPSIs would generally be subsidiaries of State member banks, which means that to the extent the other activities are also permissible for State member banks, the consolidated entity may consider conducting those activities at either the State member bank or the PPSI-level. The highest operational risk requirement that would apply under the Basel III proposal is 18 percent of the business indicator, which in practice closely reflects revenues.[108] Therefore, setting operational risk requirements for Board-supervised PPSIs at 25 percent would limit the potential for banking organizations with PPSI subsidiaries to reduce their operational risk requirements by shifting activities into such subsidiaries.

As noted, there is no readily available data quantifying the extent to which a PPSI's operational risk declines as a proportion of reserve assets as reserve assets grow. Accordingly, the proposal would set the requirements mostly based on the qualitative analysis above. However, as data on PPSIs' operational losses become available, the Board could potentially use this data to reassess whether the proposed requirements remain appropriate.

Loss Scalar. The formula for Board-supervised PPSIs' operational risk requirements under proposed § 247.18(a) includes a loss scalar that adjusts baseline requirements based on data from past operational losses. The

[102] Daniel Palmer, ''Tether Accidentally Minted $5 Billion of its Stablecoins, Then Deleted Them,'' Coindesk (July 16, 2019), *https://www.coindesk.com/markets/2019/07/16/tether-accidentally-minted-5-billion-of-its-stablecoins-then-deleted-them;* Dylan Butts, ''PayPal's Crypto Partner Mints a Whopping $300 Trillion Worth of Stablecoins in 'Technical Error,' '' CNBC (Oct. 16, 2025), *https://www.cnbc.com/2025/10/16/paypals-crypto-partner-mints-300-trillion-stablecoins-in-technical-error.html.*

[103] For example, in 2023, Circle was able to respond to the hack of a cross-chain platform called Multichain by freezing about $63 million in stolen USDC stablecoins. ''Multichain Liquidators Win Key Ruling as New York Court Extends Freeze on Stolen USDC,'' Yahoo Finance (Oct. 31, 2025), *https://finance.yahoo.com/news/york-court-extends-asset-freeze-030350191.html.*

[104] ''The 2025 Crypto Crime Report,'' Chainalysis (Feb. 2025), *https://go.chainalysis.com/2025-Crypto-Crime-Report.html;* ''Targeted Report on Stablecoins and Unhosted Wallets—Peer-to-Peer Transactions,'' FATF (March 2026), *https://www.fatf-gafi.org/en/publications/Virtualassets/targeted-report-stablecoins-unhosted-wallets.html.*

[105] For example, the maximum amount of funds that could be laundered through decentralized exchanges would naturally be less than the total assets available to be exchanged on decentralized exchanges. As of March 31, 2026, total value locked, or all the assets that users have deposited on decentralized exchanges, monitored by DefiLlama was about $12.5 billion. ''DEX Protocols—Total Value Locked,'' DeFiLlama (2026).

[106] Operational loss and revenue data is from the FR Y–14Q data collection, available at *https://www.federalreserve.gov/apps/reportingforms/Report/Index/FR_Y-14Q.*

[107] Revenues for Board-supervised PPSIs are likely to primarily consist of revenues from reserve assets, so short term interest rates are a good proxy for the ratio of revenues to outstanding stablecoins. The 4 percent number matches the 4.07 percent average interest rate on a 3-month Treasury bill from 2025. Fed. Reserve Econ. Data, ''3-Month Treasury Bill Secondary Market Rate, Discount Basis [DTB3],'' *https://fred.stlouisfed.org/series/DGS3MO* (retrieved February 9, 2026) (frequency set to ''Annual'' and aggregation method set to ''Average'').

[108] 91 FR 14952 (''Basel III proposal'').

scalar would ensure that operational risk capital requirements would automatically rise if realized operational losses are above a specified threshold, while also allowing lower operational loss rates to reduce requirements below the baseline level. The loss scalar would increase the risk sensitivity of the framework and incentivize prudent management of operational risks.

Under proposed § 247.18(b)(2), the loss scalar would be set as follows:

$$Loss\ Scalar = max\left(Scalar\ Floor, \left(\frac{Scaled\ Loss\ Rate}{Threshold\ Loss\ Rate}\right)^{Loss\ Elasticity}\right)$$

where:

- ''Scalar Floor'' is a parameter setting the maximum possible reduction in the baseline operational risk requirement that would apply based on losses below the threshold;
- ''Scaled Loss Rate'' is an average annualized loss rate based on data over the past five years, which is calculated as the average over the prior 20 quarters of quarterly operational losses scaled by that quarter's baseline operational risk requirement and multiplied by four (to convert loss rates from quarterly to annual units);
- Threshold Loss Rate is a parameter setting the threshold for the scaled loss rate above which the scalar becomes greater than one (which would raise capital requirements above the baseline operational risk requirement); and
- Loss Elasticity is a parameter setting the elasticity of the scalar with respect to the Scaled Loss Rate (excluding the effects of the Scalar Floor).[109]

The proposal would set the parameters as outlined in the table below.

Threshold Loss Rate	1/15.
Lookback for Loss Rate.	5 years (20 quarters).
Loss Elasticity	0.5.
Scalar Floor	0.8.

Under proposed § 247.18(b)(2)(ii), the Threshold Loss Rate would be calibrated to 1/15th, or approximately 6.7 percent, which would result in the loss scalar rising whenever operational losses are on average more than 1/15th of the baseline operational risk capital requirement. This approach is similar to the Internal Loss Multiplier in the Basel international standard for operational risk capital requirements, which scales up operational loss capital requirements when average losses rise above 1/15th of the Business Indicator Component, similar to the baseline operational risk requirement in the proposed PPSI framework.[110] Average losses can provide information on the size of tail losses, so that average losses greater than 1/15th of an associated capital requirement could indicate that those capital requirements are too low to capture tail losses and should be increased. While the Board expects a higher baseline level of operational risk for Board-supervised PPSI activities as compared to bank activities, it is not clear that the ratio of average losses to tail losses should differ between Board-supervised PPSIs and banking organizations, so the proposal uses the 1/15th rate for Board-supervised PPSIs as well.

Under proposed § 247.18(b)(2)(iv), the Scaled Loss Rate would be the average over the prior 20 quarters, reflecting a five-year horizon, of the ratio of the Board-supervised PPSI's quarterly operational losses to the baseline operational risk requirement for the same quarter, multiplied by four. Multiplying by four converts a quarterly loss rate to an annual one. This period is shorter than the 10-year average that applies to the Internal Loss Multiplier used by banks under the Basel international standard for operational risk capital requirements. Given the rapid developments in the stablecoin sector, a shorter lookback period likely better reflects recent changes in market conditions. The Board expects this five-year horizon to be long enough to provide a reasonable estimate of average trends while also focusing on a current enough period to capture recent changes in the Board-supervised PPSI operating environment.

Under proposed § 247.18(b)(2)(iii), Loss Elasticity is set to 0.5, which means that a one-percent increase in the Scaled Loss Rate would lead to an approximately 0.5-percent increase in the scalar (before application of the floor). This specification would prevent excessive volatility in the scalar by dampening the impact of outlier losses. The approach of using a concave function to dampen the impact of these losses is similar to the approach taken in the operational risk framework for banking organizations.[111]

Under proposed § 247.18(b)(2)(i), the Scalar Floor is set to 0.8, allowing for the possibility of a 20-percent decrease in baseline operational risk requirements given low loss rates, which would balance incentivizing sound operational risk management practices with maintaining appropriate conservativeness. The Board also considered an alternative to set the Scalar Floor at 1.0, so that operational risk capital requirements could never fall below the baseline, but determined that such an approach may not provide appropriate incentives to manage operational risk.

The proposal would require Board-supervised PPSIs to collect data on their historical operational losses to calculate the scaled loss rate. Under proposed § 247.18(c)(1), Board-supervised PPSIs would be required to collect comprehensive data on all operational loss events, including events involving entities that have been acquired by or merged with the Board-supervised PPSI, resulting in losses of at least $20,000. The $20,000 threshold for operational loss events would be indexed to nominal U.S. GDP. Board-supervised PPSIs would also be required to categorize each operational loss into seven categories, which would be consistent with those specified in the Basel international standard for operational risk.[112] Each dollar of an operational loss could only be allocated to one category. However, an operational loss from one event could be

[109] Elasticity represents the percent change in one variable in response to a percent change in another variable. In this context, a one percent increase in the Scaled Loss Rate would increase the scalar by an amount equal to the Loss Elasticity (excluding impacts of the Scalar Floor). For example, if the Loss Elasticity were 0.5, then a one percent increase in the Scaled Loss Rate would increase the scalar by approximately 0.5 percent.

[110] *See* OPE25, Basel Framework, Bank of International Settlements, available at *https://www.bis.org/basel_framework/chapter/OPE/25.htm.*

[111] *See* OPE 25.8, Basel Framework, Bank of International Settlements, *https://www.bis.org/basel_framework/chapter/OPE/25.htm* (providing a formula for the Internal Loss Multiplier, which includes a logarithm).

[112] The categories are (1) internal fraud, (2) external fraud, (3) employment practices and workplace safety, (4) clients, products, and business practices, (5) damage to physical assets, (6) business disruption and system failures, and (7) execution, delivery, and process management. Losses relating to lawsuits would be allocated to the most appropriate category. For example, a lawsuit from a client might be allocated to ''Clients, products, and business practices'' whereas a lawsuit from an employee might be allocated to ''employment practice and workplace safety.'' *See* OPE25, Basel Framework, Bank of International Settlements, *https://www.bis.org/basel_framework/chapter/OPE/25.htm. See* also 91 FR 14952 (Mar. 27, 2026).

split into different portions that could then each be allocated to different categories. For example, a Board-supervised PPSI could not allocate a $100,000 loss to two different categories simultaneously, but it could allocate $50,000 of that loss to one category and the other $50,000 to another. Operational loss event data would be required to include gross operational loss amounts, recovery amounts, the date when the event occurred or began (occurrence date), the date when the Board-supervised PPSI became aware of the event (discovery date), and the date (or dates) when losses or recoveries related to the event were recognized in the Board-supervised PPSI's profit and loss accounts (accounting date). In addition, the Board-supervised PPSI would be required to collect descriptive information about the drivers of operational loss events.

Proposed § 247.18(c)(1) would require Board-supervised PPSIs to establish procedures to identify, collect, and independently review operational loss data as well as subject these processes to regular independent review by an audit function. In addition to enhancing the risk sensitivity of capital requirements, this data collection would enable both regulators and Board-supervised PPSIs to better understand operational risks in this context and could serve as an input to future revisions to requirements.

To address problems surrounding a lack of history of operational risk data because of the newness of both stablecoin markets generally and PPSIs specifically, proposed § 247.18(c)(2) specifies that, for any quarter in which a Board-supervised PPSI was not operating during the full quarter or was not required to collect internal loss data, the Scaled Loss Rate should be calculated as the Threshold Loss Rate multiplied by 1.5^(1/(Loss Elasticity)). This calibration would raise operational risk requirements by 50 percent for Board-supervised PPSIs with no data, which would include new Board-supervised PPSIs that did not consistently operate over the prior five years or that were not collecting operational loss data prior to becoming a Board-supervised PPSI. However, this approach would also allow the operational risk capital requirement to gradually fall to the baseline level if average realized operational losses remain below the threshold over the following five years.

With prior written approval, a Board-supervised PPSI would be permitted calculate the Scaled Loss Rate as the Threshold Loss Rate multiplied by 1.5^(1/(Loss Elasticity)). In this case, the Board-supervised PPSI would not be required to collect operational loss data. This approach could potentially be applied to situations in which it would be overly difficult for a Board-supervised PPSI to gather sufficient quality operational loss data, while the required approval would limit potential for abuse from Board-supervised PPSIs with operational losses sufficient to raise the Loss Scalar above 1.5.

For cases in which this approach is not sufficient for capturing operational risk, proposed § 247.15(e)(4)(iii)–(v) would allow the Board to require a Board-supervised PPSI to make certain adjustments in the calculation of operational risk requirement if the Board determines that the Board-supervised PPSI's capital requirements for operational risk for payment stablecoin activities are not commensurate with the Board-supervised PPSI's operational risk.

Question 157: The Board seeks comment on the issuance-based portion of the baseline operational risk requirement. What are the advantages and disadvantages of using outstanding issuance value as a measure of the scale of a Board-supervised PPSI's issuance and reserve management activities? What other, if any, measures, such as revenue or the value of reserve assets, would be more appropriate and why? What other calibration should the Board consider, such as (i) applying a uniform capital requirement between one and two percent of outstanding issuance value and/or (ii) additionally including a fixed capital requirement between $1 million and $25 million to account for operational losses that do not scale with outstanding issuance value? The Board encourages commenters to share data on the rate of operational losses for issuance and reserve management activities.

Question 158: The proposed graduated approach to calculating the issuance-based portion of the baseline operational risk requirement posits that Board-supervised PPSIs' operational losses do not scale linearly with outstanding issuance value. What are the advantages and disadvantages of incorporating a graduated approach in the baseline issuance-based operational risk requirement? What other approaches should the Board consider to accurately reflect the relationship between a PPSI's operational losses and its outstanding issuance value? The Board encourages commenters to share data on the relationship between a PPSI's operational losses and its outstanding issuance value.

Question 159: The Board seeks comment on the revenue-based portion of the baseline operational risk requirement. What are the advantages and disadvantages of the proposed calibration of 25 percent of revenue? What, if any, other calibrations, for example 10 percent, 15 percent, or 30 percent, should the Board consider? What, if any, changes should the Board consider (for example, removing revenues beyond those from reserve assets or netting any expenses to reflect the scale of a Board-supervised PPSI's other activities) and why? Commenters are encouraged to provide supporting rationale and data to support their recommendations.

Question 160: To maintain simplicity, the Board opted to apply the 25 percent operational risk capital requirement to all non-reserve asset revenue. The Board seeks comment on whether, as an alternative, custody activities should be subject to a separately-calibrated requirement. What are the advantages and disadvantages of the proposed approach of applying a 25 percent capital requirement uniformly to all non-reserve asset revenues? What are the advantages and disadvantages of an alternative approach that would apply a reduced capital requirement between 12 and 18 percent to revenues that derive from custody activities, which would be similar to recently-proposed operational risk capital requirements for most banking organization activities? Under this alternative approach, should the reduced capital requirement apply only to the custody of reserve assets and why?

Question 161: The Board seeks comment on the proposed specification for the loss scalar. What are the advantages and disadvantages of (i) setting the Threshold Loss Rate at 1/15th of the baseline operational risk requirement; (ii) setting the Loss Elasticity parameter to 0.5; (iii) using a five-year lookback period to calculate the scalar; and (iv) replacing missing data with the proposed conservative value that would result in a loss scalar of 1.5 (all as proposed)? What alternative calibrations should the Board consider? For example, the Board could set a higher Threshold Loss Rate of 1/10th or a lower threshold of 1/20th; set the Loss Elasticity parameter to a more sensitive specification, such as 0.8; use a shorter lookback period to calculate the scalar, such as three years, or a longer period, such as ten years; or set a higher loss scalar in the case of missing operational loss data, such as 2, for additional conservatism? What are the advantages and disadvantages of such alternatives?

Question 162: The proposed loss scalar is intended to incentivize Board-

supervised PPSIs to prudently manage their operational risks. What are the advantages and disadvantages of the proposed loss scalar? What are the costs and benefits of requiring Board-supervised PPSIs to calculate the operational risk capital requirement without the loss scalar? Commenters are encouraged to provide supporting rationale and data to support their recommendations.

Question 163: The Board seeks comment on the data collection requirements for internal loss data in proposed § 247.18(c). What are the advantages and disadvantages of requiring Board-supervised PPSIs to collect internal loss data? What logistical difficulties could the data collection pose to Board-supervised PPSIs? What are the challenges in classifying operational losses in one of the seven risk types? Would alternative classifications of operational risk events be more appropriate? What are the advantages and disadvantages of providing Board-supervised PPSIs the option of not collecting data on operational losses and instead applying a loss scalar of 1.5?

Question 164: What would be the advantages and disadvantages of setting operational risk requirements based on the Board-supervised PPSI's internal models (instead of using a standardized approach)? What safeguards would be appropriate around the use of such models? What would be an appropriate standard of loss coverage that the operational risk capital requirement should cover (for example, a percentile between 98% and 99.5% of the total operational losses over a one year period)?

iv. Total Capital Requirement Calculation (Proposed § 247.15(a)–(b))

Under proposed § 247.15(b), a Board-supervised PPSI would be required to satisfy capital requirements based on (i) the amount of tangible equity equal to the sum of the requirements for uninsured eligible deposit claims, undercollateralized reverse repurchase agreements, and operational risks and (ii) the amounts of common equity tier 1, tier 1, and total capital that the Board-supervised PPSI holds to satisfy the capital requirements for non-reserve assets. Proposed § 247.15(a) provides that each Board-supervised PPSI would be required to meet the overall capital adequacy standards in accordance with proposed §§ 247.15 through 247.18 at all times. As discussed in section II.B.6.b.ii of this SUPPLEMENTARY INFORMATION, under proposed § 247.17(b)(2)(ii), a Board-supervised PPSI would not be permitted to use any capital held to satisfy the minimum capital requirements for reserve asset risks and operational risks to satisfy the capital it would be required to hold for non-reserve asset financial risks. This approach would help to ensure that the capital held to satisfy the minimum capital requirements of proposed § 247.17(b) would not subsidize the other minimum capital requirements in proposed §§ 247.15–18 (and vice versa) and would reflect that capital held to absorb losses from non-reserve assets is not available to absorb losses from reserve assets or operational risks.

Proposed § 247.15(b)(1)(i) provides the formula for calculating capital requirements for uninsured eligible deposit claims (as set forth in proposed § 247.17(a)(1) and (3)), undercollateralized reverse repurchase agreements (as set forth in proposed § 247.17(a)(2) and (3)), and operational risks (as set forth in proposed § 247.18) as the sum of (i) the requirements for direct and indirect credit risk related to uninsured eligible deposit claims, (ii) the requirements for direct and indirect credit risk related to reverse repurchase agreements, and (iii) the requirements for operational risk.

The capital requirement for non-reserve asset financial risks is set out in proposed § 247.17(b) and would be based on the Board's capital rule (12 CFR part 217), as outlined in section II.B.6.b.ii of this SUPPLEMENTARY INFORMATION.

Proposed § 247.17(a) would require a Board-supervised PPSI to calculate its minimum capital requirements for uninsured eligible deposit claims and undercollateralized reverse repurchase agreements on a daily basis. A Board-supervised PPSI should already have the data necessary to make such calculation, given the requirement under proposed § 247.11(a)(2) that a Board-supervised PPSI would be required to record the fair value of reserve assets at a minimum of once each calendar day.[113] For non-reserve asset financial risks, proposed § 247.17(b) would require a Board-supervised PPSI to calculate its minimum capital requirements in accordance with the frequency of capital requirements calculation prescribed by the Board's capital rule. Proposed § 247.18(b)(1) would require a Board-supervised PPSI to calculate capital requirements for operational risk as of the end of the quarter. A quarterly calculation for operational risk is appropriate, given that the revenue data used in the revenue-based component of the requirement is typically reported quarterly. As a result, the minimum capital requirements in proposed § 247.15(b)(1) would be (i) the sum of the average of each minimum capital requirement for uninsured eligible deposit claims, undercollateralized reverse repurchase agreements, and operational risk over one quarter and (ii) the average of the minimum capital requirements for non-reserve assets over one quarter. Such requirements must be met at all times.

In addition, under proposed § 247.15(e)(1), as part of the proposal's reservation of authority provisions, the Board may require a Board-supervised PPSI to maintain an overall amount of capital that differs from the amount otherwise required under the proposal, if the Board determines that the permitted payment stablecoin issuer's minimum capital requirements under the proposal are not commensurate with the risk of the Board-supervised PPSI's exposures.

Question 165: The Board seeks comment on using different definitions of capital for the requirements for reserve asset and operational risks and non-reserve asset risks. What are the advantages and disadvantages of the proposed approach that uses tangible equity for reserve asset and operational risks and the multiple forms of capital under the banking organization capital rule (12 CFR 217.20) for non-reserve asset risks? As an alternative, the Board considered aligning the two definitions of capital by converting the capital requirements in the capital rule into units of tangible equity, such as by (i) applying a single risk-based capital requirement based on tangible equity that multiplies risk-weighted assets by either 6 percent or 8 percent and (ii) applying the same level of leverage ratio-related capital requirements to tangible equity instead of tier 1 capital. What are the advantages and disadvantages of such an approach? The Board also considered aligning the two definitions of capital by converting the capital requirements for reserve assets and operational risks into the same units used in the banking capital rule, such as by multiplying the capital requirements for reserve assets and operational risks by 12.5 to convert them into risk-weighted assets, adding them to the risk-weighted assets for non-reserve assets, and calculating capital requirements based on the total risk-weighted assets using the definitions of capital in the banking standard. What are the advantages and disadvantages of this approach?

[113] For the daily calculation of credit risk from eligible funds, a Board-supervised PPSI would be allowed to use the most recent data that is available for the eligible fund.

Question 166: The Board seeks comment on an alternative proposal that would recognize diversification across different types of risks when calculating Board-supervised PPSI capital requirements. This proposal would help ensure that the proposed capital requirements reflect that there is little, if any, correlation between the credit risk from holding uninsured eligible deposit claims and Board-supervised PPSI operational risks. It would recognize that capital is fungible, and that capital held to absorb losses from operational risks could also absorb losses from the failure of an insured depository institution holding reserve assets in the form of uninsured eligible deposit claims. Under this alternative proposal, the formula for Board-supervised PPSI capital requirements would be

$$PPSI\ Reqt = \sqrt{\rho\left(\sum_i Reqt\ for\ Risk\ i\right)^2 + (1-\rho)\sum_i (Reqt\ for\ Risk\ i)^2},$$

where ρ is a parameter that reflects the correlation between different types of risks. What would be the advantages and disadvantages of using this alternative formula with a ρ parameter of 0, which would assume zero correlation between different types of risks? What would be the advantages and disadvantages of using this alternative formula with a higher ρ parameter of 0.25, 0.5, or 0.75 to provide partial recognition of diversification?

A second alternative would be to multiply the proposed Board-supervised PPSI capital requirements by a multiplier to approximately reflect typical diversification benefits, so that the formula for Board-supervised PPSI capital requirements would be

$$PPSI\ Reqt = Diversification\ Multiplier \cdot \left(\sum_i Reqt\ for\ Risk\ i\right).$$

In this case, the diversification multiplier would be calibrated to reflect the diversification benefit that a Board-supervised PPSI would receive under the first alternative proposal. That is, it would be calibrated to be approximately

$$= \frac{\sqrt{\rho(\sum_i Example\ Reqt\ for\ Risk\ i)^2 + (1-\rho)\sum_i (Example\ Reqt\ for\ Risk\ i)^2}}{\sum_i Example\ Reqt\ for\ Risk\ i},$$

where Example Reqt for Risk i would reflect the capital requirement for risk i from an example Board-supervised PPSI portfolio meant to represent a typical Board-supervised PPSI and ρ would be a correlation parameter that would be 0, 0.25, 0.50, or 0.75. The Board expects that the diversification multiplier from this process would fall within the range of 0.7 to 1. What are the advantages and disadvantages of this second alternative? How does it compare to the first alternative?

Question 167: The Board seeks comment on the frequency of calculation of minimum capital requirements. What are the advantages and disadvantages of requiring a Board-supervised PPSI to calculate minimum capital requirements for reserve and non-reserve assets on a daily basis? What would be the advantages and disadvantages of an alternative approach requiring firms to use daily data (or quarterly, such as for the operational risk requirement) averaged over the quarter and only calculated once per quarter? What other frequencies of calculation (for example, monthly), if any, should the Board consider and why?

Question 168: The Board seeks comment on the proposed risk-based minimum capital requirements and their calibration. What alternative approaches, if any, to setting minimum capital requirements for Board-supervised PPSIs should the Board consider and why? For example, what are the advantages and disadvantages of an alternative approach allowing Board-supervised PPSIs to determine minimum capital requirements based on their internal processes and their own analysis of quantitative and qualitative factors including, but not limited to, their business model and risk profile, financial projections, fixed and variable expenses, the nature of fiduciary products and services being proposed, and discussions with organizers, like the OCC proposed in § 15.41(a)(2) of its GENIUS Act NPR?[114] *What are the costs and benefits of allowing such individualized determination of minimum capital requirements? If an alternative approach based on a Board-supervised PPSI internal processes was used, what would be the appropriate standard of loss coverage for such a requirement (for example, a percentile between 98 percent and 99.5 percent of the total projected losses over a one-year period) and why? Alternatively, what are the advantages and disadvantages of imposing a minimum capital requirement based on a set percentage of outstanding issuance value?*

Question 169: Section 4(a)(4)(A)(i) of the Act (12 U.S.C. 5903(a)(4)(A)(i)) provides that a Federal regulator could impose a capital buffer tailored to a PPSI's business model and risk profile if a regulator determines that a capital buffer would be necessary to ensure ongoing operations of the PPSI. The Board seeks comment on whether capital requirements for Board-supervised PPSIs should include a capital buffer in addition to risk-based capital requirements to preserve market confidence in the issuer's ability to remain a going concern following a severe stress event. Consistent with the capital buffers applicable to the Board-

[114] *See* 91 FR 10202 (March 2, 2026).

regulated banking organizations, this capital buffer would also be intended to be usable in stress. What would be advantages and disadvantages of imposing a variable capital buffer to Board-supervised PPSIs? What would be advantages and disadvantages of calibrating a capital buffer based on the Board-supervised PPSI's cost of operations for at least three months in the going-concern state, and why? What other calibration approaches and methodologies should the Board consider when determining a capital buffer, and why? Respondents are encouraged to provide specific examples, including calculations and supporting data.

Question 170: The Board seeks comment on whether to set capital requirements for Board-supervised PPSIs that would capture foreign exchange risk of their reserve assets, to the extent applicable. What are the advantages and disadvantages of setting a capital requirement to capture risks from foreign exchange rate fluctuations, such as those from eligible deposit claims or reverse repurchase agreements that are denominated in national currencies other than the U.S. dollar? What are the advantages and disadvantages of setting such a capital requirement based on the potential losses from exchange rate movements, such as reflecting the maximum potential loss from the greater of a 30-percent appreciation or 30-percent depreciation in the relevant other currency against the U.S. dollar?

Question 171: The Board seeks comment on the potential advantages and disadvantages of including an operational backstop to the final rule, like the OCC proposed in §§ 15.41(b) and 15.42 of its GENIUS Act NPR.[115] *An operational backstop would be a requirement to hold liquid assets that are sufficient to cover the past year's expenses (or a forward-looking estimate of annual expenses for new Board-supervised PPSIs). What are the advantages and disadvantages of imposing an operational backstop instead of, or in addition to, standardized capital requirements?*

c. De Novo Capital Requirement (Proposed §§ 247.15(b)(2); 247.15(e)(2))

Proposed § 247.15(b)(2) would impose an initial floor on minimum capital requirements that would apply during a ''de novo'' period of three years following the date on which a Board-supervised PPSI initially received approval from the Board or another relevant payment stablecoin regulator to issue payment stablecoins under the GENIUS Act.[116] During the three-year de novo period, a Board-supervised PPSI subject to this requirement would be required to calculate the total minimum capital requirement applicable to all Board-supervised PPSIs as discussed in section II.B.6.b of this **SUPPLEMENTARY INFORMATION** and would be subject to the higher of (i) the de novo capital requirement and (ii) the total minimum capital requirement.

The de novo capital requirement would establish a $5 million floor, indexed to nominal U.S. GDP, that would help ensure that a newly formed Board-supervised PPSI could continue operations in the face of unexpected losses without materially inhibiting the Board-supervised PPSI's growth. Furthermore, in its notice of proposed rulemaking implementing its responsibilities under the GENIUS Act, the OCC also proposed a minimum capital threshold of $5 million for newly formed OCC-supervised PPSIs based on its experience chartering de novo national trust banks, including those seeking to provide stablecoin programs.[117] The OCC determined that minimum capital amounts ranging from $6.05 million to $25 million would be necessary to establish a viable business model.[118] As such, the $5 million requirement reflects the lower bound of minimum capital a Board-supervised PPSI would be required to maintain while establishing a new stablecoin.

Under proposed § 247.15(e)(2), the Board could, in its discretion, extend the de novo period based, for example, on changes to the business model or activities of a Board-supervised PPSI, excessive volatility in issuance and redemptions of its payment stablecoin(s), unexpected operating losses, weak earnings, poor risk management, or violations of the GENIUS Act or its implementing rules with respect to capital requirements and proposed §§ 247.15–18. Similarly, the Board could, in its discretion, shorten the de novo period for a Board-supervised PPSI, such as for a firm that has a history of operating a payment stablecoin business prior becoming a Board-supervised PPSI. Moreover, the Board may increase or decrease the minimum capital requirement applicable to a Board-supervised PPSI during the de novo period, provided that the Board determines the revised amount is sufficient to ensure the ongoing operations of Board-supervised PPSI.

Question 172: The Board seeks comment on the proposed de novo period and the $5 million minimum capital requirement, which would be indexed to nominal U.S. GDP. Is the $5 million requirement appropriate, or should it be higher, lower, or calibrated differently? What are the advantages and disadvantages of requiring Board-supervised PPSIs to be subject to a capital requirement that would equal the higher of the de novo capital requirement and the risk-based total minimum capital requirement, and why? Is three years an appropriate ''de novo'' period?

d. Compliance With Capital Requirements (Proposed § 247.15(c))

Under proposed § 247.15(c), if a Board-supervised PPSI does not meet the minimum capital requirement under proposed § 247.15(b) as of the end of a quarter, it would be required to make efforts to satisfy capital requirements by the end of the following quarter. Specifically, within five business days of the end of such quarter, a Board-supervised PPSI would be required to submit a capital plan to the Board that provides a detailed strategy for restoring its capital levels to ensure that it meets or exceeds the minimum capital requirements under proposed § 247.15(b). This plan should outline the actions the Board-supervised PPSI would take to ensure it returns to compliance with the minimum capital requirements under proposed § 247.15(b) by the end of the following quarter. For example, to restore its minimum capital levels, the Board-supervised PPSI could raise additional tangible equity, reduce the size of the operations, or reduce its risk profile. Furthermore, in its capital plan the Board-supervised PPSI should specify the types and levels of activities it would project to engage in during the capital plan's term, which would generally be the period between the time the Board-supervised PPSI falls

[115] *See* 91 FR 10202 (March 2, 2026).

[116] In the case of a Board-supervised PPSI that originated as a subsidiary of a State member bank, the relevant approval would be from the Board. If a Board-supervised PPSI was initially licensed by another Federal or State regulator, but has become a Board-supervised PPSI (for example, because of a parent State member bank's charter conversion or a recent membership approval, or the transition provisions in proposed § 247.51), the de novo period would terminate three years after the Board-supervised PPSI originally received approval by its first Federal or State payment stablecoin regulator to become a PPSI under the GENIUS Act.

[117] *See* 91 FR 10202, 10240 (March, 2, 2026); *see also* OCC Bulletin 2007–21 (June 26, 2007). On April 7, 2026, the FDIC also proposed to implement certain provisions of the GENIUS Act, including the minimum capital threshold of $5 million for PPSIs during the de novo period. *See* 91 FR 18534 (April 10, 2026).

[118] *See* OCC News Release 2025–125, ''OCC Announces Conditional Approvals for Five National Trust Bank Charter Applications'' (December 12, 2025).

below its minimum capital requirements and the end of the following reporting period, provide a schedule for restoring its capital to meet minimum capital requirements, and address any other requirements imposed on the Board-supervised PPSI. The proposal would require that the capital plan provide a feasible approach to returning the Board-supervised PPSI to compliance within one quarter given general market conditions and the Board-supervised PPSI's specific circumstances.

If a Board-supervised PPSI fails to meet its capital requirements in proposed § 247.15(b) by the end of the following quarter, proposed § 247.15(c)(2) would require the Board-supervised PPSI to take certain actions starting the next day after the last day of such quarter. Specifically, the Board-supervised PPSI would be required to begin liquidation of all of its reserve assets, concluding liquidation of all reserve assets as soon as possible, and redemption of outstanding stablecoins consistent with the redemption requirements in proposed § 247.12 and without the ability to issue any new payment stablecoins. For example, if as of March 31, a Board-supervised PPSI's level of capital is below the minimum requirement, the Board-supervised PPSI would have until June 30 to come into compliance and restore its minimum level of capital. If by June 30 the Board-supervised PPSI does not meet the minimum capital requirement, it would be required to initiate the next day liquidation of its reserve assets and redemption of outstanding stablecoins. Furthermore, a Board-supervised PPSI would be prohibited from charging customers any fee for redeeming payment stablecoins during this liquidation and would be prohibited from issuing new payment stablecoins.

This proposed capital compliance framework seeks to afford a Board-supervised PPSI the opportunity to address any capital shortfall it experiences without creating undue risk for payment stablecoin holders. When a Board-supervised PPSI experiences a capital shortfall, its ability to absorb losses could be compromised, leading to a higher risk of insolvency and losses to payment stablecoin holders. To protect against such losses, the proposal would limit to one quarter the period during which a Board-supervised PPSI can remedy a capital deficiency.

Question 173: The Board seeks comment on the compliance requirements and consequences for a Board-supervised PPSI falling below its minimum capital requirement. What are the advantages and disadvantages of the proposed one-quarter grace period to restore minimum capital and why? What are the advantages and disadvantages of extending the grace period to two quarters and why? What additional, if any, compliance requirements should the Board consider to help ensure that a Board-supervised PPSI has sufficient resources to continue its operations? What are the advantages and disadvantages of implementing procedures like those OCC proposed in § 15.42 of its GENIUS Act NPR [119] *or those the FDIC proposed in § 350.10 of its GENIUS Act NPR?* [120]

e. Additional Capital Requirements—Request for Comment

The Board is seeking comment on whether to propose additional capital requirements. The Board considered requiring, but ultimately decided not to require, Board-supervised PPSIs to maintain certain amount of capital to absorb projected declines in the value of reserve assets because of potential changes in interest rates. Interest rate risk is the risk to an entity's current or projected financial condition and resilience arising from movements in interest rates. When interest rates change, the present value and timing of future cash flows also change. This in turn may affect the mark-to-market value of a Board-supervised PPSI's reserve assets, including Treasury securities. To address this risk, the Board considered requiring Board-supervised PPSIs to hold capital equal to projected losses in the fair value of reserve assets under a scenario in which interest rates increase by two percentage points.

The Board opted not to propose such a requirement, given that a PPSI's exposure to interest rate risk is generally minimal because of the GENIUS Act's strict restrictions on the types of permissible reserve assets. For example, U.S. Treasury securities with maturities of 93 days or less present very little price sensitivity to changes in interest rates. Nevertheless, the Board is seeking comment on whether an interest rate risk capital requirement is appropriate, and how such requirement should be calibrated.

Question 174: The Board seeks comment on whether to impose a capital requirement to address interest rate risk. The Board considered requiring Board-supervised PPSIs to hold capital equal to projected losses in the fair value of reserve assets under a scenario in which interest rates increase by two percentage points. What would be the advantages and disadvantages of such an approach? What other calibrations (for example, a calibration of the interest rate increase in the range of half a percent to three percent) should the Board consider and why? What would be the advantages and disadvantages of requiring Board-supervised PPSIs to multiply the duration or weighted average maturity of their portfolio by the presumed increase in aggregate interest rates for the portfolio or prescribing interest rate-related losses for reserve assets that belong to particular maturity buckets? What other, if any, risks should the Board consider (for example, when a counterparty provides collateral with maturity longer than three months for reverse repurchase transactions)?

Question 175: The Board seeks comment on the capitalization of interest rate risk for non-reserve assets. In certain cases, the bank capital framework does not provide requirements that capture interest rate risk. What would be the advantages and disadvantages of including a capital surcharge to capture interest rate risk for non-reserve assets? What calibration of the interest rate risk requirement should the Board consider and why?

7. Indexing of Thresholds by Nominal GDP Growth

The proposal would use certain thresholds to differentiate requirements based on a Board-supervised PPSI's size, risk profile, and complexity as well as on the characteristics of the exposures. However, static dollar-based thresholds can lead to unintended consequences if threshold levels are not periodically updated or indexed. For example, Board-supervised PPSI requirements that do not adjust may effectively become stricter over time.

Accordingly, the proposal would require an annual adjustment of certain dollar-calibrated thresholds based on a three-year moving average of annual nominal U.S. GDP growth.[121] To mitigate the potential procyclical effect over short timeframes, the annual mechanism would use a three-year moving average of annual nominal U.S. GDP growth, which would reduce volatility and improve the predictability of adjustments.[122]

[119] *See* 91 FR 10202 (March 2, 2026).

[120] *See* 91 FR 18534 (April 10, 2026).

[121] The proposed annual indexing to the nominal U.S. GDP growth is equivalent to adjusting the proposal's dollar thresholds for the annual real U.S. GDP growth plus annual changes in the cumulative U.S. GDP implicit price deflator.

[122] Because this approach would be based on cumulative change in average nominal U.S. GDP following the effective date of a final rule, it would also account for periods of negative growth. However, adjustments to the thresholds would only

To ensure an accurate and predictable measure, the Board would generally use the most current estimate of nominal U.S. GDP for a given calendar year published by the Bureau of Economic Analysis on or before September 30 of the year of the publication of the scalar.[123] The Board would calculate the value for the GDP growth adjustment scalar as a ratio of the average nominal U.S. GDP estimates for the three calendar years directly preceding the year in which the scalar is published, divided by the average nominal U.S. GDP for the three most recent calendar years preceding the effective date of any final rule for which estimates are available. For example, if the Board were to adopt a final rule with an effective date of 2027, the Board would calculate the GDP growth adjustment scalar in 2028 by dividing the average nominal U.S. GDP in calendar years 2025, 2026, and 2027 by the average nominal U.S. GDP in calendar years 2024, 2025, and 2026.[124]

The Board would calculate and publish a GDP growth adjustment scalar, along with updated dollar-based thresholds, each year.[125] Each calendar year, a Board-supervised PPSI would calculate the regulatory dollar thresholds in proposed 12 CFR part 247, which would then be multiplied by the GDP growth adjustment scalar, using the updated GDP growth adjustment scalar published by the Board.

Indexing dollar-based thresholds in this manner would provide a simple methodology to help ensure that the proposed requirements listed below reflect changes in the Board-supervised PPSIs risk profile relative to the size of the U.S. economy.

The proposal would index the following thresholds: (i) the thresholds of (a) less than $1 billion in outstanding issuance value and (b) less than $25 billion in total monthly trading volume for extended exam cycles in proposed § 247.14(d)(3); (ii) the $5 million minimum capital requirement during the ''de novo'' period of a Board-supervised PPSI under proposed 247.15(b)(2); (iii) the $20 billion and $50 billion outstanding issuance value thresholds used to determine the baseline operational risk requirement under proposed § 247.18(b)(1); and (iv) the $20,000 of historical operational losses as part of the data collection requirement under proposed § 247.18(c)(1)(i)(A).

Question 176: The proposal would include an annual adjustment of certain dollar-calibrated thresholds based on a three-year moving average of annual nominal U.S. GDP growth. What are the advantages and disadvantages of using nominal U.S. GDP as the basis to annually adjust the thresholds? What are the advantages of disadvantages of using a three-year moving average as part of the measurement?

Question 177: The Board seeks comment on all aspects of the proposed approach for adjusting thresholds. What alternative measures for adjusting such thresholds should the Board consider? For example, what are the advantages and disadvantages of an alternative approach that would adjust the thresholds based on inflation? The U.S. Bureau of Labor Statistics publishes different versions of the consumer price index, which capture price changes in different economic segments. What measure of consumer price index should the Board consider, and why?

C. Subpart C—Rules Applicable to Board-Supervised Custodians

Section 10 of the GENIUS Act (12 U.S.C. 5909) imposes requirements on any person seeking to provide ''custodial or safekeeping services for payment stablecoin reserves, the payment stablecoins used as collateral, or the private keys used to issue payment stablecoins.'' Among other things, section 10 of the Act requires such persons to be subject to supervision or regulation by a Federal or State supervisor, to treat covered assets as customer property, to separately account for and not commingle covered assets unless permitted under a listed exception, and to provide their supervisor with certain regulatory information as determined by that supervisor.

The proposal would (i) establish relevant defined terms for purposes of subpart C to clarify the scope of custodial services to which subpart C would apply; (ii) set minimum principles-based requirements for Board-supervised institutions related to their provision of custodial or safekeeping services to the assets described in section 10(b) of the GENIUS Act (12 U.S.C. 5909(b)) that are appropriate to protect such assets held under custody from the claims of creditors of the covered custodian; and (iii) implement other requirements and exclusions of the Act.

1. Definitions (Proposed § 247.20)

The Board is proposing to define the assets for which the provision of custodial or safekeeping services trigger the requirements of the Act as ''covered assets.'' This term would include the assets described in section 10(a) of the GENIUS Act (12 U.S.C. 5909(a)) that comprise the payment stablecoin reserves (discussed above), any payment stablecoin used as collateral, and the private keys used to issue payment stablecoins.[126]

The Board is also proposing to include in the definition of covered assets any cash or other property of a covered customer received by the covered custodian (defined and discussed below) in the course of provision of custodial or safekeeping services contemplated under the GENIUS Act. Sections 10(b) and (c) of the GENIUS Act (12 U.S.C. 5909(b) and (c)) each apply the Act's custodial requirements not only to the custody of payment stablecoin reserves, payment stablecoins used as collateral, and the private keys used to issue payment stablecoins but also to ''cash[ ] and other property'' of a covered customer of one of those assets.

''[C]ash'' and ''other property,'' as used in sections 10(b) and (c) of the GENIUS Act (12 U.S.C. 5909(b) and (c)), appear to refer to cash and other property that a covered custodian may receive as custodial property of a covered customer, but only to the extent such cash or other property is received in connection with the provision of custodial services for payment stablecoin reserves, payment stablecoins used as collateral, and the private keys used to issue payment stablecoins. For example, any interest on payment stablecoin reserve assets held in custody in a deposit account and credited to a covered customer's (*e.g.,* a PPSI) account would be the type of cash and other property subject to the custody requirements of the Act.

Thus, under the proposed rule, ''covered assets'' would mean payment stablecoin reserves, payment stablecoins used as collateral, and private keys used to issue payment stablecoins, as well as cash and other property received in the course of the provision of custodial or safekeeping services for such assets.

occur when there is a positive net cumulative change.

[123] *See* Bureau of Economic Analysis, Gross Domestic Product, *https://www.bea.gov/data/gdp/gross-domestic-product.* The Board may elect to use a comparable value in instances such as where a nominal U.S. GDP growth estimate from the Bureau of Economic Analysis is unavailable.

[124] The proposal includes a definition of the GDP growth adjustment, which sets forth the way in which the adjustment would be calculated each year.

[125] The Board expects that it would publish the adjustment annually on the Board's public website and in the **Federal Register**.

[126] Section 10(a) of the GENIUS Act (12 U.S.C. 5909(a)) refers only to ''the private keys used to issue payment stablecoins.'' Thus, private keys associated with other activities are not within the scope of ''covered assets'' for purposes of Subpart C of the Board's implementing regulations.

Separately, the Board is proposing to define the entities to which the proposed custody requirements would apply as ''covered custodians.'' This term would mean any entity that (i) provides custodial or safekeeping services for covered assets, (ii) is subject to supervision or regulation by the Board, and (iii) is not (a) a PPSI (as defined in proposed § 247.2), bank, savings association, Federal branch, or insured branch (as those terms are defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)) that is subject to supervision by the FDIC or OCC; (b) an entity, other than a federally regulated depository institution, subject to supervision by a State bank supervisor, as defined in section 3(r) of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)), provided that such State bank supervisor makes available to the Board such information as the Board determines necessary and relevant under section 10(d) of the Act (12 U.S.C. 5909(d)); or (c) an entity for which the SEC or CFTC is the primary financial regulatory agency as described in section 2(12) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5301(12)).

Covered custodians under this section would generally include (i) a State member bank; (ii) a Board-supervised PPSI; (iii) a bank holding company (as defined in section 2(a) of the BHC Act (12 U.S.C. 1841(a)); (iv) a savings and loan holding company (as defined in section 10(a)(1) of HOLA (12 U.S.C. 1467a(a)(1)); (v) a subsidiary of a bank holding company or a savings and loan holding company that is not (a) a national bank or depository institution subject to supervision by the OCC or FDIC; (b) a PPSI subject to supervision by another primary Federal payment stablecoin regulator, (c) an entity subject to functional regulation by the SEC or CFTC, or (d) an entity, other than a State member bank, subject to supervision by a State bank supervisor, as defined in section 3(r) of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)), provided that such State bank supervisor makes available to the Board such information as the Board determines necessary and relevant under section 10(d) of the Act (12 U.S.C. 5905(d)); (vi) the U.S. operations of foreign banking organizations subject to the supervision or regulation of the Board pursuant to the International Banking Act of 1978 (12 U.S.C. 3101 *et seq.*); and (vii) any corporation organized under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*) or having an agreement with the Board under section 25 of the Federal Reserve Act (12 U.S.C. 601 *et seq.*) (*i.e.,* Edge Act and Agreement corporations).

The Board is proposing to define the custodial customers to which the GENIUS Act's protections apply as ''covered customers.'' This term would mean a person for or on whose behalf a covered custodian receives, acquires, or holds covered assets. Covered customers under this section would generally include (i) a PPSI with respect to any reserve assets held by a covered custodian for the PPSI; (ii) a person that has made a loan or other extension of credit secured by payment stablecoins; and (iii) a PPSI with respect to any private keys used to issue payment stablecoins that are held by a covered custodian for such PPSI.

The Board is also proposing to define certain other concepts relative to covered asset custodial activities. The proposal would define ''applicable law'' for purposes of subpart C as the law of a State or other jurisdiction governing a covered custodian's custody relationships, any applicable Federal law governing those relationships, the terms of the custody agreement, and any applicable court order. The proposal would define ''custody agreement'' as a legally binding contractual agreement between a covered customer, as the principal, and the custodian, as the agent, that establishes the custodian's duties and responsibilities in providing safekeeping, custody and ancillary services to the covered customer. The proposal would define ''digital wallet'' as a software program or hardware device that stores and manages the private keys associated with a particular unit of a digital asset. The proposal would define ''sub-custodian'' as a person that provides custody and safekeeping services to a covered custodian, including through a digital wallet for which such person controls the associated private keys, with respect to the covered assets of a covered customer for which the covered custodian otherwise serves as a custodian under this subpart.[127]

Question 178: Are the proposed definitions for terms relevant to this section appropriate and sufficiently clear? For example, does the definition of ''covered custodian'' appropriately scope in all of the entities that should be subject to proposed subpart C and for which the Board acts as the primary supervisor or regulator? Would it be helpful to define any other terms? [similar to OCC question 149]

Question 179: The Board has interpreted ''cash and other property'' to refer to the cash and other property that a covered custodian may receive as custodial property of covered customers, but only to the extent such cash or other property is received in connection with the provision of custodial services for the Act's three core custody assets. Is this the appropriate approach? Should the Board take a broader view of what constitutes ''cash and other property''? What are the costs and benefits of such an approach? Does the proposal appropriately address the different requirements for noncash covered assets? [similar to OCC question 150]

Question 180: The Board is proposing to define covered assets in such a way that the requirements of sections 10(a)–(c) of the Act (12 U.S.C. 5909(a)–(c)) would apply to all covered assets and is proposing to apply the substantive requirements of those sections as a connected set of requirements. However, sections 10(a)–(c) of the Act use slightly different wording when describing the assets to which each subsection applies and some of the substantive requirements that apply.[128] *The Board believes that the provisions should be read together to cover the same set of assets and to provide a cogent and harmonized set of requirements for covered custodians.*[129] *Instead of the proposed approach, should the Board use the precise statutory language regarding the scope of assets covered separately in paragraphs (a), (b), and (c)? What are the advantages or disadvantages of doing so? [similar to OCC question 151]*

Question 181: Sections 10(b) and (c) of the GENIUS Act (12 U.S.C. 5909(b) and (c)) refer to ''payment stablecoins'' and not to ''payment stablecoins used as collateral,'' which is the phrasing in section 10(a) of the Act (12 U.S.C. 5909(a)). The Board is proposing to interpret the reference to ''payment stablecoins'' in these sections in light of section 10(a) of the Act, thereby understanding sections 10(b) and (c) to refer only to payment stablecoins that are used as collateral. Should the Board

[127] A sub-custodian would be subject to the requirements applicable to a custodian under the GENIUS Act, including the requirements under section 10 of the Act (12 U.S.C. 5909).

[128] For example, section 10(a) of the Act refers to ''the payment stablecoin reserve, the payment stablecoins used as collateral, or the private keys.'' 12 U.S.C. 5909(a). Section 10(b) refers to ''the payment stablecoins, private keys, cash, and other property.'' 12 U.S.C. 5909(b). Section 10(c) refers to ''[p]ayment stablecoin reserves, payment stablecoins, cash, and other property.'' 12 U.S.C. 5909(c).

[129] For example, section 10(b) of the Act refers to property described in section 10(a), suggesting that the provisions are meant to be read together to cover the same set of assets.

instead consider applying the custodial provisions in subpart C to all ''payment stablecoins'' held in custody by covered custodians? What would be the advantages and disadvantages of such an approach?

Question 182: Proposed subpart C would implement section 10 of the GENIUS Act (12 U.S.C. 5909) with respect to entities that are regulated by the Board. Are there issues that the Board should bear in mind if a Board-regulated entity holds reserve assets on behalf of a stablecoin issuer that is not regulated by the Board and may not be familiar with the Board's implementation of section 10 of the GENIUS Act? [similar to OCC question 152]

Question 183: Section 10(c)(3) of the GENIUS Act (12 U.S.C. 5909(c)(3)) states that the claims of covered customers against a covered custodian with regards to any payment stablecoins used as collateral shall have priority over other claims. The section also allows covered customers to expressly waive this priority. Is the regulatory framework under the proposed rule consistent with this statement? What market practices do commenters believe are likely to arise regarding the use of the contractual provisions that waive a covered customer's priority regarding payment stablecoins used as collateral that are held in custody? To what extent should the Board consider either providing guidance on the use of such contractual provisions or requiring covered custodians to use such contractual provisions in their custody agreements? How are customer waivers in relation to covered custodians likely to impact the resolution of PPSIs? For example, would they lead to additional complications in determining the priority of claims? [similar to OCC question 160]

Question 184: Does the proposed approach regarding custody of covered assets proposed in subpart C, or any alternative approach discussed in comments or suggested by commenters, pose any concerns regarding fair competition between covered custodians and entities that are otherwise permissible custodians under section 10(a) of the GENIUS Act (12 U.S.C. 5909(a)) but which are not supervised by the Board? [similar to OCC question 166]

2. Covered Asset Custodial Property Requirements (Proposed § 247.21)

Section 10(b) of the GENIUS Act (12 U.S.C. 5909(b)) requires covered custodians to ''treat and deal with'' the covered assets of a covered customer ''as belonging to such customer,'' and to ''take such steps as are appropriate to protect'' covered assets from the claims of the covered custodian's creditors. Proposed § 247.21 would implement these provisions through minimum, principles-based requirements. In considering minimum, principles-based requirements, the Board is proposing to require covered custodians to take such steps that the Board would typically expect a supervised institution to take as part of sound custodial practices necessary to protect assets under custody from claims of the custodian's creditors.[130] The Board intends these principles-based, minimum requirements to be in line with sound custodial management practices that the agency understands are industry standard. In addition, State laws concerning fiduciary activities apply to covered custodians.

Under proposed § 247.21(a), a covered custodian must separately account for the covered assets of each covered customer and must treat and deal with those covered assets as belonging to such covered customer and not as the property of the covered custodian. This can potentially be enabled through comprehensive and accurate recordkeeping, accounting practices that segregate physically or by separate accounts property belonging to a covered customer from property belonging to the custodian, and formal legal arrangements (*e.g.,* trust or nonfiduciary custody) that segregate customer property in this manner. Under proposed § 247.21(b)(1), a covered custodian must take appropriate steps to protect the covered assets of covered customers from the claims of creditors of the covered custodian and any sub-custodian, as applicable, including through adopting, implementing, and maintaining written policies, procedures, and internal controls that are adequate to comply with applicable law and that are commensurate with the covered custodian's size, complexity, and risk profile and with the nature of the applicable covered assets for which it provides custodial or safekeeping services.

Proposed § 247.21(b)(2)(i) would require that a covered custodian maintain possession or control of covered assets of a covered customer that are held directly, including in a digital wallet for which the covered custodian controls the associated private keys. Under the proposal, a covered custodian may maintain the covered assets of a covered customer through the use of a sub-custodian if consistent with applicable law, provided the covered custodian maintains adequate safeguards and internal controls reasonably designed to provide the covered custodian with oversight of such sub-custodian's compliance with the requirements of this proposed subpart C. Under proposed § 247.21(b)(2)(ii), with regards to any payment stablecoin or payment stablecoin reserve asset in the form of a tokenized asset held in safekeeping under proposed subpart C, a covered custodian, or sub-custodian, as applicable, maintains control for purposes of the proposed requirement if it can reasonably demonstrate, consistent with the standard of care established by applicable law, that no other party, including the covered customer, can transfer the payment stablecoin or tokenized asset using a distributed ledger without the consent of the custodian or sub-custodian, as applicable. This requirement is consistent with past interagency guidance on the control of crypto-assets for purposes of safekeeping.[131]

The Board proposes codifying in proposed § 247.21(c) the exception in section 10(c)(2)(B) of the GENIUS Act (12 U.S.C. 5909(c)(2)(B)) to the customer property requirements described in section 10(b) of the Act (12 U.S.C. 5909(b)) and the requirements of the commingling prohibition described in section 10(c)(1) of the Act (12 U.S.C. 5909(c)(1)).[132] This exception permits, to the extent the application of section 10(c)(2)(B) of the Act conflicts with the

[130] To the extent that a covered custodian, as an accommodation to a covered customer, documents in an account statement or other similar document any additional assets of that customer for which the covered custodian does not provide custodial or safekeeping services, including through use of a sub-custodian of the covered custodian (commonly referred to as ''accommodation assets'' or ''below the line assets''), the Board would not expect such assets to be subject to the requirements of subpart C.

[131] *See* Board of Governors of the Federal Reserve System, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, ''Agencies Issue Joint Statement on Risk-Management Considerations For Crypto-Asset Safekeeping.''

[132] Section 10(c)(2)(B) of the Act, codified in proposed § 247.21(c), provides an exception to both the customer property requirement, which would be codified in proposed § 247.21, and the segregation of assets requirement, which would be codified in proposed § 247.22(a). However, this exception applies only to the extent that the application of proposed § 247.21(c) conflicts with the requirements of proposed §§ 247.21 and 247.22(a). As such, while a covered custodian may, for example, commingle covered assets of a covered customer with funds belonging to the custodian in order to effect transactions related to the provision of certain services, the custodian must nevertheless adhere to any accurate recordkeeping practices necessary to comply with the principles-based requirements under proposed §§ 247.21 and 247.22(a).

requirements of sections 10(b) and (c)(1) of the Act, a covered custodian to withdraw and apply such share of the covered assets of a covered customer necessary to ''transfer, adjust, or settle a transaction or transfer of assets'' applicable to that covered customer, ''including the payment of commissions, taxes, storage, and other charges lawfully accruing in connection with the provision of services'' to that covered customer by the covered custodian. The Board proposes to specify that any such withdrawal must be consistent with any applicable law. For example, the Board would expect any such withdrawal to be undertaken only in compliance with the terms of a covered customer's written custodial agreement and in accordance with any accurate recordkeeping practices necessary to comply with sections 10(b) and (c)(1) of the Act and their implementing regulations. The Board would also expect that any such withdrawal of funds from an omnibus account would be properly recorded as to not implicate the custodial assets of any other covered customer.

Finally, proposed § 247.21(d) would clarify, consistent with section 10(c)(2)(D) of the GENIUS Act (12 U.S.C. 5909(c)(2)(D)), that an insured depository institution that is a covered custodian is not required to separate or segregate from its own property any payment stablecoin reserves in the form of cash received from a PPSI in exchange for eligible deposit claims against the insured depository institution. Such holdings may be reflected as deposit liabilities of the insured depository institution, provided such treatment is consistent with Federal law.[133] For the avoidance of doubt, the Board does not view receiving payment stablecoin reserves in the form of cash on deposit and reflecting such holdings as deposit liabilities as creating a custody relationship between a PPSI and an insured depository institution. Therefore, an insured depository institution is a covered custodian only to the extent that such insured depository institution provides custodial or safekeeping services for other covered assets. Further, the Board does not view this exception as permitting payment stablecoin reserves to be held as secured deposits insulated from the credit risk of the relevant depository institution.

Question 185: The Board is proposing applying these principles-based requirements to covered custodians subject to Board supervision, rather than requiring Board-supervised PPSIs that seek to custody a covered asset to only custody such assets with a custodian that can demonstrate it complies with certain minimum requirements. What are the costs and benefits of this approach, including with regards to administrability, jurisdiction, and the promotion of fair competition? [similar to OCC question 153]

Question 186: The Board proposes principles-based requirements in line with sound custodial management practices that the agency understands are industry standard. Does the proposal accurately capture sound custodial management practices that are industry standard? [similar to OCC question 154]

Question 187: Does the proposal provide enough detail regarding what steps are appropriate for a covered custodian to protect the covered assets of covered customers from the claims of creditors of the covered custodian? Would more prescriptive or specific requirements be appropriate to implement the requirements of the Act? For example, should the Board require a covered custodian to take appropriate steps to protect the covered assets of covered customers from the claims of creditors of the covered custodian, including through adopting, implementing, and maintaining written policies, procedures, and internal controls adequate for (i) the safekeeping of covered assets of covered customers; (ii) the documentation of covered customer relationships through one or more written custody agreements; (iii) recording and verifying the covered assets of covered customers; and (iv) the conducting of due diligence in the selection of and periodic monitoring of sub-custodians, in each case commensurate with the covered custodian's size, complexity, and risk profile and with the nature of the applicable covered assets in its covered customer relationships? What are the costs and benefits of prescriptive versus a principles-based approach? How would either approach compare or contrast with the non-covered asset custodial business of covered custodians and what efficiencies or challenges might arise from each approach? [similar to OCC question 155]

Question 188: Is it sufficiently clear in a custodial relationship when and for what assets the minimum, principles-based requirements of subpart C would apply? For example, are there circumstances where a custodian may be unaware that stablecoin assets held in an account are being used as collateral and potentially subject to the requirements of subpart C? Does the Board appropriately explain why, under the proposal, the exception for cash held in the form of deposit liabilities applies only to insured State member banks? [similar to OCC question 156]

Question 189: The proposed rule describes how a custodian maintains control of a stablecoin or tokenized stablecoin reserve assets. Is this description appropriately calibrated? Are there other means by which a custodian should be deemed to have demonstrated control over these types of assets? [similar to OCC question 157]

Question 190: Regarding the proposed rule governing the withdrawal of custodial covered assets to pay certain commissions, taxes, storage, and other charges, should the Board require any more prescriptive customer protection requirements, such as those designed to ensure that such withdrawals do not cause any reserve to fall below any minimum coverage of a payment stablecoin? What are the costs and benefits of these or any similar approach? For example, in order to implement an effective compliance system, would such a requirement impose undue burdens on a custodian from withdrawing any permitted funds from a custodial account that contains payment stablecoin reserves? [similar to OCC question 159]

3. Segregation Requirement and Use of Omnibus Accounts (Proposed § 247.22)

Proposed § 247.22(a) would implement the GENIUS Act's requirement in section 10(c)(1) of the Act (12 U.S.C. 5909(c)(1)) that a covered custodian segregate all covered assets of covered customers and not commingle them with the assets of the covered custodian. As discussed above, the proposal clarifies that this requirement does not apply in the case of an insured depository institution that is a covered custodian that receives from a PPSI

[133] Section 10(c)(2)(A) of the GENIUS Act (12 U.S.C. 5909(c)(2)(A)) provides that payment stablecoin reserves in the form of cash represented as deposit liabilities of a depository institution need not be separated from the property of the applicable depository institution. Section 10(c)(2)(D) of the Act (12 U.S.C. 5909(c)(2)(D)) provides a similar exception with respect to insured depository institutions. Both statutory exceptions to the requirements of sections 10(b) and (c)(1) of the Act (12 U.S.C. 5909(b) and (c)(1)) appear to acknowledge that payment stablecoin reserves in the form of cash deposited at a depository institution would be liabilities of the depository institution and could not be mixed or ''commingled'' with the property or assets of such depository institution. However, a PPSI's reserves in the form of deposits can only be held at insured depository institutions pursuant to section 4(a)(1)(A)(ii) of the Act (12 U.S.C. 5903(a)(1)(A)(ii)). Therefore, the Board believes it is appropriate to limit the exception for cash held as deposit liabilities to insured State member banks, which are the only insured covered custodians under the proposed rule.

payment stablecoin reserves in the form of cash in exchange for eligible deposit claims against the insured depository institution, to the extent the insured depository institution reflects such holdings as deposit liabilities and provided such treatment is consistent with Federal law.

Under section 10(c)(2)(C) of the Act (12 U.S.C. 5909(c)(2)(C)), any primary Federal stablecoin regulator may prescribe terms and conditions by which covered assets may be commingled with other property, provided the covered assets are separately accounted for, treated as, and dealt with as belonging to the covered customer (including a PPSI customer). Proposed § 247.22(b) sets the terms by which covered custodians may use omnibus accounts consistent with the GENIUS Act's requirements to separately account for, treat as, and deal with covered assets under custody as belonging to multiple covered customers. The Board is proposing to allow any covered custodian to commingle the covered assets of multiple covered customers in one or more omnibus accounts, to the extent that the steps it has taken pursuant to proposed § 247.21(b) are adequate to maintain safe and sound practices for the use of omnibus accounts, and to the extent that the use of omnibus accounts is consistent with applicable law.[134]

Question 191: Are there additional considerations the Board should take into account regarding a covered custodian's use of an omnibus account? For example, should the Board consider a high-level principles-based approach to apply generally to a covered custodian's provision of custodial or safekeeping services to covered customers for covered assets while utilizing a more detailed regulatory framework regarding a covered custodian's use of omnibus accounts? Alternatively, to what extent should the Board consider proposing that a covered custodian may, for convenience, commingle in a single omnibus account both covered assets and other custodial assets that are not covered assets? What efficiencies and challenges would such an approach raise? Are there additional risk considerations the Board should consider if it takes such an approach? For example, to what extent should the Board consider prescribing additional recordkeeping, customer account, disclosure, or other terms or conditions as a precondition to a covered custodian commingling covered assets and non-covered assets? [similar to OCC question 158]

*Question 192: Are there particular circumstances for which the Board should provide additional clarification as to the application of subpart C or the applicability of any exception (*e.g.*, regarding payment stablecoins locked in a smart contract for purposes of ''wrapping'' the payment stablecoin for use on an unsupported blockchain)? [similar to OCC question 162]*

Question 193: In order to ensure that a PPSI is able to meet redemptions on a timely basis, should the Board require that any custody agreement a covered custodian enters into with a PPSI provide for prompt release of any covered assets held in custody to the covered customer's control? For example, should a custody agreement require that a covered custodian have the ability to transfer control of covered assets comprising payment stablecoin reserves, or execute and settle at the covered customer's direction any such assets, within a specific timeframe? What are the costs and benefits of any such approach? [similar to OCC question 163]

4. Reporting

The Board is considering whether to implement any additional reporting requirements in subpart C pursuant to section 10(d) of the GENIUS Act (12 U.S.C. 5909(d)), which requires that a covered custodian submit to the Board certain information ''in such form and manner as [the Board] shall determine.'' Furthermore, section 10(a)(1)(B) of the GENIUS Act (12 U.S.C. 5909(a)(1)(B)) requires State bank supervisors, as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813), to make available to the Board such information as the Board determines to be necessary and relevant under section 10(d) of the Act (12 U.S.C. 5909(d)).

For covered custodians that are State member banks, the Board proposes to seek to rely on the reporting these banks already provide on their custodial businesses pursuant to line items and schedules relating to fiduciary and custody services on the appropriate Schedule RC–T of the Consolidated Report of Condition and Income (Call Report).[135]

For covered custodians that are bank holding companies or savings and loan holding companies that have total consolidated assets of $100 billion or more or that have been designated as global systematically important banking organizations (GSIBs), the Board proposes to rely on the reporting these entities already provide on their custodial businesses pursuant to Schedule C, item 3 of Reporting Form FR Y–15 (Systemic Risk Report).

For covered custodians that are the U.S. operations of foreign banking organizations subject to the supervision or regulation of the Board pursuant to the International Banking Act of 1978 (12 U.S.C. 3101 *et seq.*), the Board proposes to rely on the reporting many of these entities already provide on their custodial businesses pursuant to Schedule J, item 3 of Reporting Form FR Y–15 [136] or Schedule T of Reporting Form FFIEC 002 (Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks).

For covered custodians that are State-qualified PPSIs with an outstanding issuance value of more than $10 billion and have transitioned to the Federal regulatory framework administered in coordination with the Board, the Board proposes to rely on the Board-supervised PPSI's quarterly report on financial condition discussed in proposed § 247.14(i).[137] The Board continues to consider reporting requirements for other covered custodians, and seeks comment on the most efficient and effective way to collect such information concerning a covered custodian's business operations as well as their processes to protect customer assets.

Nonetheless, requiring covered custodian-specific reporting outside of the context of these reports may be appropriate. For example, Schedule RC–T of the Call Report does not provide a breakdown of the specific assets under custody and may not provide sufficient insight necessary to effectively supervise the unique risks related to the custody of covered assets. As such, the Board is considering requiring covered custodians to report on a separate form maintained by the Board the following information: (1) total covered assets under custody, and (2) total payment

[134] This provision is also consistent with section 10(c)(2)(A) of the Act (12 U.S.C. 5909(c)(2)(A)).

[135] The Board believes that reporting the private key used to issue a payment stablecoin held in custody at a $1.00 book value would be consistent with the Call Report Schedule RC–T instructions, unless the methodology for determining fair value is otherwise set by applicable law. *See, e.g.,* OCC, Letter from Kerri Corn, Director for Credit and Market Risk (June 20, 2007), *https://www.occ.treas.gov/topics/supervision-and-examination/capital-markets/asset-management/corporate-trust/memo-misc-schedule-rc-t.pdf* (letter to the American Bankers Association regarding owner trustee fiduciary accounts reported on Schedule RC–T).

[136] Reporting Form FR Y–15 applies only to foreign banking organizations with combined U.S. assets of $100 billion or more.

[137] As noted above, section 10(d) of the GENIUS Act (12 U.S.C. 5909(d)) provides an additional statutory grant of authority for this reporting requirement.

stablecoin reserves under custody. For payment stablecoin reserves under custody, the Board is further considering requiring covered custodians to report the following: (a) total payment stablecoin reserves under custody for (i) an affiliate and (ii) third parties; (b) total payment stablecoin reserves held in a deposit account at (i) the covered custodian and (ii) a third-party depository institution; (c) total payment stablecoin reserves held in a deposit account that are not covered by FDIC insurance at (i) the covered custodian and (ii) a third party depository institution; and (d) total payment stablecoin reserves held in each of the categories listed in section 4(a)(1)(A)(i)–(viii) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)(i)–(viii)).

Question 194: To what extent are Schedule RC–T of the Call Report, in the case of State member banks; Schedule C of Reporting Form FR Y–15, in the case of applicable bank holding companies, savings and loan holding companies, and GSIBs; Schedule J of Reporting Form FR Y–15 and Schedule T of Reporting Forms FFIEC 002 and FFIEC 002S, in the case of the U.S. operations of foreign banking organizations subject to the supervision or regulation of the Board pursuant to the International Banking Act of 1978 (12 U.S.C. 3101 et seq.*); and the portions of the reports required under proposed § 247.14 relevant to custodial activities, in the case of State-qualified PPSIs that are subject to the Board's oversight pursuant to proposed § 247.51, appropriate to ensure that the Board possesses the information necessary to supervise covered custodians? If other forms of reporting would be helpful, what are they? If other types of information would be helpful, what are they? What are the costs and benefits of more detailed reporting requirements? [similar to OCC question 164]*

5. Self-Custody Hardware and Software Exclusion (Proposed § 247.23)

The proposal implements section 10(e) of the GENIUS Act (12 U.S.C. 5909(e)), which provides that the requirements of section 10 of the Act (12 U.S.C. 5909) do not apply to any person "solely on the basis that such person engages in the business of providing hardware or software to facilitate a customer's own custody or safekeeping of the customer's payment stablecoins or private keys." In proposed § 247.23, the Board proposes to clarify that the requirements of this proposed subpart C do not apply to any covered custodian solely on the basis that such entity engages in the business of providing hardware or software to facilitate a person's or entity's self-custody of their payment stablecoins or private keys. The requirements could nonetheless apply if, for example, an entity controls or holds itself out as controlling such payment stablecoins or private keys, or provides, or holds itself out as providing safekeeping or custodial services, including services that are ancillary or incidental to its custodial powers, for such payment stablecoins or private keys.

*Question 195: Section 10(e) of the GENIUS Act (12 U.S.C. 5909(e)) provides an exclusion from the custodial requirements to any person solely on the basis that such person engages in the business of providing hardware or software to facilitate a customer's own custody or safekeeping of the customer's payment stablecoins or private keys. The Board proposes to clarify that it would not consider certain activities to constitute "solely" providing hardware or software to facilitate custody or safekeeping of payment stablecoins or private keys. Should the Board consider implementing any other language to prevent the exception from being used to evade the custodial requirements of the Act? Alternatively, could a Board-supervised institution provide ancillary custodial services to a user of such hardware or software (*e.g.*, facilitating the customer's digital asset and fiat currency exchange transactions, transaction settlement, trade execution, recordkeeping, valuation, tax services, reporting, or other appropriate services) while avoiding the minimum, principles-based requirements of the proposal? [similar to OCC question 161]*

D. Subpart E—Rules Applicable To All Permitted Payment Stablecoin Issuers

Section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)) prohibits any PPSI from providing services to a customer on the condition that the customer (i) "obtain an additional paid product or service from the [PPSI], or any of its subsidiaries" (often referred to as tying arrangements), or (ii) "agree to not obtain an additional product or service from a competitor" of the PPSI or any of its subsidiaries (often referred to as exclusive dealing arrangements) (together, the "Tying Prohibition").[138] In addition, the Stablecoin Certification Review Committee must find that a company seeking approval under section 4(a)(12) of the GENIUS Act (12 U.S.C. 5903(a)(12)) and the affiliates of such company will comply with the Tying Prohibition in order to approve such request. Sections 4(a)(8) and 4(h) of the GENIUS Act (12 U.S.C. 5903(a)(8) and 5903(h)) provide the Board authority to issue such regulations as are necessary to carry out the Tying Prohibition and to prevent evasion thereof. Further, under section 4(a)(8)(B) of the GENIUS Act (12 U.S.C. 5903(a)(8)(B)), the Board, in consultation with other relevant primary Federal payment stablecoin regulators, may by regulation or order, permit such exceptions to the Tying Prohibition as the Board considers will not be contrary to the purpose of the GENIUS Act.

[138] If a PPSI is an affiliate of a bank, the tying and exclusive dealing prohibitions of section 106 of the Bank Holding Company Act Amendments of 1970 (BHCAA) may prohibit certain arrangements involving the PPSI. *See* 12 U.S.C. 1972.

1. Tying Prohibition (Proposed § 247.40)

Consistent with section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), proposed § 247.40(a) would provide that a PPSI may not provide services to a customer on the condition that the customer obtain an additional paid product or service from the PPSI, or any of its subsidiaries, or agree to not obtain an additional product or service from a competitor of the PPSI.

The Board is also proposing to clarify in the proposed rule that the Tying Prohibition applies to certain companies and their affiliates, consistent with section 4(a)(12) of the GENIUS Act (12 U.S.C. 5903(a)(12)). Proposed § 247.40(b) would state that with respect to any company that has obtained a unanimous vote of the Stablecoin Certification Review Committee pursuant to section 4(a)(12) of the GENIUS Act, neither the company nor its affiliates may provide services to a customer on the condition that the customer (i) obtain an additional paid product or service from the company or its affiliates, or any subsidiary of the company or its affiliates, or (ii) agree to not obtain an additional product or service from a competitor of the company or its affiliates.

The Board notes that GENIUS Act's Tying Prohibition is narrower than similar tying and exclusive dealing prohibitions under section 106 of the BHCAA. For example, unlike these provisions of the BHCAA, the Tying Prohibition of the GENIUS Act applies only to arrangements that place conditions on the *availability* of services provided by a PPSI or its subsidiaries. Therefore, arrangements under which a PPSI varies its pricing in connection with the purchase of an additional paid product or service from a PPSI or its subsidiary would not necessarily violate the GENIUS Act's Tying Prohibition, unless the pricing schedule effectively constrains the availability of a service.[139] Likewise, the Tying Prohibition is narrower than the BHCAA tying provisions in that it applies only with respect to arrangements wherein a customer is required to obtain an additional product or service from a PPSI or any of its *subsidiaries,* but not from its *affiliates* (except with respect to companies subject to section 4(a)(12) of the Act (12 U.S.C. 5903(a)(12)).

Question 196: The proposed rule implements the Tying Prohibition in section 4(a)(8) of the Act (12 U.S.C. 5903(a)(8)) as set out by statute without codifying any further clarification. Should the Board provide further clarification regarding the application of the Tying Prohibition?

Question 197: Beyond what is included in the **SUPPLEMENTARY INFORMATION**, *should the Board clarify whether any particular type of arrangement is permitted or prohibited under the Tying Prohibition? Should the Board address permitted or prohibited bundling of products and services?*

Question 198: The Board is proposing to apply the Tying Prohibition by rule to any company that has obtained a unanimous vote of the Stablecoin Certification Review Committee pursuant to section 4(a)(12) of the GENIUS Act (12 U.S.C. 5903(a)(12)), as well as such company's affiliates. What are the advantages and disadvantages of this approach? What additional clarifications would be necessary or beneficial regarding the application of the Tying Prohibition to such companies and their affiliates?

2. Tying Exceptions (Proposed § 247.41)

Consistent with section 4(a)(8)(B) of the GENIUS Act (12 U.S.C. 5903(a)(8)(B)), proposed § 247.41(a) would state that the Board may, by regulation or order, permit exceptions to the Tying Prohibition that are not contrary to the purpose of the GENIUS Act. Given the nascence of the payment stablecoin market, the Board is not currently proposing to include any exceptions to the Tying Prohibition in the proposed rule. However, the Board is seeking public comment on whether any exceptions would be appropriate. The Board will consider requests for exceptions from the Tying Prohibition on a case-by-case basis.

Proposed § 247.41(b) would state that the Board would consult with the other primary Federal payment stablecoin regulators, as appropriate, when considering a potential exception to the Tying Prohibition by regulation. The Board would consult with the primary Federal payment stablecoin regulator, if any, of a particular PPSI when considering a potential exception to the Tying Prohibition by order.

Proposed § 247.41(c) would provide that entities subject to the Tying Prohibition may submit a request to the Secretary of the Board to seek an exception under proposed § 247.41(a).[140] Requests and documents submitted with such requests will be made available for inspection and copying upon request, except as provided for in the Board's Rules Regarding Availability of Information, 12 CFR part 261. Any entity making a request under proposed § 247.41 may elect to request confidential treatment for such information pursuant to 12 CFR 261.17. Requests for confidential treatment must be made at the time the information is submitted or within 10 working days thereafter (12 CFR 261.17(a)).

Under proposed § 247.41(c), requests for an exception from the Tying Prohibition must include a detailed description of the proposed arrangement, including (i) the service upon which conditions are being placed and the entity providing such service; (ii) either (a) the additional paid services and products and the entity providing such paid services and products or (b) the additional product or service of the competitor, as applicable; (iii) the relevant contractual terms, including copies (or draft copies, as appropriate) of any contracts, agreements, terms of service, or other documents relevant to the proposed arrangement; (iv) a description of the benefits, if any, that the proposed arrangement would produce for customers or other relevant persons; (v) a discussion of how the proposed arrangement would not be contrary to the purpose of the GENIUS Act; and (vi) in the case of a proposed exception for an arrangement providing services to a customer on the condition that the customer agree to not obtain an additional product or service from a competitor, whether the additional product or service will be offered to customers on competitive terms separate from the service upon which conditions are being placed. These informational and procedural requirements would facilitate the Board's review of any such requests. Proposed § 247.41(d) clarifies that the Board may request additional information, as needed, to assess a request made under the section.

Question 199: The Board is not proposing to promulgate any exceptions to the Tying Prohibition by regulation at this time. Should the Board consider establishing any exceptions by rule? If the Board were to promulgate exceptions to the Tying Prohibition, what exceptions would be appropriate?

Question 200: What factors would be particularly relevant to determining whether an exception would be contrary to the purpose of the GENIUS Act? Should the Board consider issues of competitive parity among different types of PPSIs and/or between PPSIs and other financial institutions?

E. Subpart F—Rules Applicable to State-Qualified Payment Stablecoin Issuers

The Board has a unique relationship with State payment stablecoin regulators and State-qualified PPSIs under the GENIUS Act. For example, section 7(c) of the GENIUS Act (12 U.S.C. 5906(c)) requires State payment stablecoin regulators and the Board to share information on an ongoing basis with respect to State-qualified PPSIs.[141] Additionally, section 7(b) of the Act (12 U.S.C. 5906(b)) permits State payment stablecoin regulators and the Board, by mutual agreement, to enter into memoranda of understanding under which the Board may participate in the supervision, examination, and enforcement of the GENIUS Act with respect to State-qualified PPSIs. The Board plans to engage with the State payment stablecoin regulators directly on the implementation of such GENIUS Act provisions. The sections below discuss other aspects of the Board's GENIUS Act responsibilities pertaining to State-qualified PPSIs—specifically, the Board's backup-enforcement authority during unusual and exigent circumstances and the transition and waiver process for uninsured State-chartered depository institutions.

Question 201: Section 7(b) of the GENIUS Act (12 U.S.C. 5906(b)) provides that the Board and each State payment stablecoin regulator authority may elect, by mutual agreement, to enter into a memorandum of understanding under which the Board may participate in the supervision, examination and enforcement of the GENIUS Act with respect to the State-qualified PPSIs of such State. What considerations should inform the

[139] *Cf.* 12 U.S.C. 1972 (''A bank shall not in any manner extend credit, lease or sell property of any kind, or furnish any service, *or fix or vary the consideration for any of the foregoing,* on the condition or requirement . . .'') (emphasis added).

[140] Requests may be submitted by email to *office-of-the-secretary@frb.gov,* or the email address that would be indicated on the Board's public website.

[141] State bank supervisors and State credit union supervisors are also required to make available information to the Board as the Board determines necessary and relevant under section 10 of the GENIUS Act. 12 U.S.C. 5909(a)(1)(B).

Board's approach to such memoranda of understanding? What are the advantages and disadvantages of Board involvement with State payment stablecoin regulator oversight of State-qualified PPSIs? How should the Board plan to allocate its limited resources with respect to any such memoranda of understanding?

Question 202: Section 7(c) of the GENIUS Act (12 U.S.C. 5906(c)) provides that State payment stablecoin regulators and the Board shall share information on an ongoing basis with respect to a State-qualified PPSI of such State, including a copy of the initial application and any accompanying documents. What types of documents should the Board require State payment stablecoin regulators to share? For example, should the Board require the sharing of State-qualified PPSI financial reporting or State payment stablecoin regulator examination reports? What type of information would be most effective in enabling the Board to administer its unusual and exigent circumstances back-up enforcement authority? How can the Board minimize burden with respect to such reporting, while ensuring it obtains sufficient information to carry out its statutory mandates? What type of information might the Board possess with respect to State-qualified PPSIs that State payment stablecoin regulators may require the Board to share? How can the Board minimize burden with respect to such reporting, while ensuring it obtains sufficient information to carry out its statutory mandates?

1. Unusual and Exigent Circumstances Enforcement Authority (Proposed § 247.50)

Section 7(e)(1)(B) of the GENIUS Act (12 U.S.C. 5906(e)(1)(B)) requires the Board to issue rules to set forth the unusual and exigent circumstances in which the Board may exercise its back-up enforcement authority with respect to any State-qualified PPSI and its institution-affiliated parties (IAPs).[142] The Board proposes to issue § 247.50 to implement section 7(e)(1) of the GENIUS Act (12 U.S.C. 5906(e)(1)). Specifically, proposed § 247.50 would incorporate the GENIUS Act's unusual and exigent circumstances requirements; describe the factors that the Board would consider when determining whether unusual and exigent circumstances exist; specify procedures for the Board to notify and consult with State-qualified PPSIs and their State payment stablecoin regulators; and provide for the administrative review of Board enforcement actions imposed pursuant to this authority. Proposed § 247.50(a) explains that proposed § 247.50 addresses the Board's authority to impose restrictions on any State-qualified PPSI and its IAPs during unusual and exigent circumstances, pursuant to section 7(e)(1) of the GENIUS Act (12 U.S.C. 5906(e)(1)). For the avoidance of doubt, proposed § 247.50 would address ''unusual and exigent circumstances'' only for purposes of section 7(e)(1) of the GENIUS Act (12 U.S.C. 5906(e)(1)); it would not interpret the meaning of that term under any other provision of law, including section 13(3) of the Federal Reserve Act (12 U.S.C. 343(3)).[143]

a. General Requirements (Proposed § 247.50(b))

Proposed § 247.50(b) would implement sections 7(e)(1)(A) and (C) of the GENIUS Act (12 U.S.C. 5906(e)(1)(A) and (C)), which provide the Board with back-up authority to bring enforcement actions against any State-qualified PPSI and/or its IAPs, provided that the Board makes four determinations: (i) the Board determines that ''unusual and exigent circumstances'' exist; (ii) the State-qualified PPSI or IAP that is the subject of the enforcement action is in violation of the GENIUS Act; (iii) the Board determines there is reasonable cause to believe that the continuation of an activity by the State-qualified PPSI constitutes a serious risk to the financial safety, soundness, or stability of the State-qualified PPSI; and (iv) the Board provides 48 hours' prior written notice to the applicable State payment stablecoin regulator.

If the Board determines that these conditions are met, the Board may impose such restrictions as the Board determines to be necessary to address the serious risks posed by its identified activity, including, but not limited to, limitations on (i) the redemption of payment stablecoins, (ii) a State-qualified PPSI's affiliate transactions, and (iii) any activities of the State-qualified PPSI that might create a serious risk that the liabilities of its holding company and the affiliates of its holding company may be imposed on the State-qualified PPSI. The restrictions would be issued in the form of a directive, with the effect of a cease-and-desist order that has become final, to the State-qualified PPSI, any of its affiliates, and/or any of its IAPs. For the avoidance of doubt, the Board may also impose other restrictions as the Board determines necessary to address the risk posed by the identified activity.

Question 203: The Board's back-up authority under section 7(e)(1) of the GENIUS Act (12 U.S.C. 5906(e)(1)) enables it to take action against IAPs of State-qualified PPSIs under unusual and existent circumstances and when certain other conditions are satisfied. Under what circumstances might it be appropriate for the Board to exercise such authority with respect to IAPs? What types of restrictions or limitations may be appropriate to apply to such persons?

b. Factors for Unusual and Exigent Circumstances (Proposed § 247.50(c))

Under section 7(e)(1)(B) of the GENIUS Act (12 U.S.C. 5906(e)(1)(B)), the Board ''shall issue rules to set forth the unusual and exigent circumstances'' under which the Board may use its back-up enforcement authority. For purposes of the GENIUS Act, the Board views the term ''unusual and exigent circumstances'' as generally referring to uncommon, urgent situations that require prompt action. The Board does not view its back-up enforcement authority with respect to State-qualified PPSIs as punitive. Rather, the Board views it as an important backstop authority designed to help ensure the safety and soundness of a State-qualified PPSI, as well as broader financial stability. Accordingly, proposed § 247.50(c) indicates that the Board will consider whether any of the following conditions are present with respect to a particular State-qualified PPSI when considering use of its back-up enforcement authority:

- significant fluctuations in the price of payment stablecoins issued by a State-qualified PPSI as measured, for example, by the spread between primary and secondary market prices for payment stablecoins and implied pricing mechanisms (*e.g.,* fluctuations in liquidity pool pricing);
- disruptions in timely redemptions by a State-qualified PPSI;
- deployment by a State-qualified PPSI of nonstandard liquidity management tools to dissuade

[142] The Board refers to this authority as ''back-up'' enforcement authority because section 7(a) of the GENIUS Act (12 U.S.C. 5906(a)) provides that a State payment stablecoin regulator has enforcement authority over State-qualified PPSIs of such state, without imposing conditions of the type imposed on the Board in section 7(e)(1) of the Act (12 U.S.C. 5906(e)(1)).

[143] The context for the Board's determination that ''unusual and exigent circumstances'' exist for purposes of section 7(e)(1) of the GENIUS Act (12 U.S.C. 5906(e)(1)) and section 13(3) of the Federal Reserve Act (12 U.S.C. 343) are highly distinct. The definition provided in this proposed rule is specific to a context in which the term is used as a necessary condition for taking an enforcement action against a specific State-qualified PPSI or its IAPs.

redemptions (*e.g.,* swing pricing, liquidity fees, etc.);

• volatility in the secondary market for cash-equivalent securities (*e.g.,* Treasury bills and Treasury repurchase agreements) that a State-qualified PPSI relies upon to maintain the value of reserve assets;

• actual or likely losses from a State-qualified PPSI's other activities that impair its ability to meet timely redemptions or other obligations;

• disorderly failure, significant impairment to the operations, or substantiated concerns about the imminent disorderly failure, of—

• one or more State-qualified PPSIs;

• one or more reserve custodians relied upon by the State-qualified PPSI; or

• any infrastructure necessary for the transmission or redemption of payment stablecoins issued by the State-qualified PPSI;

• a request with good cause shown by a State-qualified PPSI or the State-qualified PPSI's primary regulator to issue a directive under section 7 of the GENIUS Act (12 U.S.C. 5906); [144] and

• any other factor of a similar nature that evinces the existence of a serious risk to the financial safety and soundness of a State-qualified PPSI or the stability of the U.S. financial system, as determined by the Board.

The Board views these factors as indicative of a serious risk to the financial safety, soundness, or stability of a State-qualified PPSI. Additionally, the proposed list of factors is intended to provide the Board with flexibility to address a range of circumstances that are difficult to forecast given the nascence of the industry. The Board has preliminarily determined that adopting detailed but flexible criteria focused on these considerations, as opposed to a limited set of specific circumstances, would establish an appropriate balance between providing stakeholders with clarity on when the Board would act pursuant to this authority while implementing the GENIUS Act's clear intention to permit the Board to respond to evolving and unforeseeable circumstances.

To illustrate the application of the conditions the Board will consider, the following examples describe instances where the Board believes that ''unusual and exigent circumstances'' may exist:

• a State-qualified PPSI is experiencing a run on redemptions that exceeds, or is likely to soon exceed, its available liquidity;

• a State-qualified PPSI has repeatedly violated its redemption policy, is routinely failing to redeem coins upon request in a ''timely'' manner, or there is other strong evidence of insufficient liquidity management at the State-qualified PPSI;

• a State-qualified PPSI's payment stablecoin price is subject to substantial volatility in the secondary market, which is significant enough to present the risk of a near-term run on the payment stablecoin;

• there is a sudden loss of confidence in banks that hold a State-qualified PPSI's reserve assets that presents reasonable risk of sparking a run on the State-qualified PPSI;

• there is evidence of market disruption or liquidity pressures, especially in relation to a State-qualified PPSI's permissible reserve assets and/or correlated assets; or

• one or more blockchains experience an operational risk event (*e.g.,* cyberattack) that impairs the timely redemption of payment stablecoins or otherwise erodes confidence among payment stablecoin holders, leading to a loss of confidence in the State-qualified PPSI and mass redemptions.

Question 204: To determine whether unusual and exigent circumstances exist, the Board will consider whether certain identified conditions in proposed § 247.50(c) are present with respect to a particular State-qualified PPSI. Are there any other conditions that should be assessed by the Board when considering whether unusual and exigent circumstances exist? If so, what additional conditions should be included and why? For example, should the Board consider whether a State-qualified PPSI has incurred significant unanticipated losses? Should certain conditions be excluded from the list and why? What clarifications, if any, would be helpful with respect to the proposed list of conditions?

Question 205: The proposed rule anticipates that the Board will consider a request with good cause shown by a State-qualified PPSI or a State-qualified PPSI's primary regulator to issue a directive under section 7(e)(1) of the Act (12 U.S.C. 5906(e)(1)). What are the advantages and disadvantages of this approach?

Question 206: What other approaches, if any, should the Board consider in determining whether ''unusual and exigent circumstances'' exist for purposes of the GENIUS Act's back-up enforcement authority? For example, should the Board consider the approach proposed by the OCC in its notice of proposed rulemaking to implement its responsibilities under the GENIUS Act? This would include considering: (i) whether the State-qualified PPSI issuer is, or is expected to imminently be, engaging in an activity (including any act, practice, or omission) that poses an immediate risk to the financial safety, soundness, or stability of the issuer or the financial system of the United States; (ii) the actions of the relevant State payment stablecoin regulator to promptly address the risk to the issuer or the financial system of the United States; (iii) risks presented to payment stablecoin holders; and (iv) any other factors the Board deems appropriate in light of the particular circumstances and consistent with the purposes of the GENIUS Act.

Question 207: Should the Board make public when it determines that unusual and exigent circumstances exist? If so, what information should the Board include (or not include) in any publication regarding unusual and exigent circumstances? Additionally, what should the timing be on such publication? For example, should the Board publish such a determination on a lag, only after it has determined that imminent risks are no longer present? Or should there be a specified timeframe? [similar to OCC question 148]

c. Procedures for Use of Back-Up Enforcement Authority (Proposed § 247.50(d))

Consistent with section 7(e)(1)(A) of the GENIUS Act (12 U.S.C. 5906(e)(1)(A)), the Board is proposing § 247.50(d) to set forth procedures for notifying and consulting with the applicable State payment stablecoin regulator or a State-qualified PPSI before issuing directives under this back-up enforcement authority.

Prior Notice to State Payment Stablecoin Regulators. The Board is proposing § 247.50(d)(1)(i) to provide 48 hours' prior written notice to the State payment stablecoin regulator of a State-qualified PPSI before issuing a directive, which will include the following information: (i) the Board's determination that unusual and exigent circumstances exist; (ii) a brief description of how the State-qualified PPSI is believed to have violated the GENIUS Act; and (iii) a brief description of the activity conducted by the State-qualified PPSI that constitutes a serious risk to the financial safety, soundness, or stability of the State-qualified PPSI. Proposed § 247.50(d)(1)(ii) states that a State payment stablecoin regulator may

[144] As the primary regulator of State-qualified PPSIs, State payment stablecoin regulators may be better positioned to assess the relevant State-qualified PPSI's risks. Thus, a request by the State-qualified PPSI's primary regulator to issue a directive may be indicative of serious risk to the financial safety, soundness, or stability of the State-qualified PPSI.

elect to waive its right to the 48-hour notice period.

Consultations with State-qualified PPSIs and State Payment Stablecoin Regulators. The Board is proposing § 247.50(d)(2) to set forth optional procedures for consulting with a State-qualified PPSI and its State payment stablecoin regulator before issuing a directive under the back-up enforcement authority. Under these procedures, the consultation process would inform, but be separate from, the prior notice required under the GENIUS Act. The consultation process would not preclude the Board from issuing a directive to a State-qualified PPSI or its IAPs with only the required 48-hour notice period to the applicable State payment stablecoin regulator. The proposed consultation process may involve consulting with the State payment stablecoin regulator of a State-qualified PPSI and, if necessary, the State-qualified PPSI itself, if certain conditions are met. Specifically, under proposed § 247.50(d)(2)(i), the Board would only consider engaging in this consultation process if the Board has reason to believe that (i) a State-qualified PPSI is in violation of the GENIUS Act; (ii) the continuation of an activity by the State-qualified PPSI constitutes a serious risk to the financial safety, soundness, or stability of the State-qualified PPSI; or (iii) ''unusual and exigent circumstances'' exist or will soon exist based on the potential presence of conditions described in proposed § 247.50(c). Under proposed § 247.50(d)(2)(ii), the Board may request evidence from the State payment stablecoin regulator or the State-qualified PPSI demonstrating why the Board should not issue a directive. Such evidence could inform the Board's determination of whether use of the back-up enforcement authority is necessary. While the GENIUS Act does not require the Board to consult or coordinate with State payment stablecoin regulators when exercising its back-up enforcement authority (outside of the required prior notice), the Board believes that it would be prudent to do so when time and exigencies allow. As the primary regulator of State-qualified PPSIs, State payment stablecoin regulators may be better positioned to assess the relevant State-qualified PPSI's risks. Further, direct communication with State-qualified PPSIs may be necessary to accurately evaluate and mitigate adverse circumstances affecting the State-qualified PPSI.

Question 208: The Board is proposing to codify procedures for prior notice and the consultation process in its regulations. What are the advantages and disadvantages of this approach? What clarifications, if any, would be helpful with respect to the proposed procedures?

Question 209: The proposed procedures in proposed § 247.50(d)(1)(ii) provide that a State payment stablecoin regulator may elect to waive its right to a 48-hour notice period such that the Board could implement an enforcement action under section 12 U.S.C. 5906(e)(1) on an accelerated basis. What are the benefits and drawbacks of this approach?

Question 210: Should the Board specify a timeframe, such as 24 hours, for a State payment stablecoin regulator or State-qualified PPSI to respond to the Board's inquiry for evidence demonstrating why the Board should not issue a directive under proposed § 247.50(d)(2)(ii)? If so, what should the timeframe be? What are the advantages and disadvantages of such approach?

d. Administrative Review (Proposed § 247.50(e))

Under section 7(e)(1)(D) of the GENIUS Act (12 U.S.C. 5906(e)(1)(D)), the Board may issue a directive to impose restrictions that the Board determines to be necessary, to which the State-qualified PPSI or its IAP that is subject to the directive may object and present to the Board, in writing, the reasons why the directive should be modified or rescinded. If the Board does not affirm, modify, or rescind the directive within ten days of receiving the objection, the directive will automatically lapse.

Proposed § 247.50(e) reiterates the provisions for the administrative review described in section 7(e)(1)(D) of the GENIUS Act (12 U.S.C. 5906(e)(1)(D)), which are applicable to any State-qualified PPSI or any IAP subject to an unusual and exigent circumstances directive issued by the Board.

Question 211: The Board is proposing to reiterate the procedures for administrative review of directives without further clarification. What are the advantages and disadvantages of this approach? What clarifications, if any, would be helpful with respect to the procedures?

2. Transition and Waiver Process for Uninsured State-Chartered Depository Institutions (Proposed § 247.51)

As explained in more detail below, section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)) generally requires a State-qualified PPSI to transition to the Federal regulatory framework of the appropriate Federal payment stablecoin regulator when it surpasses an outstanding issuance value of $10 billion, unless it has received a waiver. Under section 4(d)(1)(A) of the GENIUS Act (12 U.S.C. 5903(d)(1)(A)), not later than 360 days after reaching such threshold, State-qualified PPSIs that are uninsured State-chartered depository institutions (for purposes of this section, ''covered PPSIs'') must transition to the Federal regulatory framework of the ''primary Federal payment stablecoin regulator'' which shall be administered by the appropriate State payment stablecoin regulator and the primary Federal payment stablecoin regulator, acting jointly.

Section 2(25)(C) of the GENIUS Act (12 U.S.C. 5901(25)(C)) defines the term ''primary Federal payment stablecoin regulator'' for these purposes as ''the [FDIC], the [OCC], or the Board.'' The GENIUS Act is ambiguous as to which of these three Federal banking agencies is intended to supervise a covered PPSI that has surpassed the $10 billion outstanding issuance threshold. In the absence of such clarity, a covered PPSI would generally be required to ''cease issuing new payment stablecoins'' when its outstanding issuance reaches $10 billion, as it would not have the ability to transition to the Federal regulatory framework or to seek a waiver as provided in section 4(d)(3) of the GENIUS Act (12 U.S.C. 5903(d)(3)). Thus, for a covered PPSI to continue issuing payment stablecoins, it may effectively be forced to convert to a Federal charter; however, this is contrary to section 4(d)(3)(C)(i) of the GENIUS Act (12 U.S.C. 5903(d)(3)(C)(i)), which states that these statutory provisions do not ''require [State-qualified PPSIs] to convert to a Federal charter.''

The Board believes that the best interpretation of this statutory ambiguity is that the Board is the primary Federal payment stablecoin regulator for covered PPSIs. Under section 7 of the GENIUS Act (12 U.S.C. 5906), the Board has certain authorities relevant to State-qualified PPSIs that are distinct from the other Federal payment stablecoin regulators, including (i) the authority to enter into memoranda of understanding with State payment stablecoin regulators, by mutual agreement, ''under which the Board may participate in the supervision, examination, and enforcement'' of the GENIUS Act with respect to all State-qualified PPSIs (12 U.S.C.§ 5906(b)); (ii) the ability to require State payment stablecoin regulators to share information on an ongoing basis with respect to any State-qualified PPSI (and the obligation to share information in return) (12 U.S.C.§ 5906(c)); and (iii) the ability to take an enforcement action against any State-qualified PPSI in ''unusual and exigent circumstances'' (12 U.S.C.§ 5906(e)(1)).[145]

The Board proposes to issue § 247.51 to implement the GENIUS Act's transition standards for covered PPSIs with an outstanding issuance value of more than $10 billion. Specifically, proposed § 247.51 would require a covered PPSI to notify the Board within five calendar days after the covered PPSI triggers the transition threshold, request a waiver if the covered PPSI seeks to remain supervised solely by the applicable State payment stablecoin regulator, and, if applicable, provide the Board with information necessary to evaluate an associated waiver request. Proposed § 247.51 would also establish a timeframe for the Board's review of the covered PPSI's waiver request. Proposed § 247.51(a)(1) describes the scope of § 247.51 as addressing requirements related to covered PPSI transitioning to the Board's regulatory framework pursuant to section 4 of the GENIUS Act (12 U.S.C. 5903), and (2) defines ''covered PPSI'' for purposes of § 247.51 as a State-qualified PPSI that is an uninsured State-chartered depository institution.

Question 212: Is the term ''covered PPSI,'' as defined in proposed § 247.51(a)(2) sufficiently clear? What additional clarifications should the Board consider regarding the institutions that may become subject to its jurisdiction under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d))?

a. Transition to Federal Oversight

Section 4(d)(1) of the GENIUS Act (12 U.S.C. 5903(d)(1)) addresses the transition of covered PPSIs to Federal oversight and provides the Board with authority to supervise such covered PPSIs, jointly with the relevant State payment stablecoin regulator.[146] A covered PPSI with a consolidated total outstanding issuance of more than $10 billion must transition to the Board's Federal regulatory framework within 360 days after it crosses the $10 billion threshold or cease issuing new payment stablecoins immediately. Proposed § 247.51(b)(1) would implement section 4(d)(1) of the GENIUS Act and would require a covered PPSI that crosses the $10 billion outstanding issuance threshold to transition to the Federal regulatory framework under proposed part 247 and to comply with the provisions of part 247 applicable to Board-supervised PPSIs within 360 days or cease issuing, on a net basis, new payment stablecoins until the covered PPSI's outstanding issuance value is under the $10 billion threshold. The Board proposes to clarify that the covered PPSI would cease issuing new payment stablecoins on a net basis. This is to permit a covered PPSI to freeze, burn, mint and issue new payment stablecoins to the extent necessary to transfer stablecoins from one blockchain to another without increasing the total outstanding issuance of the covered PPSI.

Section 4(h) of the GENIUS Act (12 U.S.C. 5903(h)) authorizes the Board to issue regulations necessary to administer and carry out the GENIUS Act's requirements and prevent evasion thereof. To facilitate an orderly transition to Federal oversight, ensure compliance with the GENIUS Act's transition requirements, and manage agency resources, proposed § 247.51(b)(2)(i) would require a covered PPSI of a payment stablecoin with an outstanding issuance value of more than $10 billion to provide written notification to the Board within five calendar days after reaching such threshold.[147] Proposed § 247.51(b)(2)(ii) provides that the written notification must include the following information: (A) the State or States that currently regulate the covered PPSI; (B) the covered PPSI's outstanding issuance value as of the date of the notice; (C) the date that the covered PPSI reached the $10 billion outstanding issuance value threshold; and (D) an indication of whether and when the covered PPSI has ceased issuing, on a net basis, new payment stablecoins and whether the covered PPSI intends to seek a waiver from transitioning to the Federal regulatory framework. Proposed § 247.51(b)(4) provides clarity as to when a covered PPSI transitions to the Federal regulatory framework. Proposed § 247.51(b)(4)(i) would require a covered PPSI to provide notification to the Board regarding whether it is in compliance with the Federal regulatory framework applicable to Board-supervised PPSIs under proposed part 247. If the covered PPSI is not in compliance with the Federal regulatory framework applicable to Board-supervised PPSIs in proposed part 247, the written notice would need to identify the provisions that the covered PPSI does not comply with, provide the covered PPSI's plan for remediating its noncompliance, and explain why the covered PPSI did not comply with the Federal regulatory framework within the 360-day transition period. Regardless of whether the Board receives such notice, the Board reserves the right to pursue appropriate action to ensure compliance with the GENIUS Act with respect to a covered PPSI that transitions to the Federal regulatory framework administered by the Board. Under proposed § 247.51(b)(4)(ii), a covered PPSI that does not cease issuing new payment stablecoins must transition to the Federal regulatory framework on the earlier of 360 days after reaching the $10 billion outstanding issuance value threshold or the date on which the covered PPSI provides written notification under paragraph (b)(4)(i).

To facilitate an orderly transition process, proposed § 247.51(b)(3)(i) would require a covered PPSI to submit an analysis of its current capital position and anticipated capital needs, sufficient to ensure ongoing operations, based on its business model and risk profile to the Board within 270 days of reaching the $10 billion outstanding issuance value threshold. Covered PPSIs are encouraged to submit a plan promptly to provide ample time to raise additional capital before transitioning to the Board's regulatory framework, if needed. Board-supervised PPSIs, including covered PPSIs that have transitioned to the Board's regulatory framework, must comply with the capital requirements in proposed §§ 247.15–.18. Accordingly, proposed § 247.51(b)(3)(ii) would provide that the Board will review the submitted analysis and evaluate the capital adequacy of the covered PPSI, including whether such covered PPSI is projected to be in compliance with the capital requirements in proposed §§ 247.15–.18 360 days after the covered PPSI reaches

[145] The OCC has similar authority to take enforcement action against State-qualified PPSIs in ''unusual and exigent circumstances,'' but such authority is limited to nonbank State-qualified PPSIs. 12 U.S.C. 5906(e)(2). As used in this **SUPPLEMENTARY INFORMATION**, the term ''nonbank'' has the same meaning as ''nonbank entity'' as defined in section 2(20) of the GENIUS Act (12 U.S.C. 5901(20)). Relatedly, under the GENIUS Act, the OCC is clearly identified as the Federal regulator that would administer the transition process for nonbank State-qualified PPSIs with an outstanding issuance that exceeds $10 billion. 12 U.S.C. 5903(d)(2). The alignment of the entities subject these two statutory authorities provides additional evidence that the Board is the appropriate primary Federal payment stablecoin regulator of covered PPSIs, which are subject only to the Board's back-up enforcement authority. 12 U.S.C. 5906(e)(1).

[146] Section 4(d)(1) of the GENIUS Act (12 U.S.C. 5903(d)(1)) refers to State-qualified PPSIs other than nonbanks (addressed in section 4(d)(2) of the Act). For simplicity, proposed § 247.51 refers to State-qualified PPSIs that are uninsured State-chartered depository institutions as ''covered PPSIs.'' State-chartered depository institution is defined by the Act in proposed § 247.1 to have the meaning given to the term ''State depository institution'' in section 3(c) of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)). 12 U.S.C. 5901(29).

[147] The proposal would require a covered PPSI to provide written notification to the Board, regardless of whether it intends to issue new payment stablecoins.

the $10 billion outstanding issuance value threshold (*i.e.,* the covered PPSI's deadline to transition). Proposed § 247.51(b)(3)(iii) would provide that for purposes of complying with the transition requirements under proposed § 247.51(b)(1)(i) of this section, the covered PPSI must comply with the capital requirements in proposed §§ 247.15–.18 by the covered PPSI's deadline to transition. Covered PPSIs that seek to transition early are therefore encouraged to submit their capital analysis to the Board early, to ensure adequate time to address any deficiencies. Proposed § 247.51(b)(3)(iv) would provide that a covered PPSI would not need to submit an analysis of its capital if it receives a waiver under proposed § 247.51(d). As discussed above, a covered PPSI that seeks to transition to the Federal regulatory framework before the end of the 360-day period must certify its compliance with the regulations applicable to Board-supervised PPSIs in part 247, which include capital requirements.

Under proposed § 247.51(c), the Board is proposing to require that a covered PPSI that transitions to the regulatory framework under proposed part 247 must undergo an initial examination at the Board's request or no later than six months after the date on which the covered PPSI provides written notification under proposed § 247.51(b)(4)(i). Because a covered PPSI that transitions to the Federal framework will already be in operation, the Board intends to conduct this examination well before the six-month outer limit proposed to ensure that the issuer can effectively operate under the Federal framework.

Question 213: Is the proposed rule sufficiently clear regarding the Federal regulatory framework that would apply to a covered PPSI if it transitions to the Board's framework under proposed § 247.51?

Question 214: For purposes of determining whether a covered PPSI has crossed the $10 billion outstanding issuance value threshold, should the $10 billion threshold be based on a point of time or using a rolling average over some period of time (e.g., the previous four calendar quarters)? Should the $10 billion threshold take into account the outstanding issuance value of any payment stablecoins issued by non-consolidated affiliates of the covered PPSI? [similar to OCC question 138]

Question 215: Are there any technical, operational, or other factors that would prevent a covered PPSI, as defined in proposed § 247.51(a)(2), from providing written notification within five calendar days as proposed under proposed § 247.51(b)? Should the Board consider alternate timeframes, including shorter timeframes (e.g., within one day) or longer timeframes (e.g., within ten days) for providing written notification? [similar to OCC question 140]

Question 216: Is the requirement to submit an analysis of capital in proposed § 247.51(b)(3) appropriately calibrated? Should the covered PPSI, as defined in proposed § 247.51(a)(2), be required to submit the report sooner after reaching $10 billion in outstanding issuance value (e.g., 180 days, 200 days, 250 days)? [similar to OCC question 145]

Question 217: Is the timeframe for the initial Board examination after transition to the Federal regulatory framework in proposed § 247.51(c) appropriate? Should the timeframe be shorter (e.g., three months, four months) or longer (e.g., nine months, 12 months)? [similar to OCC question 146]

b. Waiver From Federal Supervision

Notwithstanding the transition requirements discussed above, under section 4(d)(3) of the GENIUS Act (12 U.S.C. 5903(d)(3)), the Board may permit a covered PPSI that reaches the $10 billion threshold to remain solely supervised by a State payment stablecoin regulator. In determining whether to issue a waiver from Federal supervision, proposed § 247.51(d)(2) implements the requirement in the statute that provides that the Board must consider four exclusive criteria: (i) the capital maintained by the covered PPSI; (ii) the past operations and examination history of the covered PPSI; (iii) the experience of the State payment stablecoin regulator in supervising payment stablecoin and digital asset activities; and (iv) the supervisory framework, including regulations and guidance, applicable to the covered PPSI with respect to payment stablecoins and digital assets.

To facilitate an orderly waiver process, proposed § 247.51(d)(1) would require a covered PPSI seeking a waiver to submit a written waiver request to the Board within 240 days of reaching the $10 billion outstanding issuance value threshold.[148] Nothing would prohibit a covered PPSI that exceeds the $10 billion threshold from seeking a waiver earlier, and the Board would recommend that covered PPSIs that intend to seek a waiver do so promptly. The request must include information necessary for the Board to evaluate the waiver criteria enumerated in proposed § 247.51(d)(2) and (d)(3), discussed below. For example, such information may include the covered PPSI's reports of condition and examination, financial statements, investor statements, reports that detail significant examination findings, business activities, existence of past or current enforcement orders, and disclosure of any violations of law, as well as other information as requested by the Board. Additionally, the waiver request may describe whether the State payment stablecoin regulator has experience regulating entities that have a similar risk profile. The waiver request may also include information regarding the frequency and depth of the State payment stablecoin regulator's examinations. The Board will review the covered PPSI's waiver request and any associated information in relation to the waiver criteria.

Additionally, proposed § 247.51(d)(3) would incorporate waiver presumption standards for a covered PPSI that submits a waiver request. Consistent with section 4(d)(3)(C) of the Act (12 U.S.C. 5903(d)(3)(C)), the Board will presumptively approve a waiver request if the relevant State payment stablecoin regulator has (A) established a prudential regulatory regime for the supervision of digital assets or payment stablecoins as of April 19, 2025 and which has a framework that has been approved by the Stablecoin Certification Review Committee and (B) approved one or more State-qualified PPSIs to issue payment stablecoins under the supervision of such State payment stablecoin regulator. The waiver presumption is lost if the Board finds, by clear and convincing evidence, that the covered PPSI does not substantially meet the waiver criteria in proposed § 247.51(d)(2) or that the covered PPSI poses significant safety and soundness risks to the financial system of the United States. If a covered PPSI believes it qualifies for the waiver presumption, it must indicate so in the waiver request and provide information sufficient for the Board to evaluate the waiver presumption standards.

Question 218: Should the Board require that a covered PPSI provide additional information in its notice under § 247.51(b)? Should the Board require a covered PPSI to provide specific reports or information in connection with a waiver request, such as the examples listed in the SUPPLEMENTARY INFORMATION *section? If so, please provide examples. [similar to OCC question 141]*

Question 219: The Board is considering whether to implement standards when evaluating the past

[148] The Board may also issue a waiver of its own accord, provided that it has information sufficient to evaluate the statutory criteria for issuing waivers.

operations and exam history of a covered PPSI. For example, the Board may require that, for a covered PPSI to be eligible for a waiver, it must not have been cited for violations or have outstanding supervisory concerns relating to fraud, cybersecurity, technology infrastructure, and operational disruptions within the past examination cycle. Should the Board consider standards related to a covered PPSI's supervisory ratings? [similar to OCC question 142]

Question 220: What would constitute ''clear and convincing'' evidence under which the Board would not approve a waiver request, as described in proposed § 247.51(d)(3)(ii)?

Question 221: Should waivers from Board supervision for covered PPSIs be subject to renewal over some time period (e.g., one or five years) to ensure that the covered PPSI continues to meet the criteria for the waiver? [similar to OCC question 143]

Question 222: Should the Board reserve the right to discontinue a waiver granted under proposed § 247.51(d)? If so, under what circumstances should the Board rescind a waiver? Is 100 days a reasonable period to provide notice to the covered PPSI? [similar to OCC question 144]

Question 223: Under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)), a State-qualified PPSI with total outstanding issuance in excess of $10 billion must transition to the applicable Federal regulatory framework within 360 days or else cease issuing new payment stablecoins until its total outstanding issuance is below the $10 billion threshold. Should the Board adopt a regulation that would provide a mechanism for covered PPSIs that have transitioned to the Board's Federal regulatory framework to transition back to the applicable State regulatory framework if the covered PPSI's outstanding issuance value has decreased below $10 billion? If so, should the mechanism explicitly include factors designed to prevent evasion of the enforcement of the GENIUS Act? For example, what factors should the Board consider to determine whether a covered PPSI intentionally reduced its outstanding issuance value to avoid imminent and adverse Board enforcement or supervisory actions (e.g., the timing or value of the issuer's decrease in its outstanding issuance)? Should the Board use its waiver authority under section 4(d)(3) of the GENIUS Act (12 U.S.C. 5903(d)(3)) to permit covered PPSIs that have transitioned to the Board's Federal regulatory framework to transition back to the applicable State regulatory framework? [similar to OCC question 139]

F. Proposed Amendments to Part 217

Section 4(a)(4)(C)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(4)(C)(iii)) provides that if a Federal banking agency ''imposes, on a consolidated basis, a leverage capital requirement or risk-based capital requirement with respect to an insured depository institution or depository institution holding company . . . that includes, on a consolidated basis, a [PPSI],'' that insured depository institution or depository institution holding company ''shall not be required to hold, with respect to such [PPSI] and its assets and operations, any amount of regulatory capital in excess of the capital that such [PPSI] must maintain under the capital requirements issued pursuant to [section 4(a)(4)(A)(i) of the GENIUS Act (12 U.S.C. 5903(a)(4)(A)(i))].'' [149] The Board is proposing to amend its capital rule (Regulation Q, 12 CFR part 217) to implement this provision with respect to institutions subject to such rule (Board-regulated institutions), which include State member banks, bank holding companies, and savings and loan holding companies.[150]

1. Proposed Approach

Proposed § 217.22(a)(8) would amend the Board's capital rule to specify that a Board-regulated institution that consolidates a PPSI for purposes of the Board-regulated institution's GAAP financial statements would be required first to deconsolidate the PPSI from the Board-regulated institution's balance sheet.[151] This would effectively exclude the PPSI's assets from the calculation of the Board-regulated institution's standardized total risk-weighted assets, advanced approaches risk-weighted assets, average total consolidated assets, and total leverage exposure, as applicable.

Next, the Board-regulated institution would be required to deduct a dollar amount equal to the total minimum capital the PPSI would be required to hold under its PPSI-level capital requirements from the Board-regulated institution's common equity tier 1 capital. This deduction would prevent the Board-regulated institution from counting capital required to be held by the PPSI for purposes of the Board-regulated institution's regulatory capital requirement, but would allow the Board-regulated institution to include in its consolidated capital any capital at the PPSI in excess of the PPSI's required minimum capital. In addition, basing the Board-regulated institution's deduction on the PPSI's required minimum capital rather than on the capital it actually holds would also prevent the Board-regulated institution from benefiting from any shortfalls of the PPSI below its required minimum capital. The proposal would require the deduction from common equity tier 1 capital only to avoid the complexity of allocating the deduction across multiple forms of capital and because common equity tier 1 capital is the most loss-absorbing form of capital.

The proposed approach would help ensure that, in keeping with the statutory requirement, the amount of regulatory capital the consolidated banking organization would be required to hold would not exceed the sum of the regulatory capital required to be held by the Board-regulated institution (in the absence of the PPSI) and the PPSI.

2. Alternative Approaches

The Board is seeking comment on two alternatives to the proposed approach. Under the first alternative approach, the Board-regulated institution would be required to deconsolidate the PPSI from the Board-regulated institution's balance sheet (as proposed). The Board-regulated institution would then be required to deduct from the Board-regulated institution's common equity tier 1 capital any amount of positive retained earnings that originates from the PPSI to the extent not paid out as dividends to the Board-regulated institution. This deduction would prevent retained earnings of the PPSI from simultaneously being used to satisfy regulatory capital requirements for both the PPSI and the Board-regulated institution.

Next, under this first alternative approach, the Board-regulated institution would be required to exclude a portion of any investment in the PPSI from its regulatory capital calculations.

[149] Section 4(a)(4)(A)(i) of the GENIUS Act (12 U.S.C. 5903(a)(4)(A)(i)) requires the primary Federal payment stablecoin regulators to establish capital requirements that are ''tailored to the business model and risk profile of [PPSIs]'' and that ''do not exceed requirements that are sufficient to ensure the ongoing operations of [PPSIs].'' *See* section II.B.6 of this **SUPPLEMENTARY INFORMATION** for a discussion of the proposed capital requirements for Board-supervised PPSIs.

[150] For the avoidance of doubt, the Board does not believe there is any obligation on a bank holding company, savings and loan holding company, or State member bank to serve as a source of strength to any subsidiary PPSI.

[151] Deconsolidation, for the purpose of calculating the Board-regulated institution's regulatory capital requirements, refers to the derecognition of the PPSI's assets, liabilities, and equity components from the Board-regulated institution's balance sheet. Instead, the investment in the PPSI is accounted for according to the equity method of accounting as prescribed by GAAP.

This would be accomplished first by requiring the Board-regulated institution to deduct from common equity tier 1 capital an amount equal to its investment in the PPSI (minus the amount of any positive retained earnings) multiplied by the ratio of the Board-regulated institution's total capital over total consolidated assets (excluding assets attributed to the PPSI). Any investment by a Board-regulated institution in a subsidiary PPSI would be funded by some combination of capital and liabilities. Under this alternative approach, the Board-regulated institution would use the ratio of total capital to total consolidated assets multiplied by the Board-regulated institution's investment in its PPSI subsidiary to approximate the amount of capital used to fund such investment.

Finally, under this first alternative approach, the Board-regulated institution would be required to exclude its investment in the PPSI from Board-regulated institution's assets for regulatory capital purposes. This exclusion would also apply to any remaining assets associated with the PPSI, such as receivables from the PPSI.[152]

The Board is also seeking comment on a second alternative approach. As with the proposed approach, this second alternative approach would require the Board-regulated institution to deconsolidate the PPSI from the Board-regulated institution's balance sheet and deduct from the Board regulated institution's capital any amount of positive retained earnings from the PPSI to the extent not paid out as dividends to the Board-regulated institution. This second alternative approach would also exclude investments in (to the extent not deducted) or intercompany receivables from the PPSI from the Board-regulated institution's capital requirement calculations. In contrast to the first alternative approach discussed above, however, investments in the PPSI subsidiary would not be deducted from capital.

Question 224: The Board seeks comment on the proposed amendments to 12 CFR part 217. What are the advantages and disadvantages of the proposed approach, and why? What are the advantages and disadvantages of requiring a Board-regulated institution to deduct the minimum capital that a PPSI would be required to maintain from only common equity tier 1 capital? What changes to the proposed approach should the Board consider—for example, (i) requiring the deduction from tier 1 capital rather than common equity tier 1 capital; (ii) proportionally allocating the amount deducted from the Board-regulated institution's capital to specific regulatory capital components, such as common equity tier 1, additional tier 1, and tier 2 capital, based on the composition of the PPSI's capital stack, (iii) deducting half of the PPSI's required minimum capital from common equity tier 1 capital and the other half from additional tier 1 capital, or (iv) deducting half of the PPSI's required minimum capital from tier 1 capital and the other half from tier 2 capital, similar to 12 CFR 225.22(b)(3)?

Question 225: Under the proposed approach, the Board-regulated institution would be required to deduct a dollar amount equal to the total minimum capital the PPSI would be required to hold under its PPSI-level capital requirements from the Board-regulated institution's common equity tier 1 capital. The Board seeks comment on whether clarification is needed as to how to calculate the amount of such deduction. For example, should the Board specify how the amount of the deduction should be calculated where a PPSI has multiple capital requirements in different units (for example, separate requirements for common equity tier 1, tier 1, and total capital analogous to the risk-based capital requirements for banking organizations)? What would be the advantages and disadvantages of specifying that, in such cases, the deduction should be equal to the amount of the PPSI's largest capital requirement in dollar terms (for example, in this case, the amount of the PPSI's largest capital requirement in dollar terms would be the amount of total capital)? What would be the advantages and disadvantages of specifying how the deduction should be calculated in cases where a PPSI is summing capital requirements that are in different units (for example, a Board-supervised PPSI holding non-reserve assets would have one tangible equity capital requirement for reserve assets and operational risks summed with common equity tier 1, tier 1, and total capital requirements for non-reserve assets)? What would be the advantages and disadvantages of specifying that, in such cases, the deduction should be equal to the sum of the largest capital requirements (for example, in this case, deducting the PPSI's tangible equity capital requirement plus the PPSI's total capital requirement based on non-reserve assets)?

Question 226: The Board seeks comment on whether the calculation of "required minimum capital" should include only the dollar amount of capital held to comply with capital requirements applicable to the PPSI, or whether the calculation should also include additional capital, such as capital held because of a capital directive, enforcement action, or supervisory direction. What would be the advantages and disadvantages of these approaches?

Question 227: The Board seeks comment on whether a pool of liquid assets held by the PPSI under an operational backstop requirement should be added to the calculation of "required minimum capital" for purposes of the deduction from the Board-regulated institution's capital? What would be the advantages and disadvantages of such an approach?

Question 228: What alternative approaches should the Board consider that would help ensure compliance with section 4(a)(4)(C)(iii) of the GENIUS Act (12 U.S.C. 5903(a)(4)(C)(iii))? What are the advantages and disadvantages of an alternative modification that would require the Board-regulated institution to deduct from its common equity tier 1 capital the amount of capital a PPSI actually holds (rather than the amount it is required to hold)? For example what would be the advantages and disadvantages of the first alternative approach, discussed in section II.F.2 of this **SUPPLEMENTARY INFORMATION**, *which would require, among other things, that the Board-regulated institution deduct from its common equity tier 1 capital an amount equal to its investment in the PPSI (minus the amount of any positive retained earnings) multiplied by the ratio of the Board-regulated institution's total capital over total consolidated assets (excluding assets attributed to the PPSI), as discussed above? What are the advantages and disadvantages of the second alternative modification that would require the Board-regulated institution to deduct investments in (to the extent not deducted) or intercompany receivables from the PPSI from the asset calculations but would not deduct the amount of investments in the PPSI from common equity tier 1 capital calculations of the Board-regulated institution's capital requirements?*

Question 229: What are the advantages and disadvantages of requiring a Board-regulated institution that includes a consolidated PPSI subsidiary to treat a PPSI subsidiary for regulatory capital purposes in the same

[152] The denominators of a Board-regulated institution's capital ratios include standardized total risk-weighted assets and average total consolidated assets and may include advanced approaches total risk-weighted assets and total leverage exposure. *See* 12 CFR 217.10.

manner that it is required to treat a financial subsidiary? This would require the Board-regulated institution to deconsolidate the assets and liabilities of the PPSI subsidiary, exclude the amount of its investment in the PPSI subsidiary from its total risk-weighted assets, average total consolidated assets, and other applicable exposure measures, and deduct the amount of its investment in the PPSI subsidiary from its common equity tier 1 capital. This approach could help ensure that the Board-regulated institution's investment in its PPSI subsidiary does not increase the capital of the Board-regulated institution, thus avoiding any double counting of capital. At the same time, this approach could, at least for some period of time upon establishing a PPSI subsidiary, cause the regulatory capital ratios of a Board-regulated institution that includes a consolidated PPSI subsidiary to be lower than the regulatory capital ratios of an otherwise similar Board-regulated institution that did not establish a consolidated PPSI subsidiary, thus (relative to the proposal) potentially increasing the cost of establishing a PPSI subsidiary. If the Board were to adopt such an approach, what considerations should the Board consider when calibrating the PPSI capital requirement as a percentage of the PPSI's total assets or other denominator, rather than the proposal's fixed minimum capital requirement for PPSIs? What other alternatives should the Board consider that would satisfy the GENIUS Act requirement?

Question 230: The Board is not, at this time, proposing changes to risk-based capital requirements for depository institution holding companies that are significantly engaged in insurance activities (insurance depository institution holding companies). While the proposed changes to part 217 would flow through to the minimum risk-based capital requirements certain insurance depository institution holding companies must calculate, the proposed rule would not amend the building block approach (BBA) calculation. Should the Board amend 12 CFR part 217, subpart J to ensure that the BBA calculation does not impose capital requirements with respect to a consolidated PPSI and its assets and operations in excess of the capital that such PPSI is required to maintain under the capital regulations promulgated under the GENIUS Act? More specifically, the Board could specify that for purposes of the BBA, an insurance depository institution holding company can exclude any requirement that applies to a PPSI subsidiary or its assets or operations. Comments should address the extent to which capital requirements prescribed by state insurance regulators could impose capital requirements on legal entities subject requirements that would exceed the capital requirements applicable to PPSIs under the rules implemented by State and Federal regulators pursuant to the GENIUS Act.

Question 231: Subpart D of the current capital rule does not prescribe a specific risk-weight treatment for exposures to payment stablecoins.[153] *However, the Board could consider, for example, applying a 100 percent risk weight for payment stablecoin exposures where either: (i) the issuing PPSI's non-reserve assets comprise five percent or more of total assets; (ii) the issuing PPSI's non-stablecoin liabilities comprise five percent or more of total liabilities; or (iii) the issuing PPSI does not publicly report or disclose its non-reserve assets and non-stablecoin liabilities. For an exposure to a payment stablecoin where the issuing PPSI's non-reserve assets or non-stablecoin liabilities fall below thresholds (i) and (ii) above, and the issuing PPSI maintains more than five percent of reserve assets in the form of uninsured eligible deposit claims, the Board could consider assigning a 20 percent risk weight to the payment stablecoin exposure to reflect the low credit risk from reserve assets. For an exposure to a payment stablecoin where the issuing PPSI's non-reserve assets or non-stablecoin liabilities fall below the thresholds that would otherwise result in a 20 or 100 percent risk weight, and the issuing PPSI maintains five percent or less of reserve assets in the form of uninsured eligible deposit claims, the Board could consider assigning a five or ten percent risk weight to the payment stablecoin exposure to reflect the minimal but still existing residual credit risk such issuing PPSIs face given the composition of their reserve assets that are highly liquid and generally exhibit very low interest rate and credit risks. What would be the advantages and disadvantages of such an approach? What alternative risk weights and approaches for setting the risk weights should the Board consider? What characteristics or attributes of a PPSI should the Board consider when developing a risk-weight treatment for exposures to payment stablecoins? What approach of determining an exposure amount of a payment stablecoin exposure should the Board consider for a PPSI that holds derivatives contracts with fair values close to zero or that has off-balance sheet exposures? What would be the advantages and disadvantages of converting off balance-sheet exposures into equivalent asset amounts, such as by applying the methodologies used to calculate total leverage exposure? What would be the advantages and disadvantages of distinguishing between PPSIs subject to supervision and regulation by different regulators (federal-supervised PPSIs, state-supervised PPSI, and others) for purposes of setting a risk-weight treatment for payment stablecoin exposures? What would be the advantages and disadvantages of providing equivalent treatment for payment stablecoins issued by U.S. PPSIs and foreign payment stablecoin issuers, as that term is defined in 12 U.S.C. 5901(12), that satisfy the requirements of 12 U.S.C. 5907 and 12 U.S.C. 5916 for purposes of setting a risk-weight treatment for payment stablecoin exposures? Commenters are encouraged to provide supporting rationale and data to support their recommendations.*

G. Proposed Amendments to Parts 208, 211, 225

Section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)) provides that entities regulated by the Board are ''authorized to engage in the payment stablecoin activities and investments contemplated by [the GENIUS] Act, including acting as a principal or agent with respect to any payment stablecoin and payment of fees to facilitate customer transactions.'' [154] Additionally, section 16(b) of the Act requires the Board to ''review all existing guidance and regulations, and if necessary, amend or promulgate new regulations and guidance, to clarify that regulated entities are authorized to engage in such activities and investments.'' The Board has reviewed its existing guidance and regulations and believes the amendments to the Board's regulations discussed below are necessary to clarify

[153] Under the current capital rule, exposures to payment stablecoins would be credit exposures to the PPSI. Most payment stablecoins are currently issued by firms the exposures of which would be corporate exposures for purposes of the capital rule. *See* 12 CFR 217.2 (''corporate exposure''). Payment stablecoin exposures would likely be subject to a 100 percent risk weight under the current capital rule. *See* 12 CFR 217.32(f). Additionally, some payment stablecoins may be issued by firms that qualify as depository institutions under the current capital rule and could receive a lower risk weight. *See* 12 CFR 217.2 (''depository institution''), 12 CFR 217.32(d).

[154] As discussed in section II.B.1.a of this **SUPPLEMENTARY INFORMATION**, for avoidance of doubt, acting as a custodian is permissible as an agency activity.

the authority of State member banks, uninsured State branches and State agencies of foreign banks, Edge and agreement corporations, and depository institution holding companies to engage in such activities and investments.

1. Proposed Amendment to Part 208

The Board is proposing to amend Regulation H (12 CFR part 208) to include interpretations in proposed § 208.113 regarding the authority of (i) a subsidiary of an insured State member bank to issue payment stablecoins, (ii) an uninsured State member bank to issue payment stablecoins directly, and (iii) a State member bank to engage in certain digital asset related activities.[155]

Paragraph (b) of proposed § 208.113 would clarify that an insured State member bank may own the equity securities of a Board-supervised PPSI, provided that the insured State member bank (i) has a controlling interest and (ii) has received the prior approval of the Board for a subsidiary to issue payment stablecoins pursuant to proposed subpart D of part 247. While State member banks are generally restricted in their ability to own corporate securities as principal,[156] the GENIUS Act specifically empowers an insured State member bank to own a controlling interest in a PPSI that has been approved by the Board.[157]

Paragraph (c) of proposed § 208.113 would address the authority of an uninsured State member bank to issue payment stablecoins directly. Sections 2(23) and (31) of the GENIUS Act (12 U.S.C. 5901(23) and (31)) define the term PPSI to include an entity that is legally established under the laws of a State and approved to issue payment stablecoins by a State payment stablecoin regulator and that is not, among other things, an insured depository institution or subsidiary thereof. Accordingly, an uninsured, State-chartered bank is simultaneously eligible to become a PPSI under the GENIUS Act and to apply to become a member of the Federal Reserve System under the Federal Reserve Act (12 U.S.C. 221 and 321). Paragraph (c) of proposed § 208.113 would clarify that if an uninsured State member bank is also a State-qualified PPSI, the entity is subject to supervision, regulation, and enforcement (i) by the State payment stablecoin regulator and the Board (pursuant to proposed subpart F of part 247), under the provisions of the GENIUS Act and its implementing regulations and, as applicable, the relevant State regulatory framework for State-qualified PPSIs, and (ii) by the Board pursuant to the provisions of the Federal Reserve Act and any other laws and regulations applicable to State member banks.

Consistent with section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), as discussed above in section II.B.1.a of this **SUPPLEMENTARY INFORMATION**, paragraph (d) of proposed § 208.113 would state that a State member bank may engage in certain digital asset-related activities. Paragraph (d) of proposed § 208.113 would state that a State member bank may, in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act or other permissible activities and investments, (i) act as principal or agent with respect to any payment stablecoin; (ii) pay fees to facilitate customer transactions; (iii) pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms; and (iv) hold as principal non-payment stablecoin digital assets necessary to conduct the activities described in (ii) or (iii), provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities.

2. Proposed Amendment to Part 211

The Board is proposing to amend Regulation K (12 CFR part 211) to clarify the permissibility of certain digital asset-related activities for uninsured State branches, State agencies, and Edge and agreement corporations.

Consistent with section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), as discussed above in section II.B.1.a of this **SUPPLEMENTARY INFORMATION**, paragraph (b) of proposed § 211.606 would clarify that an uninsured State branch or State agency of a foreign bank may engage in certain digital asset-related activities. Paragraph (b) of proposed § 211.606 would state that uninsured State branches and State agencies of foreign banks may, in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act or other permissible activities and investments, (i) act as principal or agent with respect to any payment stablecoin; (ii) pay fees to facilitate customer transactions; (iii) pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms; and (iv) hold as principal non-payment stablecoin digital assets necessary to conduct the activities described in (ii) or (iii), provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities. With respect to an Edge or agreement corporation, the proposed rule would amend Regulation K to add proposed § 211.10(a)(20), which would provide that such activities are usual in connection with the transaction of banking or other financial operations abroad.

Question 232: Section 2(11)(C) of the GENIUS Act (12 U.S.C. 5901(11)(C)) indicates that a Federal branch of a foreign bank may become a PPSI, if it is approved by the OCC to issue payment stablecoins. Should the Board amend Regulation K to indicate that an uninsured State branch is permitted to become a PPSI, if approved by its home State,[158] *provided that its home State's certification of substantial similarity has been unanimously approved by the Stablecoin Certification Review Committee? Should State agencies (as defined in the International Banking Act) also be permitted to become State-qualified PPSIs under such conditions? If an uninsured State branch of a foreign bank is permitted to become a State-qualified PPSI, to which Federal regulatory framework should the State-qualified PPSI transition (absent a waiver) when it reaches $10 billion in outstanding stablecoin issuance: the Board's regulatory framework or the OCC's regulatory framework?*

3. Proposed Amendment to Part 225

The Board is proposing to amend Regulation Y (12 CFR part 225) to include an interpretation in proposed § 225.146 regarding the authority of a bank holding company to make controlling investments in certain PPSIs and to engage in certain digital asset-related activities. Under section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), HOLA (12 U.S.C. 1467a(c)(2)(F)(i)), and the Board's Regulation LL (12 CFR 238.54) savings and loan holding

[155] For the avoidance of doubt, a State member bank is also permitted to engage in custody activities, including custody activities related to payment stablecoins, provided such activities are permissible under applicable State law.

[156] 12 U.S.C. 335; 12 U.S.C. 24(Seventh).

[157] This proposal implements section 16(b) of the GENIUS Act and thus addresses only controlling investments by State member banks in PPSIs. Any noncontrolling investments by State member banks in PPSIs would be governed by section 9(20) of the Federal Reserve Act and section 24 of the Federal Deposit Insurance Act, as applicable. State member banks may consult with Federal Reserve staff regarding the circumstances under which they may make noncontrolling equity investments in PPSIs. *See* Frequently Asked Questions about Regulation H, 12 CFR 208.21 Q2 (March, 31, 2021), *https://www.federalreserve.gov/supervisionreg/legalinterpretations/reg-h-frequently-asked-questions.htm.*

[158] A State-qualified PPSI must be "legally established under the laws of a State and approved to issue payment stablecoins by a State payment stablecoin regulator." 12 U.S.C. 5901(31)(A).

companies would also be permitted to make such investments and engage in such activities, subject to the terms, conditions, and limitations placed on bank holding companies with respect to such activities.

Paragraph (b) of proposed § 225.146 would clarify bank holding companies may, directly or indirectly, own the equity securities of a PPSI in certain circumstances. First, a bank holding company may, without the prior approval of the Board, indirectly own the equity securities of a PPSI that is controlled by the bank holding company's subsidiary insured depository institution, provided that such insured depository institution has received the prior approval of the appropriate Federal banking agency (as that term is defined in 12 U.S.C. 1813) under section 5 of the GENIUS Act (12 U.S.C. 5904). Second, a banking holding company may, without the prior approval of the Board, own the equity securities of other PPSIs that are of the kinds and amounts explicitly eligible by Federal statute for investment by a national bank in reliance on section 4(c)(5) of the BHC Act (12 U.S.C. 1843(c)(5)) and the Board's Regulation Y (12 CFR 225.22(d)(4)), provided that the bank holding company controls the PPSI.[159] This is permitted because, under the GENIUS Act, an insured depository institution (including an insured national bank) is specifically empowered to own a controlling interest in a PPSI that has been approved by the appropriate Federal banking agency.[160]

Paragraph (b) of the proposed § 225.146 would also state that a PPSI controlled by a bank holding company would, as a subsidiary of such bank holding company, be subject to supervision, regulation, and enforcement (i) by its primary Federal or State payment stablecoin regulator under the provisions of the GENIUS Act and its implementing regulations, and (ii) by the Board under the applicable provisions of the BHC Act and other laws and regulations applicable to bank holding companies.[161]

Consistent with section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), as discussed above in section II.B.1.a of this **SUPPLEMENTARY INFORMATION**, paragraph (c) of proposed § 225.146 would clarify that a bank holding company may, in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act or other permissible activities and investments, (i) act as principal or agent with respect to any payment stablecoin; (ii) pay fees to facilitate customer transactions; (iii) pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms; and (iv) hold as principal non-payment stablecoin digital assets necessary to conduct the activities described in (ii) or (iii), provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities.[162]

Question 233: What additional clarifications would be beneficial regarding Board-supervised banking organizations' authorities to engage in activities pursuant to section 16(b) of the Act (12 U.S.C. 5915(b))? Are there other limits or conditions that the Board should consider with respect to Board-supervised banking organizations acting as principal or agent with respect to any payment stablecoin?

Question 234: Beyond paying transaction fees or testing a distributed ledger, do Board-supervised banking organizations need to hold digital assets other than payment stablecoins for purposes within the scope of section 16(b) of the Act (12 U.S.C. 5915(b))? If so, under what circumstances would a Board-supervised PPSI need to hold such assets?

Question 235: The proposed rules provides that a Board-supervised banking organization may not hold non-payment stablecoin digital assets in a quantity that exceeds what is reasonably expected to be necessary to meet near term demand for the payment of customer fees or near-term testing of a distributed ledger-based platform. What are the benefits and drawbacks of codifying this limitation? Should the Board calibrate the limitation differently, including by capping it to a percentage of assets or a certain value threshold?

Question 236: The Board is not currently proposing to amend the Board's Regulation LL (12 CFR part 238) to include an interpretation regarding the activities permissible for savings and loan holding companies in connection with the GENIUS Act. What additional clarifications or actions would be beneficial regarding savings and loan holding companies' authorities to engage in the payment stablecoin- and digital asset-related activities discussed in section II.F.3 of this **SUPPLEMENTARY INFORMATION***?*

Question 237: What additional clarifications, if any, would be helpful regarding the Board's role and expectations with respect to uninsured State member banks that elect to become State-qualified PPSIs?

H. Proposed Amendments to Part 263

The Board is proposing several revisions to the rules of practice and procedure for adjudicatory proceedings in 12 CFR part 263 to incorporate the Act's procedural requirements with respect to Board-supervised PPSIs.

Section 6(b) of the GENIUS Act (12 U.S.C. 5905(b)) requires the Board to follow certain procedures when bringing an enforcement action or imposing civil money penalties against a Board-supervised PPSI for violations of the GENIUS Act, any regulation or order issued under the Act, or any condition imposed in writing by the Board.

Specifically, section 6(b)(4)(A) of the GENIUS Act (12 U.S.C. 5905(b)(4)(A)) requires the Board to comply with the procedures set forth in paragraphs (b) and (e) of section 8 of the Federal Deposit Insurance Act (12 U.S.C. 1818(b) and (e)) if the Board identifies a violation or attempted violation of the Act or makes a determination with respect to the enforcement authorities enumerated at sections 6(b)(1)–(3) of the Act (12 U.S.C. 5905(b)(1)–(3)).[163] Similarly, section 6(b)(4)(D) of the GENIUS Act (12 U.S.C. 5905(b)(4)(D)) permits the Board to follow the procedures in section 8(c) of the Federal Deposit Insurance Act when the Board

[159] Such holdings may be permissible under other authorities. *See, e.g.,* 12 U.S.C. 1843(c)(8); 12 CFR 225.28(b)(5). The Board is not aware of any provision of law that authorizes bank holding companies to control uninsured, State-chartered depository institutions. *See* 12 U.S.C. 1842(e); 12 CFR 225.4; Fed. Rsrv. Reg. Serv. 4–815 (Oct. 3, 1973).

[160] 12 U.S.C. 5901(23); 5904; *see also* 12 CFR 225.22(e).

[161] *See, e.g., supra* n.34. For avoidance of doubt, a PPSI controlled by a savings and loan holding company would, as a subsidiary of such savings and loan holding company, be subject to supervision, regulation, and enforcement (i) by its primary Federal or State payment stablecoin regulator under the provisions of the GENIUS Act and its implementing regulations, and (ii) by the Board under the applicable provisions of HOLA and other laws and regulations applicable to savings and loan holding companies. PPSIs subject to Board supervision under the BHC Act would be supervised in the same manner as any other subsidiary of a bank holding company. The Board's supervision of subsidiaries of a bank holding company is subject to statutory limitations. *See* 12 U.S.C. 1844(c).

[162] Consistent with section 16(b) of the GENIUS Act (12 U.S.C. 5915(b)), the activities enumerated in paragraph (c) of proposed § 225.146 would also be permissible for savings and loan holding companies, subject to the terms, conditions, and limitations placed on bank holding companies with respect to such activities. *See also, supra* n.34.

[163] Section 6(b)(1) through (3) of the Act (12 U.S.C. 5905(b)(1)–(3)) give the Board authority to suspend or revoke the registration of a Board-supervised PPSI, initiate cease-and-desist proceedings, and remove and prohibit institution-affiliated parties.

issues a temporary cease-and-desist order.

Section 6(b)(5)(D) of the GENIUS Act (12 U.S.C. 5905(b)(5)(D)) clarifies that any civil money penalty imposed under the Act may be assessed and collected by the Board pursuant to the procedures set forth in section 8(i)(2) of the Federal Deposit Insurance Act (12 U.S.C. 1818(i)(2)).

Consistent with the GENIUS Act, the Board proposes to revise § 263.1 to clarify that the rules of practice for hearings in part 263 apply to the following proceedings: suspension or revocation of registration, cease-and-desist, temporary cease-and-desist, removal and prohibition, or civil money penalties under section 6 of the GENIUS Act (12 U.S.C. 5905). Additionally, the Board proposes to revise § 263.450 to clarify that the part 263 procedures for formal investigations apply to formal investigations initiated by the Board pursuant to section 6 of the GENIUS Act (12 U.S.C. 5905).

The Board also proposes several technical revisions. Specifically, the Board proposes to revise the definitions of ''institution'' and ''institution-affiliated party'' in § 263.3 to incorporate Board-supervised PPSIs and actions brought pursuant to the Act.

Question 238: What additional clarifications, if any, are needed regarding the application of the Board's of the Board's Rule of Practice for Hearings with respect to Board-supervised PPSIs?

I. Additional Request for Comment

Question 239: Are there any aspects of the OCC's notice of proposed rulemaking implementing its responsibilities under the GENIUS Act that the Board should consider adopting?

Question 240: A PPSI must be obligated to convert, redeem, or repurchase its issued payment stablecoins for a fixed amount of monetary value, not including a digital asset denominated in a fixed amount of monetary value. Is additional guidance needed on the accounting treatment for issued payment stablecoins and the associated reserve assets? If so, what considerations should factor into any such guidance (e.g., what legal structures would be relevant to the accounting treatment)? [similar to OCC question 199]

Question 241: What impact would the proposed rule have on credit creation? How can the Board minimize any negative impact to credit creation? [similar to OCC question 200]

Question 242: Should any additional aspects of the proposed rule be adjusted based on the size of the Board-supervised PPSI? For example, are there additional aspects of the proposed rule that should be applied exclusively to Board-supervised PPSIs with outstanding issuance above a certain amount? Should the Board measure the ''size'' of a Board-supervised PPSI by its outstanding stablecoin issuance or is there a better way to measurement? [similar to OCC question 201]

Question 243: Are there any aspects of the proposed rule that the Board should adjust to promote fair competition between banks and non-banks? [similar to OCC question 202]

Question 244: Should the proposed rule explicitly address Board-supervised PPSIs that also issue/redeem the same or similar stablecoins in one or more foreign jurisdictions? Could these Board-supervised PPSIs be subject to additional risks or operational challenges that are not sufficiently addressed by the proposed rule? To what extent should stablecoin holders be able to distinguish between stablecoins issued under the GENIUS Act versus another regulatory regime? If the holder should be able to establish that it is holding a GENIUS Act compliant stablecoin, how should the Board assist the holder in making this determination? For example, should the Board impose required disclosures or technical requirements, such as through smart contracts, including those that use wrappers or other techniques? [similar to OCC question 203]

Question 245: What additional issues could arise with respect to a business model where a foreign affiliate issues or redeems payment stablecoins abroad? How should the Board address these issues? [similar to OCC question 204]

Question 246: Are there any other technical developments in distributed ledger protocols, digital assets, or related technologies that the proposed rule should address to ensure the purposes of the GENIUS Act are being met? For example, should the Board consider automating aspects of reporting or oversight? Should the Board incorporate additional provisions concerning the use of smart contracts when considering compliance with aspects of the proposed rule, such as risk management? Are there dynamics relevant to particular blockchains that could affect liquidity, redemption, operating risk, or run risk that the Board should consider and incorporate into any final rule? [similar to OCC question 205]

Question 247: Are there any particular considerations that the Board should bear in mind or changes that the Board should make with respect to Board-supervised PPSIs that are owned or operated by a consortium of other entities? In cases where the consortium includes both insured State member banks and other entities (e.g., national banks or State non-member banks), which agency should be the primary Federal payment stablecoin regulator (e.g., the primary Federal payment stablecoin regulator of the majority owner or owners)? [similar to OCC question 206]

Question 248: Section 11(h) of the GENIUS Act (12 U.S.C. 5910(h)) provides that the primary Federal payment stablecoin regulators shall perform a study of the potential insolvency proceedings of PPSIs, and issue a report that includes the findings of the study and any legislative recommendations. What are some existing gaps in the bankruptcy laws and rules for PPSIs, including Board-supervised PPSIs? What impediments exist for payment stablecoin holders' ability to be paid out in full? What is the utility of orderly insolvency administration regimes? Are any additional authorities needed to implement such regimes, and what legislative recommendations should regulators make?

Question 249: Section 12 of the GENIUS Act (12 U.S.C. 5912) provides that the primary Federal payment stablecoin regulators, in consultation with the National Institute of Standards and Technology, and other relevant standard-setting organizations, and State bank and credit union regulators, shall assess and, if necessary, prescribe standards for PPSIs to promote compatibility and interoperability with other PPSIs and the broader digital finance ecosystem. What efforts are issuers currently taking to address challenges posed by interoperability? What considerations should the regulators take into account in determining whether standards are necessary? Would the promulgation of standards help to broaden adoption of stablecoins? [similar to OCC question 208]

Question 250: What are risks posed by different types of interoperability solutions and how might PPSIs and regulators manage those risks? How can interoperability solutions aid in addressing risks facing PPSIs? What risks are introduced by cross-chain bridges and other interoperability solutions and how do these risks interact with Bank Secrecy Act/anti-money laundering and sanctions requirements? What steps can be taken to address such Bank Secrecy Act/anti-money laundering and sanctions concerns? [similar to OCC question 209]

Question 251: Is there anything else the Board should do to address potential fraud concerns in the context of a final rule? For example, a bad actor may create fraudulent tokens intended to mimic a payment stablecoin. Are there technical or other requirements the Board should impose to mitigate the potential for such fraudulent tokens to harm consumers? For example, should authentic stablecoins be required to have an electronic signature that can be verified by a recipient? Are there other areas of potential fraud that the Board should be aware of and should attempt to mitigate in the final rule? [similar to OCC question 210]

Question 252: What changes to existing rules should be made in recognition of the GENIUS Act? For example, should the Board revise any relevant regulatory thresholds in its rules, such as the capital or liquidity rules, to provide that stablecoin reserves do not count against relevant thresholds in those rules? [similar to OCC question 211]

Question 253: What types of relationships or transactions could a PPSI that is a subsidiary of a member bank engage in with such parent member bank that could have an adverse effect on the member bank? What specific actions pursuant to sections 23A and 23B of the Federal Reserve Act and the Board's Regulation W (12 CFR part 223) should the Board consider taking to limit potential harm to member banks?

Question 254: Under current law, PPSIs that are subsidiaries of member banks are treated like operating subsidiaries under Regulation W. What would be the advantages and disadvantages of treating PPSI subsidiaries of member banks like financial subsidiaries and designating them as ''affiliates'' under Regulation W, pursuant to section 23A(b)(1)(E) of the Federal Reserve Act? What would be the advantages and disadvantages of treating PPSIs that are subsidiaries of member banks like insured depository institution subsidiaries of member banks, thereby subjecting transactions or relationships between a member bank and its PPSI subsidiary only to (i) the market terms requirements of section 23B of the Federal Reserve Act; and (ii) the prohibition on a member bank's purchase of low-quality assets from its PPSI subsidiary, consistent with the limitations in Regulation W (12 CFR 223.15)?

III. Economic Analysis

A. Introduction

The GENIUS Act sets forth a Federal regulatory framework for payment stablecoin issuance. As discussed in detail in the previous sections of this **SUPPLEMENTARY INFORMATION**, the Board is proposing rules to implement the requirements of the GENIUS Act for Board-supervised PPSIs. The proposal would also establish requirements for Board-supervised entities that engage in providing related custodial or safekeeping services.

This section discusses the economic effects of the proposal, including the likely costs and benefits. While the costs and benefits of the proposal in large part stem from the statutory requirements of the GENIUS Act, certain costs and benefits are affected by the choices the Board makes in connection with implementing such requirements. The economic analysis addresses the costs and benefits resulting from all the requirements in the proposal.

The subsequent discussion is mostly qualitative in nature, with emphasis on the direction of the economic effects and their economic significance, for a few reasons. First, the expected effects of the proposal are hard to quantify because of the nascent nature of the stablecoin market and the associated uncertainty regarding the various factors that would determine the impact of the proposal. For example, the likelihood that a Board-supervised bank creates a PPSI and enters the stablecoin market is hard to predict, as there are currently no PPSIs operating under a uniform Federal framework in the United States. Additionally, no Board-supervised bank currently owns a stablecoin issuer, further limiting the availability of applicable data. Further, some of the economic effects described below, such as increased transparency, financial stability benefits, and enhanced resilience of stablecoins, are intangible in nature and thus difficult to quantify.

The Board welcomes comments on the economic analysis of the proposal, including data or quantitative analysis on relevant benefits and costs.

B. Broad Economic Considerations

Payment stablecoins function as liquid instruments for settlement that are used across trading venues, payment platforms, and institutional digital asset infrastructures. Stablecoins were initially developed for use in digital asset activities, and the bulk of stablecoin use continues to be for such activities. In early 2026, the aggregate market capitalization of stablecoins reached $317 billion,[164] the approximate equivalent of 15 percent of the non-stablecoin crypto market capitalization.[165] However, the role of stablecoins has the potential to expand beyond digital-asset environments, including as a tool for increased use in payment and settlement and as a dollar-denominated store of value.

Within the United States, payment stablecoins are used across centralized exchanges and decentralized finance platforms, and market participants are beginning to use them in payment applications and institutional settlement systems.[166] U.S. market participants account for a large share of global stablecoin issuance, trading volume, and reserve holdings.[167] The United States also serves as the primary jurisdiction for one of the largest stablecoin issuers (Circle), whose reserve assets are mainly cash and short-term U.S. Treasuries.

Stablecoin regulatory frameworks vary substantially,[168] resulting in a market that features high search and monitoring costs for users. Two similar stablecoins in terms of liquidity and fair value may have quite different reserve asset, liquidity, redemption, or risk management policies. Additionally, there are no universal disclosures or standards to protect stablecoin holders from fraud and the risk of loss.[169]

Market participants have cited regulatory uncertainty as a key reason

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[164] Market capitalization as of April 6, 2026. *See* Francesca Carapella, Arazi Lubis & Alexandros Vardoulakis, ''Stablecoins in 2025: Developments and Financial Stability Implications'' (April 8, 2026), *https://www.federalreserve.gov/econres/notes/feds-notes/stablecoins-in-2025-developments-and-financial-stability-implications-20260408.html.*

[165] Staff calculations using data from DeFi Llama and CoinMetrics.

[166] *See* VISA, ''Visa Launches Stablecoin Settlement in the United States, Marking a Breakthrough for Stablecoin Integration'' (December 16, 2025), *https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.21951.html; see also* Anchorage Digital, ''Anchorage Digital Launches Stablecoin Solutions for Banks to Modernize Cross-Border USD Settlement'' (February 19, 2026), *https://www.anchorage.com/insights/anchorage-digital-launches-stablecoin-solutions-for-banks-to-modernize-cross-border-usd-settlement.*

[167] *See* International Monetary Fund, ''Understanding Stablecoins'' 4 (2025), *https://www.imf.org/en/-/media/files/publications/dp/2025/english/usea.pdf.*

[168] *See* Section III.C of this **SUPPLEMENTARY INFORMATION.**

[169] *See* European Central Bank, ''Stablecoins' role in crypto and beyond: functions, risks and policy'' (July 2022), *https://www.ecb.europa.eu/press/financial-stability-publications/macroprudential-bulletin/html/ecb.mpbu202207_2~836f682ed7.en.html;* Financial Stability Board, ''Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities'' (2025), *https://www.fsb.org/uploads/P161025-1.pdf.*

for not entering this market,[170] potentially reducing the supply of payment stablecoins. Increased competition in the supply of stablecoins is likely to improve user experience. In addition, increased competition may reduce the likelihood of episodes of market instability by reducing market concentration and offering alternatives with the standards of transparency and risk management that this proposal would provide. As detailed below, the market for stablecoin issuance can be currently described as duopolistic with a long tail of smaller participants. The aforementioned barriers to entry on the supply side, coupled with the benefits stemming from broad adoption and the associated liquidity, create a market where a significant number of users opt for the two leading stablecoin providers.

The proposal would provide a regulatory framework that would increase the transparency of Board-supervised PPSIs for both stablecoin holders and regulators. In addition, by providing regulatory clarity, the proposal would create incentives for new participants to enter the market. Finally, the proposal would establish clear standards that are calibrated to help ensure payment stablecoins are a safe and sound financial product and help protect their users from loss.

C. Baseline

Reflecting the current regulatory framework and the associated absence of PPSIs, the proposal's economic analysis considers a pre-statutory baseline under which the GENIUS Act is not enacted. Under this baseline, insured State member banks do not issue payment stablecoins directly or through a subsidiary given the lack of regulatory clarity and the high barriers to entry surrounding such activities. While a few State member banks currently engage in stablecoin-related activities, they do not issue payment stablecoins directly or through a subsidiary.[171]

Before the passage of the GENIUS Act, there was no comprehensive Federal framework governing payment stablecoin issuance. To date, payment stablecoin issuance has been subject to State regulations and money transmission laws, as well as Federal anti-money laundering and sanctions laws. The New York Department of Financial Services (NYDFS) Guidance on the Issuance of U.S. Dollar-Backed Stablecoins is currently the most relied-upon standard for payment stablecoins in the United States.[172] NYDFS oversees several prominent stablecoin issuers.

The NYDFS guidance, updated in 2022, includes conditions that U.S. dollar-backed payment stablecoins be fully backed by a reserve composed of safe, highly liquid assets. The guidance also requires that reserve assets be kept separate from the issuer's own operating funds and must be held in custody by certain eligible entities. Furthermore, issuers must provide a clear and conspicuous redemption policy. Issuers must also provide monthly, independent, third-party attestations of their reserve assets to the public. Separate NYDFS guidance requires that organizations engaged in virtual currency-related activities, which include services related to payment stablecoins, submit detailed information about their enterprise risk management frameworks to NYDFS.[173]

In addition to NYDFS, other States have established laws and regulations governing stablecoin issuers.[174] For example, Wyoming has established reserve requirements for issuers that require full backing (100 percent–102 percent of reserve assets) by highly-liquid, low risk assets.[175] Similarly, the State of Nebraska has established reserve requirements for issuers that require full backing (100 percent of reserve assets) by highly-liquid, low risk assets.[176]

Internationally, some jurisdictions have already implemented regulatory frameworks for payment stablecoins (for example, the European Union (2023), Japan (2023), United Arab Emirates (2024), and Singapore (2023)). Other jurisdictions, such as the United Kingdom and Hong Kong, are developing their frameworks. According to the Financial Stability Board,[177] G20 jurisdictions have broadly adopted two approaches to regulate financial stability risks of digital asset activities. The first approach extends existing financial regulations to encompass digital assets, while the second approach introduces customized regulatory frameworks tailored to the unique features of digital assets. The GENIUS Act follows the second approach.

In early 2026, the market capitalization of stablecoins was approximately $317 billion, with U.S. dollar-denominated payment stablecoins representing most of this value.[178] This concentration reflects the continued dominance of the U.S. dollar as the preferred reference currency for digital asset transactions.

The global stablecoin market at the end of 2025 was characterized by a high degree of concentration, with a small number of U.S. dollar-denominated instruments accounting for most of the supply and transaction volume. From a competitive point of view, the market exhibits high concentration with two leading providers and a long tail of smaller participants. This market structure reflects the network effects attendant to stablecoin issuance: once a stablecoin reaches a certain scale, each new stablecoin issued generates more adoption and utility than the previous one, creating a reinforcing loop and making it harder for smaller competitors to break through.[179] As of the second half of 2025, the top two stablecoin issuers represented a dominant share of the market:[180] The value of outstanding Tether (USDT) stood in the range of

[170] *See, e.g.,* GFMA, AFME, ASIFMA, et al., ''The Impact of Distributed Ledger Technology in Capital Markets'' (2025), *https://www.gfma.org/wp-content/uploads/2025/08/1.-full-report-impact-of-dlt-in-cap-mkts-final-1.pdf.*

[171] For example, some State member banks provide services to stablecoin arrangements, including managing reserve assets. However, State member banks do not issue payment stablecoins directly.

[172] *See* New York Department of Financial Services, ''Virtual Currency Guidance'' (2022), *https://www.dfs.ny.gov/industry_guidance/industry_letters/il20220608_issuance_stablecoins.* NYDFS has proposed new regulations in connection with the GENIUS Act that are not currently in effect. New York Department of Financial Services, Proposed New 23 NYCRR 202, *https://www.dfs.ny.gov/industry_guidance/regulatory_activity/financial_services.*

[173] *See* New York Department of Financial Services, ''Industry Letter Regarding Prior Approval for Covered Institutions' Virtual Currency-Related Activity'' (2022), *https://www.dfs.ny.gov/system/files/documents/2025/04/il20221215_prior_approval_rev.pdf.* As of February of 2026, the list of payment stablecoins approved by the NYDFS include the following U.S. dollar denominated payment stablecoins: Gemini Dollar (GUSD), GMO USD (ZUSD), Ripple USD (RLUSD) and WisdomTree Dollar (USDW). *See* New York Department of Financial Services, ''Virtual Currency Business Licensing,'' *https://www.dfs.ny.gov/virtual_currency_businesses#:~:text=When%20you%20first%20log%20in,discontinue%20the%20Greenlist%20process%20entirely.*

[174] *See, e.g.,* Wyoming (Wyo. Stat. § 13–12–101, *et seq.* (the ''Special Purpose Depository Institutions Act'') and Wyo. Stat. § 34–29–101, *et seq.*) and Nebraska (Neb. Rev. St. § 8–3001, *et seq.* (the ''Nebraska Financial Innovation Act'')).

[175] Wyo. Stat. 13–12–105, 13–12–106.

[176] Neb. Rev. St. § 8–3009.

[177] *See* Financial Stability Board, ''Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities'' (2025), *https://www.fsb.org/uploads/P161025-1.pdf.*

[178] See *supra* n.164.

[179] *See* Bruno Jullien, Alessandro Pavan & Marc Rysman, ''Two-sided Markets, Pricing, and Network Effects'' (July 2021), *https://faculty.wcas.northwestern.edu/apa522/Two-Sided-Market-and-Network-Effects.pdf#:~:text=As%20a%20product%20with%20network%20effects%20diffuses,effects%20can%20protect%20platform%20owners%20from%20entry.*

[180] *See* Emir Abyazov, ''Stablecoin Market Surpasses 300 Billion and Keeps Growing'' (October 3, 2025), *https://coinpaper.com/11431/stablecoin-market-surpasses-300-billion-and-keeps-growing.*

$173–187 billion as of October 2025, corresponding to roughly 58 percent of total stablecoin supply; USD Coin (USDC) issued by Circle has the second largest share of the market, with circulating supply of approximately $70–75 billion in late 2025, representing about 24–25 percent of global stablecoin capitalization. A third tier of stablecoins accounts for 15 to 20 percent of the market. Examples of such stablecoins include Paxos Trust (USDP), Gemini Trust (GUSD), and Paxos Trust for PayPal (PYUSD).

The stablecoin market in the United States also features stablecoin-as-a-service (SCaaS) arrangements. These arrangements allow companies to launch branded stablecoins using pre-built technology from certain third-party providers. SCaaS arrangements include compliance, custodial services, and blockchain infrastructure.

1. Affected Parties

a. Regulated Entities That Issue Payment Stablecoins: Board-Supervised PPSIs

Under the GENIUS Act, the Board is responsible for regulating and supervising PPSIs that are (i) subsidiaries of insured State member banks and (ii) State-qualified PPSIs that are uninsured depository institutions with more than $10 billion in outstanding stablecoin issuance, unless they receive a waiver.

The GENIUS Act and the proposal would allow insured State member banks to form PPSI subsidiaries with the Board's prior approval. As of December 31, 2025, the Federal Reserve System regulated 703 insured State member banks,[181] including four that are part of GSIBs and 10 that are State member banks within large and foreign banking organizations (LFBO).[182] Subsidiaries of all 703 insured State member banks would have the potential to seek Board approval for a subsidiary to issue payment stablecoins.

b. PPSIs Regulated by Other Agencies (Non-Board-Supervised PPSIs)

Certain PPSIs may be regulated by the OCC, the FDIC, NCUA, or State authorities.[183] By providing regulatory clarity, the proposal would encourage the formation of Board-supervised PPSIs. The stablecoins issued by Board-supervised PPSIs could become potential competitors to stablecoins issued by non-Board-supervised PPSIs, which could impact the earnings and growth potential of the former.

c. Stablecoin End Users

According to the IMF, most stablecoins are still used primarily to settle digital asset trades in traditional currencies.[184] Therefore, most stablecoin users are individuals who trade digital assets and firms, such as exchanges, that provide related services to them. One study highlights substantial growth in the use of stablecoins by retail investors recently.[185]

Nonetheless, an industry survey from 2025 shows growing interest in stablecoins from traditional corporations and financial institutions.[186] For example, out of a sample of 350 firms surveyed by Ernst and Young (250 corporates and 100 financial institutions), 13 percent had already used stablecoins, and 65 percent expected their interest in using stablecoins to rise. Interest in using stablecoins stemmed from potential uses, such as cross-border payments (including payment to suppliers).

Stablecoin end users should generally benefit from more standardized regulations for stablecoins. By establishing standards for, among other things, reserve assets, redemption rights, and capital requirements, the proposal would help protect end-users from loss and generally provide confidence about payment stablecoins' safety and soundness.

d. Board-Supervised Providers of Custodial Services

Section 10 of the GENIUS Act (12 U.S.C. 5909) establishes requirements for Board-supervised entities seeking to provide custodial or safekeeping services for payment stablecoin reserve assets, payment stablecoins used as collateral, or the private keys used to issue payment stablecoins. Section II.C.2 of this **SUPPLEMENTARY INFORMATION** discusses these requirements.

The current market for custody of reserve assets features participants from both the ''traditional'' banking (for example, BNY Mellon, State Street) and ''crypto-native'' sectors (for example, Paxos Trust Company). For example, the majority of USDC's reserve assets are held in custody at BNY Mellon and managed by BlackRock,[187] with the remainder mostly held at other GSIBs.[188] Custody services are also one of the ancillary services that SCaaS providers offer to potential entrants to the stablecoin issuance market.

An expanded role of payment stablecoin custodians stemming from GENIUS Act implementation would catalyze the expansion of the custody market, potentially incentivizing new entrants to it.

e. U.S. Treasury Market Participants

The U.S. Treasury market is the world's largest and most liquid sovereign debt market, with a market structure that features multiple types of participants.[189] The proposal permits a Board-supervised PPSI to hold, as part of its reserve assets, Treasury bills, notes, or bonds with an initial or remaining maturity of 93 days or less; money received under certain overnight repurchase agreements backed by Treasury bills with a maturity of 93 days or less; and certain overnight reverse repurchase agreements that are collateralized by Treasury notes, bills, or bonds.[190] It also permits Board-supervised PPSIs to hold interests in investment companies or other funds that invest in these assets. These provisions could create linkages between PPSIs and U.S. Treasury market participants, including primary dealers, buy-side investors, and sell-side intermediaries.[191]

[181] Of these 703 banking organizations, 647 are State member banks under the Community Banking Organization (CBO) program and 43 are State member banks under the Regional Banking Organization (RBO) program.

[182] Call Report Data, December 31, 2025.

[183] 12 U.S.C. 5901(11), (23), (31); 5903(c), (d); 5904.

[184] *See* Tobias Adrian, Marcello Miccoli & Nobuyasu Sugimoto, ''How Stablecoins Can Improve Payments and Global Finance'' (December 4, 2025), *https://www.imf.org/en/blogs/articles/2025/12/04/how-stablecoins-can-improve-payments-and-global-finance.*

[185] Retail investors are defined as ''investors with net weekly holdings of stablecoins in their wallets that do not exceed $1000 in value.'' See Francesca Carapella, Arazi Lubis & Alexandros Vardoulakis, ''Stablecoins in 2025: Developments and Financial Stability Implications'' (April 8, 2026), *https://www.federalreserve.gov/econres/notes/feds-notes/stablecoins-in-2025-developments-and-financial-stability-implications-20260408.html.*

[186] *See* Ernst & Young, ''Stablecoins in Focus: Navigating the New Digital Financial Landscape'' (September 2025), *https://www.ey.com/content/dam/ey-unified-site/ey-com/en-us/insights/financial-services/documents/cs-eyp-stablecoin-survey.pdf.*

[187] The proposal only affects Board-supervised entities. State Street and BNY Mellon are Board-supervised entities, while BlackRock and Paxos are not.

[188] *See* Circle, ''Banks,'' *https://www.circle.com/banks.*

[189] *See* U.S. Department of Treasury et al., ''Enhancing the Resilience of the U.S. Treasury Market: 2024 Staff Progress Report '' (September 20, 2024), *https://home.treasury.gov/system/files/136/2024-IAWG-report.pdf.*

[190] *See* 12 U.S.C. 5903(a)(1)(A).

[191] Primary Dealers are trading counterparties of the New York Federal Reserve Bank in its implementation of monetary policy. Buy-side investors, which includes mutual funds, pension funds, insurance companies, banks, foreign sovereigns, and the Federal Reserve, among others, will compete with PPSIs for short-term Treasury securities both in the primary and secondary markets. Sell-side intermediaries, which includes inter-dealer brokers, electronic trading platforms,

Continued

D. Proposal

The proposal implements the Board's responsibilities under the GENIUS Act. Section II.B of this **SUPPLEMENTARY INFORMATION** proposes regulations applicable to Board-supervised PPSIs to implement certain provisions in section 4 of the GENIUS Act (12 U.S.C. 5903), including regulations regarding permissible and prohibited activities, reserve asset requirements, redemptions and fees, risk management standards, supervision and audits, and capital. Section II.C of this **SUPPLEMENTARY INFORMATION** implements section 10 of the GENIUS Act (12 U.S.C. 5909) by proposing requirements on Board-supervised persons providing custodial or safekeeping services for payment stablecoin reserve assets, payment stablecoins used as collateral, or the private keys used to issue payment stablecoins. Section II.D of this **SUPPLEMENTARY INFORMATION** proposes a tying prohibition on all PPSIs to implement section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)). Section II.E of this **SUPPLEMENTARY INFORMATION** implements the Board's back-up enforcement authorities with respect to State-qualified PPSIs, and the transition provisions for State-qualified PPSIs that are uninsured State-chartered depository institutions with an outstanding issuance of $10 billion. Finally, sections II.F–II.G of this **SUPPLEMENTARY INFORMATION** amend certain elements of the Board's regulations for banking organizations to reflect particular requirements of the GENIUS Act.

In addition, as detailed in section II.F of this **SUPPLEMENTARY INFORMATION**, the proposal would include an amendment to the Board's capital rule, 12 CFR part 217, which would ensure that banking organizations that consolidate a PPSI subsidiary would not be required to hold any additional capital with respect to such PPSI and its assets and operations in excess of the capital that such PPSI is required to maintain under the capital regulations promulgated under the GENIUS Act. Under the baseline, Board-regulated institutions do not consolidate PPSIs; accordingly, this amendment does not have any impact.

E. Reasonable Alternatives

This section discusses potential alternatives to the Board's proposed capital and reserve asset diversification requirements for Board-supervised PPSIs. The GENIUS Act provides a detailed statutory framework that limits the Board's regulatory discretion.[192] This analysis of reasonable alternatives therefore focuses on specific provisions where the statute permits flexibility in implementation choices.

1. Internal Models-Based Capital Requirements

An alternative to the approach proposed by the Board would be to propose internal models-based capital requirements for Board-supervised PPSIs. Under such an approach, a Board-supervised PPSI would determine the required amount of capital consistent with the principles articulated by the Board's rule. This alternative would allow covered firms to use their own models to calculate their capital requirements and would be congruent with the principles-based risk management requirements in the proposal. This alternative would also be consistent with the GENIUS Act requirements that the Board establish capital requirements that are tailored to the business model and risk profile of a Board-supervised PPSI and do not exceed requirements sufficient to ensure the ongoing operations of the Board-supervised PPSI.

For example, the Basel III capital proposal for large banking organizations permits covered firms to use an internal-models-based approach to estimate capital requirements for market risk.[193] Within this framework, firms use their own data and models to estimate requirements.

This approach could provide certain benefits. By allowing firms to develop models specific to own their business models and risks, it would potentially allow for more risk-sensitive capital requirements than a standardized approach. Such an approach could better reflect the dependency across risks and be well-integrated with a firm's risk and capital management practices.

However, this approach also entails certain costs.[194] For instance, Board-supervised PPSIs would need to invest in building and implementing models to calculate such capital requirements, which results in compliance costs. Also, this approach would likely lead to different capital requirements for similar risks across covered firms when compared with the proposal's standardized credit risk and operational risk charges, potentially affecting competition among them. And in cases where internal-models based requirements are inappropriately calibrated—for example because of the Board-supervised PPSI not having sufficient data to properly assess risk—the estimated capital requirements may be insufficient to cover unexpected losses.

Further, a well-calibrated standardized risk-based capital framework would help promote consistency and transparency across Board-supervised PPSIs, which would enhance market discipline. In addition, a standardized capital framework would make monitoring and enforcement by supervisors more effective.

2. Simpler Operational Risk Requirement

Alternatively, the standardized operational risk capital requirement could be made simpler. For example, the operational risk capital requirement can be made equal to a flat 1 or 2 percent of stablecoin issuance plus a certain percentage of non-reserve revenues. Relative to the proposal, this approach would remove the varying marginal requirements on stablecoin issuance and the effect of losses on operational risk requirements—thereby lowering the associated data collection requirements. This approach would also ensure that increases in stablecoin issuance receive equal marginal operational risk capital requirements regardless of the scale of the firm.

However, this simpler approach may not be as risk sensitive as the proposal. If historical operational losses prove predictive of future operational losses for Board-supervised PPSIs, then the removal of the loss component would reduce the risk sensitivity. Also, by not differentiating requirements according to a Board-supervised PPSI's operational loss experience, such an approach would not introduce incentives for these firms to reduce their operational risk exposure.

Risk sensitivity might also be reduced under this alternative if operational risks scale less than proportionally with

and high-frequency trading firms, are important liquidity providers in the Treasury markets and will interact with PPSIs to accommodate the reserve asset needs of PPSIs.

[192] For example, sections 4(a)(4)(A)(i) and (iii) of the GENIUS Act (12 U.S.C. 5903(a)(4)(A)(i) and (iii)) require the Board to issue regulations implementing capital requirements and reserve asset diversification, including deposit concentration at banking institutions and interest rate risk management standards, that ''are tailored to the business model and risk profile of [PPSIs]'' and ''do not exceed [requirements/standards] that are sufficient to ensure the ongoing operations of [PPSIs].'' Further, if the Board determines that a capital buffer is necessary to ensure the ongoing operations of a PPSI, it may include buffers that are tailored to the business model and risk profile of PPSIs.

[193] See 91 FR 14952 (March 27, 2026).

[194] For a discussion of the downsides of using internal models for credit and operational risk in bank capital requirements, see section II.C of the joint agency proposal on regulatory capital rule. 91 FR 14952, 14958–59 (March 27, 2026).

outstanding issuance value. For example, successful theft and transfer of a larger amount of stablecoin may be more challenging than smaller amounts, thereby implying that the operational risk associated with such fraudulent activities may grow less than proportionally with stablecoin issuance (see section II.B.6.b.iii of this **SUPPLEMENTARY INFORMATION** for additional discussion and see comments to Treasury's Advance Notice of Proposed Rulemaking).[195]

3. Require an Operational Backstop

Another potential alternative would be to also adopt an operational backstop such as that proposed by the OCC [196] in its proposed rules related to GENIUS Act implementation. An operational backstop is a designated amount of highly liquid assets to maintain the ongoing operation of the Board-supervised PPSI during a business disruption.

The assets of the proposed operational backstop would be independent of the de novo or ongoing capital requirements and from reserve assets. The amount of the operational backstop would be based on the Board-supervised PPSI's total expenses as reported in a predetermined number of recent quarterly reports.

The intended benefit of the operational backstop would be to further help ensure that, if a business disruption impacts operations of a Board-supervised PPSI, a liquid pool of identifiable assets would exist to enable the Board-supervised PPSI to meet its short-term liquidity needs. This could help stabilize the Board-supervised PPSI after the disruption, and enable it to resume normal operations. One limitation of this approach is that the operational backstop could be financed by short-term funding, posing a potential liquidity risk.

The proposal's capital requirements and requirements on reserve assets, however, would help ensure the ability of the Board-supervised PPSI to continue operations through a business disruption. As such, the marginal benefits of the operational backstop would be limited.

4. Reserve Asset Requirements With Prescriptive Conditions

As an alternative to the proposal's principles-based reserve asset requirements, one could propose a set of reserve asset requirements with specific limits on certain types of assets. This alternative could mirror OCC's Safe Harbor/Option B requirements. Specifically, on each business day, a Board-supervised PPSI would have to maintain the following: [197]

▪ At least 10 percent of its required reserve assets as deposits, insured shares, or reserve bank balances.

• At least 30 percent of its reserve assets as deposits; insured shares; reserve bank balances; or amounts receivable within 5 business days on pending sales of reserve assets, maturing reserve assets, or other maturing transactions.

• No more than 40 percent of reserve assets at any one eligible financial institution (as that term is defined by the OCC in its GENIUS Act notice of proposed rulemaking).

• No more than five percent of reserve assets that are deposits at any ''one eligible financial institution.''

• Weighted average maturity of all reserve assets of no more than 20 days.

By capping assets at 40 percent per institution and deposits at five percent per institution, this alternative would help reduce concentration risk by limiting the exposure of a Board-supervised PPSI to a single bank or financial institution, as applicable. However, the proposal's principles-based standards provide greater flexibility that would allow Board-supervised PPSIs to tailor their reserve asset diversification strategy to reflect their specific business model and risk profile.

5. Reserve Asset Requirements That Limit Exposure to One Eligible Financial Institution

Alternatively, the Board could adopt other reserve asset requirements to limit counterparty risk. For example, the FDIC proposed a reserve asset diversification requirement that would limit the exposure of a PPSI to any one eligible financial institution (as that term is defined by the FDIC in its GENIUS Act notice of proposed rulemaking) to no more than 40% of its reserve assets, across all the stablecoins issued by the PPSI.[198]

This alternative would reduce concentration risk and provide a simple measurable standard and would therefore be relatively easy to administer. Nonetheless, the Board's proposed principles-based standard provides greater flexibility to Board-supervised PPSIs while still addressing concentration risks.

F. Benefits of the Proposal

By providing sensible guardrails and regulatory clarity, the proposal would result in a more resilient stablecoin market and increase protection for stablecoin users. By doing so, the proposal could facilitate growth of this market. As described below, this growth could increase demand for U.S. financial products and help enhance operational efficiencies in financial markets.

1. Enhanced System Resilience

The proposal is likely to improve market resilience. Stablecoin adoption could grow significantly in the next few years. Absent the proposal, some of the growth could come from stablecoin issuers that fail to maintain one-to-one reserve backing or that do not finance themselves with sufficient capital to sustain unexpected losses and, thus, pose a greater risk of loss to stablecoin holders. Further, this growth could involve interaction between payment stablecoins and swaths of the traditional financial system, which, in turn, could lead to new systemic risks if the stablecoins themselves are vulnerable. Absent the proposal, complex intermediation chains and vertical integration in the stablecoin ecosystem result in opacity and transparency challenges for market participants.[199] The proposal would reduce those risks by establishing clear standards designed to ensure that payment stablecoins remain fully backed, and regular disclosure requirements increase transparency for market participants.

2. More Resilient Stablecoins

The proposal would enhance the resilience of stablecoins by increasing protection and transparency for users. In addition, by improving regulatory clarity, the proposal may encourage entry into and enhance competition in what is currently a concentrated market.

a. Protecting Payment Stablecoin Holders

Maintaining the one-to-one requirement for payment stablecoins. Arguably, the most important issue for

[195] *See* 90 FR 45159 (September 19, 2025)*; see also* 90 FR 47251 (October 1, 2025).

In its comment letter, Circle internet Group states that ''[b]ecause reserve assets are constrained to short-duration, high-quality instruments, marginal balance-sheet risk does not scale linearly with token circulation and is heavily dependent on operational, technology, and infrastructure risk''. *See* Circle, ''Request for Comment on Implementation of the GENIUS Act'' (November 4, 2025), *https://downloads.regulations.gov/TREAS-DO-2025-0037-0259/attachment_1.pdf.*

[196] *See* 91 FR 10202 (March 2, 2026).

[197] *Id.*

[198] *See* 91 FR 18534, 18572 (April 10, 2026).

[199] See Francesca Carapella, Arazi Lubis & Alexandros Vardoulakis, ''Stablecoins in 2025: Developments and Financial Stability Implications'' (April 8, 2026), *https://www.federalreserve.gov/econres/notes/feds-notes/stablecoins-in-2025-developments-and-financial-stability-implications-20260408.html.*

holders of payment stablecoins is that the instruments maintain their par value. Key features of stablecoins include that they operate as digital cash and can be readily exchanged for fiat currency. Such features are threatened when there is a mismatch between the par value of outstanding stablecoins and the reserve assets backing the stablecoin, potentially exposing holders of payment stablecoins to the risk of loss. The proposal would help maintain the one-to-one requirement by, among other things, limiting reserve assets to assets with minimal financial risks.

Improvements in transparency of reserve assets. The proposal would require all Board-supervised PPSIs to publish monthly the total number of outstanding payment stablecoins they have issued and the fair value and composition of their reserve assets, including the average tenor and geographic location of custody of each category of reserve asset. In addition, the proposal would require Board-supervised PPSIs to have this report examined by a registered public accounting firm prior to publication and certified by the Board-supervised PPSI's Chief Executive Officer and Chief Financial Officer.[200] The monthly disclosure requirement would reduce information asymmetries between Board-supervised PPSIs and payment stablecoin holders, allowing the market to differentiate across payment stablecoin issuers by the quality of their reserve requirements.

Enhanced custodial requirements. The GENIUS Act would require entities that custody payment stablecoin reserve assets to be subject to supervision or regulation by a Federal or State financial regulator, to treat covered assets as customer property, to separately account for and not commingle covered assets unless permitted under a listed exception, and to provide their supervisor with certain regulatory information. The proposal implements these requirements with respect to Board-supervised custodians.

Altogether, these requirements protect customer funds held in custody and improve the visibility that regulators have over the activities and conduct of covered custodians. Similarly, these custodial requirements would help ensure that the reserve assets backing payment stablecoins are protected, which in turn protects payment stablecoin holders.

Clarity in redemption policies. Under the proposal, payment stablecoin holders would have the right to redeem their payment stablecoins for fiat currency within two business days following the date of the requested redemption.[201] Holders would also have detailed information about the redemption process. This additional clarity provides certainty to transactions and improves the efficiency of stablecoins as a cash equivalent instrument.

Clear delineation of permissible and prohibited activities by PPSIs. Under the proposed requirements, Board-supervised PPSIs would be limited in the scope of activities that they can undertake in parallel to issuing payment stablecoins. Activities such as rehypothecating, pledging, or reusing reserve assets expose a Board-supervised PPSI's reserve assets to additional financial risks, including those posed by stress at a counterparty. Limiting these activities helps protect payment stablecoin holders from such risks. Moreover, limiting Board-supervised PPSIs to engaging in payment stablecoin-related activities prevents Board-supervised PPSIs from taking on risks outside the business of issuing stablecoins, helping limit the exposure of stablecoin end users to such risks. The prohibitions on deceptive marketing, representations, or naming would reduce the risk that stablecoin end-users mistakenly believe a payment stablecoin is insured by the FDIC, backed by the full faith and credit of the United States, or issued by the Federal government, among other things.

Protecting Board-supervised PPSI from risky transactions with insiders or affiliates. The proposal[202] addresses insider and affiliate transactions and would ensure that transactions between the Board-supervised PPSI and insiders or affiliates do not pose a significant risk of material financial loss to the PPSI.[203] By requiring transactions to be conducted on terms at least as favorable to the PPSI as those prevailing for comparable arm's-length transactions, the proposal would mitigate risks of self-dealing and conflicts of interest that could otherwise deplete the reserve assets backing outstanding stablecoins.

The provision would also help address the moral hazard inherent in situations where insiders have access to preferential terms or can extract value from the Board-supervised PPSI to the detriment of stablecoin end users or other stakeholders. By establishing the "same or more favorable" standard analogous to Regulation O's requirement that insider loans be made on substantially the same terms as those prevailing for comparable transactions with non-insiders, the proposal would ensure that insiders cannot exploit their positions for personal financial advantage.

b. Increased Competition

In addition to the protections described above, the proposal would likely increase competition in the market for payment stablecoin issuance. As discussed in section III.C of this **SUPPLEMENTARY INFORMATION**, the current market for payment stablecoins is dominated by two providers. The proposal would help increase competition in stablecoin issuance by providing regulatory clarity to potential new entrants. Enhanced competition among stablecoin issuers could support innovation in this market, generating potential benefits to stablecoin end users.

In addition, the tying prohibitions described in section II.D.1 of this **SUPPLEMENTARY INFORMATION** prevent PPSIs from using their market power in one stablecoin-related market to gain a competitive advantage in another stablecoin-related market. This set of requirements would protect customer choice and reduce barriers to entry, as new competitors can enter specific markets without having to worry about competing in additional products. This set of requirements would also encourage price transparency, which is reduced when products are bundled. Finally, increased competition among PPSIs would encourage broader adoption of stablecoins and new use cases.

The proposal's principles-based approach to reserve asset diversification may also promote competition by reducing barriers to entry. Unlike prescriptive numerical standards that may favor firms with existing scale and established counterparty relationships, the flexible framework allows new Board-supervised PPSIs to develop reserve asset strategies tailored to their specific circumstances and business models. Unlike prescriptive percentage-based limits, which may become inappropriate as market conditions shift, a principles-based approach enables real-time risk assessment and portfolio adjustments. A principles-based approach also acknowledges that normal variations in reserve asset composition may occur due to inflows of cash to purchase payment stablecoins, outflows of cash to facilitate redemption of payment stablecoins, and

[200] *See* Section II.B.2.d of this **SUPPLEMENTARY INFORMATION**.

[201] *See* Section II.B.3 of this **SUPPLEMENTARY INFORMATION**.

[202] *See* proposed § 247.13(a)(7).

[203] With respect to a Board-supervised PPSI that is a subsidiary of an insured State member bank, these restrictions do not apply to transactions with such insured State member bank.

the regular maturity of permissible investments (*e.g.,* overnight repo and Treasury securities).

3. Increased Demand for U.S. Financial Products

Increasing adoption of payment stablecoins coupled with the reserve asset requirements set forth in section II.B.2 of this **SUPPLEMENTARY INFORMATION** could increase the demand for U.S. financial products, particularly U.S. Treasuries.[204] By specifying short-term Treasury bills and repurchase agreements secured by Treasuries as required reserve assets, the proposal creates structural demand for such securities. These provisions could have potential benefits for the funding of the U.S. government via increased demand for short-term government debt.[205]

The proposal is also likely to increase demand for U.S. dollars, with attendant benefits. The expected increased resiliency of payment stablecoins resulting from policies such as the proposal's reserve assets requirement and capital requirements could encourage foreign investor demand for payment stablecoins that, in turn, would allow a broader set of transactions to be denominated in U.S. dollars.

4. Enhanced Operational Efficiencies in Financial Markets

Payment stablecoins also have the potential to bring new operational efficiencies to financial markets. Realizing these efficiencies depends on establishing robust reserve asset standards and capital requirements for PPSIs, such as those contained in the proposal. These requirements support broader institutional adoption by ensuring stablecoins maintain their value and operational resilience, helping realize operational benefits. For instance, payment stablecoins offer instant settlement functionality. Payment stablecoins are also programmable and can be used, among other things, to facilitate post-trade processes. For example, the CFTC has acknowledged potential benefits of digital assets in collateral management and has taken steps to modernize its regulatory framework to allow for the use of digital assets, including payment stablecoins, as collateral in derivatives markets.[206] Such regulatory acceptance of stablecoins as collateral is predicated on issuers meeting stringent reserve and capital standards that minimize risk. Also, an industry-wide study has examined the benefits of using digital ledger technologies across the full asset trading lifecycle, including issuance, trading, settlement, and servicing.[207] The report estimated significant cost savings across a range of financial market activities. Many such use cases are facilitated or enhanced by stablecoin usage.

As the financial services industry develops new instruments, technologies, and custodial arrangements, a principles-based approach to reserve asset requirements allows Board-supervised PPSIs to adopt these innovations efficiently. This is particularly important in the digital asset ecosystem where new custody solutions, settlement mechanisms, and liquidity management tools continue to emerge.

G. Costs of the Proposal

Implementation of the new GENIUS Act requirements would create costs that would be borne mainly by Board-supervised PPSIs and Board-supervised custodians. These market participants would have to ensure that they conform to the proposal's capital, disclosure regime, reserve asset policies, and risk management frameworks.

The degree to which these additional costs could be passed on from Board-supervised PPSIs to end users in the form of fees and other charges would partially depend on the market power of Board-supervised PPSIs,[208] the future growth of the stablecoin issuance market, and how the proposal would affect both the level of competition across PPSIs and the competition between PPSIs and other payment alternatives. These same considerations apply to service providers that custody payment stablecoins.

1. Costs of the Proposal's Reserve Asset Requirements for Board-Supervised PPSIs

The Board's proposed reserve asset diversification requirements are principles-based, and therefore do not provide specific quantitative limits. Instead, Board-supervised PPSIs will have to interpret how the principles apply to their individual circumstances, which could involve developing models or processes and procedures. These efforts could involve additional costs to Board-supervised PPSIs. Moreover, the proposed principles-based approach could entail certain risks that could be mitigated by a more prescriptive standard. While eligible reserve assets are highly safe and liquid, unexpected events may result in a loss to the Board-supervised PPSI. Nonetheless, the proposed approach embodies a reasonable balance of principles-based supervision that would allow Board-supervised PPSI to apply the requirements in a manner consistent with their business model.

Moreover, the applicable disclosure and audit requirements for reserves mitigates these risks and provides for monitoring by payment stablecoin holders. The mandated monthly reserves disclosures will permit payment stablecoin holders to identify and evaluate Board-supervised PPSIs with reserve practices consistent with their business models, thus promoting market discipline.

2. Costs of the Proposal's Compliance Requirements

Costs of the proposal's redemption and fees requirements. As discussed in section II.B.3 of this **SUPPLEMENTARY INFORMATION**,[209] a Board-supervised PPSI must publicly disclose its redemption policy with specific details. Having a maximum redemption timeframe of two days may represent an additional cost to Board-supervised PPSIs when compared to no redemption deadline because, all things being equal, the shorter redemption window increases the need for liquid reserve assets.[210] Limiting the redemption period to two days may also create operational costs of meeting redemption requests in a timely manner, including relationships with financial institutions that allow for prompt settlement of transactions, and the ability to meet redemption surges.

Costs of the proposal's risk management standards. Compliance

[204] *See* Yesha Yadav & Brendan Malone, ''Stablecoins and the US Treasury Market'' (June 10, 2025), *https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5286924.*

[205] Rashad Ahmed and Inaki Aldasoro find that a 2-standard deviation inflow into stablecoins lowers 3-month Treasury bill yields by 2.5–3.5 basis points (bps), with limited to no spillover effects on other tenors. See Rashad Ahmed & Inaki Aldasoro, ''Stablecoins and safe asset prices,'' BIS Working Paper No. 12 (February 2025), *https://www.bis.org/publ/work1270.pdf.*

[206] *See* Commodity Futures Trading Commission, ''Acting Chairman Pham Launches Tokenized Collateral and Stablecoins Initiative'' (September 23, 2025), *https://www.cftc.gov/PressRoom/PressReleases/9130-25.*

[207] *See, e.g.,* GFMA, AFME, ASIFMA, et al., ''The Impact of Distributed Ledger Technology in Capital Markets'' (2025), *https://www.gfma.org/wp-content/uploads/2025/08/1.-full-report-impact-of-dlt-in-cap-mkts-final-1.pdf.*

[208] *See* RBB Economics, ''Cost pass-through: theory, measurement, and potential policy implications'' (February 2014), *https://www.gov.uk/government/publications/cost-pass-through-theory-measurement-and-policy-implications.*

[209] *See* proposed § 247.12.

[210] Under proposed § 247.12(b)(2), redemptions may not exceed two business days following the date of the requested redemption.

with the proposal's risk management standards would entail additional costs in the form of the specialized labor needed to comply with these principles-based requirements and standards. These costs are tempered, however, by the proposed provision allowing subsidiaries of State member banks to be deemed to be in compliance with the risk management requirements in section II.B.4.c of this **SUPPLEMENTARY INFORMATION** if the Board-supervised PPSI participates in the enterprise-wide risk management framework of its parent State member bank or consolidated banking organization, provided that such framework is in compliance with applicable requirements. Most Board-supervised banking organizations use such enterprise-wide risk management frameworks.

Board-supervised PPSIs would also incur costs to establish policies, procedures, and systems to identify covered transactions, determine whether terms are at least as favorable to the Board-supervised PPSI as those for comparable transactions with non-insiders, and document the basis for such determinations. Moreover, for Board-supervised PPSIs that are part of larger financial groups, the provision may restrict intra-group arrangements with affiliates that could serve helpful business purposes without posing undue risk to the Board-supervised PPSI.

Costs of the proposal's audit and reporting requirements. The proposal would require a Board-supervised PPSI to report applicable information to supervisors,[211] disclose the composition of reserve assets at a monthly frequency and be subject to period audits.[212] These costs entail hiring compliance staff, setting up information systems to comply with the proposal's reserve asset reporting requirements, and payment of fees to outsider providers, including auditors.

3. Costs of the Proposal's Capital Requirements

The proposal establishes capital requirements for Board-supervised PPSIs as discussed in section II.6 of this **SUPPLEMENTARY INFORMATION.** Regulatory capital is a costly form of funding, particularly relative to inexpensive funding in the form of stablecoin issuance, and this requirement would likely lower the profitability of Board-supervised PPSI.[213] That said, regulatory capital helps ensure the safe and sound operations of a Board-supervised PPSI. Furthermore, unlike insured banks, a PPSI's low cost of funding is heavily contingent on its solvency. To the extent that a sound capital level is required to compete successfully for the inexpensive funding, the marginal cost of the requirement is reduced.

The proposed regulatory capital requirements would be commensurate to the scale of financial risks faced by Board-supervised PPSIs. Specifically, operational risk capital requirements are expected to be greater for larger Board-supervised PPSIs given potential for large operational loss events, and for Board-supervised PPSIs with a worse record of past operational losses. The capital requirement for uninsured eligible deposit claims would incentivize Board-supervised PPSIs to reduce their exposure to such reserve assets. Further, the capital requirement for under-collateralized reverse repurchase agreements could incentivize Board-supervised PPSIs to engage in reverse repo transactions with standardized haircuts. Overall, requirements would be higher for PPSIs with higher risks and, therefore, the proposal would impose higher costs on those firms.

4. Costs of the Proposal's Requirements for Covered Custodians

Section II.C of this **SUPPLEMENTARY INFORMATION** would also create new requirements on Board-supervised banking organizations seeking to provide custodial or safekeeping services for payment stablecoin reserve assets, the payment stablecoins used as collateral, or the private keys used to issue payment stablecoins. The Board expects that institutions acting as custodians for payment stablecoin reserve assets and other covered assets would likely already be specialized custodial institutions for other asset classes or already provide custodian services for digital assets, including stablecoins. In which case, the marginal costs of the proposal's requirements would be small. If custody requirements for payment stablecoin reserve assets and other covered assets differ from existing requirements, Board-supervised custodians may experience some additional costs under the proposal.

As mentioned in section II.C of this **SUPPLEMENTARY INFORMATION**, for specific classes of covered custodians the proposal relies on the reporting that these organizations already provide on their custodial operations. This minimizes additional reporting costs faced by covered custodians.

H. Conclusion

The proposal would implement the requirements of the GENIUS Act for Board-supervised PPSIs. By doing so, it would provide regulatory clarity to potential issuers and put in place a framework that would support growth of this market. The safeguards in the proposal, including principles-based reserve asset diversification requirements, and requirements on disclosure and capital, would facilitate the safe and sound operation of Board-supervised PPSIs. In addition, these requirements would help protect holders of payment stablecoins issued by Board-supervised PPSIs from loss. The proposal could also generate certain ancillary benefits, such as increased demand for U.S. financial assets. While meeting the requirements in the proposal would entail some costs by Board-supervised PPSI, such as the costs associated with the capital and disclosure requirements, they would presumably enter the market only if the expected payoffs from doing so exceed these costs.

Based on the above analysis, the Board concludes that the benefits of the proposal justify the costs.

IV. Regulatory Analysis

A. Paperwork Reduction Act

Certain provisions of the proposed rule contain ''collections of information'' within the meaning of the Paperwork Reduction Act (PRA) of 1995.[214] In accordance with the requirements of the PRA, the Board may not conduct or sponsor, and the respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The Board has reviewed the proposed rule under authority delegated to the Board by the OMB. The proposed rule contains a new information collection and revisions to current information collections subject to the PRA. To implement these requirements, the Board would implement (1) the Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation UU (FR UU; OMB No. 7100–NEW); (2) revise and extend for three years the Reporting, Recordkeeping, and Disclosure

[211] Including confidential weekly reporting and quarterly reports of financial condition, as described in § 247.14(h) and § 247.14(i), correspondingly.

[212] *See* Section II.B.5 of this **SUPPLEMENTARY INFORMATION.**

[213] *See* Malcolm Baker & Jeffrey Wurgler, ''Do Strict Capital Requirements Raise the Cost of Capital? Bank Regulation, Capital Structure and the Low-Risk Anomaly,'' 105 Am. Econ. Rev. (Papers & Proc.) 315 (May 2015).

[214] 44 U.S.C. 3501–3521.

Requirements Associated with Regulation Q (FR Q; OMB No. 7100–0313); and (3) revise and extend for three years the Reporting, Recordkeeping, and Disclosure Requirements Associated with Market Risk Capital Rules (FR Q–2; OMB No. 7100–0314).

Comments are invited on:

(a) whether the collections of information are necessary for the proper performance of the Board's functions, including whether the information has practical utility;

(b) the accuracy of the estimates of the burden of the information collections, including the validity of the methodology and assumptions used;

(c) ways to enhance the quality, utility, and clarity of the information to be collected;

(d) ways to minimize the burden of the information collection on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments on aspects of this document that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the **ADDRESSES** section. A copy of the comments may also be submitted to the OMB desk officer: By mail to U.S. Office of Management and Budget, 725 17th Street NW, #10235, Washington, DC 20503 or by facsimile to (202) 395–5806, Attention, Federal Banking Agency Desk Officer.

Proposed Implementation of the Following Information Collection

Collection Title: Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation UU.

Collection Identifier: FR UU.

OMB Number: 7100–NEW.

General Description of Collection: The FR UU collection comprises the information requirements of the proposed Regulation UU that would be found in 12 CFR part 247. This information would be used to carry out the Board's responsibilities under the GENIUS Act, including (i) to establish regulatory framework applicable to Board-supervised PPSIs, including requirements related to reserves, capital, activities, and risk management, as discussed in sections II.B and II.H of this **SUPPLEMENTARY INFORMATION**; (ii) to implement rules regarding State-qualified PPSIs setting forth (a) the unusual and exigent circumstances in which the Board may exercise its back-up enforcement authority with respect to any State-qualified PPSI, and (b) the transition and waiver process for covered PPSIs with an outstanding issuance value of more than $10 billion, as discussed in section II.F of this **SUPPLEMENTARY INFORMATION**; (iii) to implement rules for Board-supervised entities seeking to provide custodial services for reserves backing payment stablecoins and certain other assets, as discussed in section II.C of this **SUPPLEMENTARY INFORMATION**; (iv) to make certain changes to its rules for banking organizations, including bank capital requirements and activities rules, to facilitate banking organization participation in payment stablecoin activities, as discussed in sections II.F and II.G of this **SUPPLEMENTARY INFORMATION**; and (v) to promulgate a framework related to the GENIUS Act's prohibition on tying, which would apply to all PPSIs (including PPSIs for which the Board is not the primary regulator), as discussed in section II.E of this **SUPPLEMENTARY INFORMATION**.

Current Actions: The proposed rule includes reporting, recordkeeping, and disclosure requirements, as follows:

Reporting Requirements

Section II.B.5.d of this **SUPPLEMENTARY INFORMATION** would state that Board expects to include a condition regarding changes in control of a Board-supervised PPSI in any approval of an application by a State member bank seeking approval for a subsidiary to issue payment stablecoins under subpart D of part 247 (separately proposed by the Board). The condition would impose a requirement that the Board-supervised PPSI, and all officers, directors, and principal shareholders of the Board-supervised PPSI, cause any person seeking to acquire control of the Board-supervised PPSI to follow the procedures of the Change in Bank Control Act (12 U.S.C. 1817(j)) and the Board's Regulation Y (12 CFR part 225) as if the Board-supervised PPSI was an insured depository institution.

Proposed § 247.10(c)(4)(iii) would provide that a Board-supervised PPSI may rebut the presumption that a remuneration arrangement violates the Remuneration Prohibition in proposed § 247.10(c)(4)(i) by submitting written materials that, in the Board's judgment, demonstrate that the contract, agreement, or other arrangement is not prohibited under proposed § 247.10(c)(4) and is not an attempt to evade theRemuneration Prohibition.

Proposed § 247.11(d) would provide that by noon on the last day of each month, a Board-supervised PPSI must publish the monthly composition of the Board-supervised PPSI's reserves held pursuant to the GENIUS Act as of noon on the last day of the previous month on the website of the Board-supervised PPSI, using a format substantially similar to the template provided in Table 1 to proposed § 247.11(d), containing: (1) the total number of outstanding payment stablecoins issued by the Board-supervised PPSI; and (2) the amount and composition of the reserves described in proposed § 247.11(a)(1), including the average tenor and geographic location of custody of each category of reserve instruments.

Proposed § 247.11(e)(2) would provide that the Chief Executive Officer and Chief Financial Officer (or the persons performing the equivalent functions) of a Board-supervised PPSI must submit a certification as to the accuracy of the monthly reserve composition report required under proposed § 247.11(d) to the Board.

Proposed § 247.11(f)(1)(i) would provide that if, at any time, a Board-supervised PPSI fails to satisfy the one-to-one requirement in proposed § 247.11(a)(1)(iii), the Board-supervised PPSI must submit, within 24 hours of such a failure, notification to the Board through its Federal Reserve Bank of such a failure

Proposed § 247.11(f)(1)(ii) would provide that if, at any time, a Board-supervised PPSI fails to satisfy the one-to-one requirement in proposed § 247.11(a)(1)(iii), the Board-supervised PPSI must, within 24 hours of such a failure, submit a plan describing how the Board-supervised PPSI will return to compliance with such requirement.

Proposed § 247.11(g) would require that if at any point the Board determines that a Board-supervised PPSI has not demonstrated that it meets the reserve asset requirements in proposed § 247.11(a)–(c), the Board may require the PPSI to submit a plan describing how it will attain compliance, as well as the timeline for the plan.

Proposed § 247.14(k) would provide that not later than 180 days after the approval of an application under subpart D of part 247 (separately proposed by the Board), and on an annual basis thereafter, a Board-supervised PPSI must submit to the Board a certification by its board of directors that the Board-supervised PPSI has implemented anti-money laundering and economic sanctions compliance programs that are reasonably designed to prevent the Board-supervised PPSI from facilitating money laundering, in particular, facilitating money laundering for cartels and organizations designated as foreign terrorist organizations under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189) and the financing of terrorist activities, consistent with the requirements of the GENIUS Act.

Proposed § 247.14(*l*)(2)(ii) would require a Board-supervised PPSI with more than $50 billion in outstanding issuance value that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) to submit audited financial statements annually, within 120 days after the end of its fiscal year, to the Board.

Proposed § 247.14(*l*)(2)(iii) would provide that if a Board-supervised PPSI with more than $50 billion in outstanding issuance value that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) fails to timely file all or any portion of the financial statement described in proposed § 247.14(*l*)(2)(ii), it must submit a written notice of late filing to the Board and such notice must (i) disclose the Board-supervised PPSI's inability to timely file all, or specified portions, of its annual financial statement and the reasons therefore in reasonable detail, (ii) include the date by which the financial statement will be filed, and (iii) be filed on or before the deadline for filing the financial statement.

Proposed § 247.15(c) provides that if a Board-supervised PPSI fails to satisfy its minimum capital requirements in proposed § 247.15(b) as of the end of a quarter, it must, within 5 business days of the end of such quarter, submit a capital plan to the Board that: (i) provides a detailed strategy for restoring its capital levels to ensure that it meets or exceeds the minimum capital requirements under § 247.15(b), and (ii) is feasible for returning the Board-supervised PPSI to compliance within one quarter given general market conditions and the Board-supervised PPSI's specific circumstances.

Proposed § 247.41(c) would provide that entities subject to the tying prohibition in proposed § 247.40 may submit a request to the Secretary of the Board to seek an exception from such prohibition. Any entity seeking an exception must provide a detailed description of the proposed arrangement, including: (1) the service upon which conditions are being placed and the entity providing such service; (2) either (i) the additional paid services and products and the entity providing such paid services and products or (ii) the additional product or service of the competitor, as applicable; (3) the relevant contractual terms, including copies (or draft copies, as appropriate) of any contracts, agreements, terms of service, or other documents relevant to the proposed arrangement; (4) a description of the benefits, if any, that the proposed arrangement would produce for customers or other relevant persons; (5) a discussion of how the proposed arrangement would not be contrary to the purpose of the GENIUS Act; and (6) in the case of a proposed exception for an arrangement providing services to a customer on the condition that the customer agree to not obtain an additional product or service from a competitor, whether the additional product or service will be offered to customers on competitive terms separate from the service upon which conditions are being placed.

Proposed § 247.50(e) would provide that, after a directive under proposed § 247.50(b) is issued, a State-qualified PPSI, or any institution-affiliated party of the State-qualified PPSI subject to the directive, may object and present to the Board, in writing, the reasons why the directive should be modified or rescinded; if, after 10 days after the receipt of a response described in proposed § 247.50(e)(1), the Board does not affirm, modify, or rescind the directive, the directive shall automatically lapse.

Proposed § 247.51(b)(2) would require a State-qualified PPSI that is an uninsured State-chartered depository institutions (for purposes of this section, ''covered PPSI'') with an outstanding issuance value of more than $10 billion to provide written notification to the Board within five calendar days after reaching such threshold. Such written notification must include the following information: (A) the State or States that currently regulate the covered PPSI; (B) the covered PPSI's outstanding issuance value as of the date of the notice; (C) the date that the covered PPSI first reached the $10 billion outstanding issuance value threshold; and (D) an indication of whether and when the covered PPSI ceased issuing, on a net basis, new payment stablecoins and whether the covered PPSI intends to seek a waiver pursuant to proposed § 247.51(d).

Proposed § 247.51(b)(3) would require a covered PPSI, within 270 days of reaching the $10 billion outstanding issuance value threshold, to submit an analysis of the covered PPSI's current capital position and anticipated capital needs, sufficient to ensure ongoing operations, based on its business model and risk profile.

Proposed § 247.51(b)(4) would provide that for purposes of complying with proposed § 247.51(b)(1)(i), a covered PPSI must provide written notification to the Board regarding whether it is in compliance with the Federal regulatory framework applicable to Board-supervised PPSIs under proposed part 247. If the covered PPSI is not in compliance with the Federal regulatory framework applicable to Board-supervised PPSIs under the proposal, the notice would be required to identify the provisions with which the covered PPSI does not comply, provide the covered PPSI's plan for remediating its noncompliance, and explain why the covered PPSI did not comply with the Federal regulatory framework within the 360-day transition period.

Proposed § 247.51(d) would provide that a covered PPSI seeking to remain solely supervised by a State payment stablecoin regulator must submit to the Board a written waiver request containing information necessary to evaluate such request under proposed § 247.51(d)(2)–(3) within 240 days of reaching the $10 billion outstanding issuance value.

Recordkeeping Requirements

Section II.B.2.a of this **SUPPLEMENTARY INFORMATION** would state that to comply with proposed § 247.11(a)(1)(i), Board-supervised PPSIs must maintain appropriate records to ensure documented ownership and legal entitlement to individual reserve assets.

Proposed § 247.11(a)(2) would provide that a Board-supervised PPSI must record the fair value of reserve assets required under proposed § 247.11(a)(1) at a minimum of once each calendar day at 5:00 p.m. in the time zone of the Board-supervised PPSI's Federal Reserve Bank.

Proposed § 247.13(a)(1) would provide that a Board-supervised PPSI must have internal controls and information systems to support effective risk management that are tailored to the size and complexity of the Board-supervised PPSI and the nature, scope, and risk of its activities. The internal controls and information systems must provide for: (i) an organizational structure with appropriate segregation of duties and an internal control structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies; (ii) effective risk assessment; (iii) timely and accurate financial, operational, and regulatory reporting, including with respect to the reports required under this part; (iv) adequate procedures to monitor, safeguard, manage, control, and monetize assets, including reserve assets; and (v) compliance with applicable laws and regulations.

Proposed § 247.13(a)(2) would provide that a Board-supervised PPSI must have an internal audit system that is tailored to the size and complexity of the Board-supervised PPSI and the nature, scope, and risk of its activities and that provides for, among other things, adequate documentation of tests and findings and any corrective actions.

Proposed § 247.13(b) would require a Board-supervised PPSI to implement a comprehensive written information security risk and control framework, including a program that assesses and manages information technology and information security risks, that complies with the requirements set out in proposed § 247.13(b).

Proposed § 247.14(f) would require a Board-supervised PPSI to maintain a complete set of books and records in English.

Proposed § 247.14(g) would require Board-supervised PPSIs to develop and implement a record retention policy that ensures the Board-supervised PPSI can demonstrate compliance with all the GENIUS Act, proposed part 247, and all applicable laws and regulations.

Proposed § 247.17(a)(2)(iii) would require, for purposes of netting sets under the capital requirement for reverse repurchase agreements, Board-supervised PPSIs to conduct a sufficient legal review to conclude with a well-founded basis (and maintain sufficient documentation of that legal review) that certain netting and repo-related agreements meet the applicable requirements of proposed § 247.17(a)(2)(iii)(B)(*4*) and (C)(*2*), respectively, and are legal, valid, binding, and enforceable under applicable law in the relevant jurisdictions.

Proposed § 247.18(c)(1)(i) would require Board-supervised PPSIs to have operational loss event data collection processes that must satisfy several criteria.

Proposed § 247.18(c)(1)(ii) would require Board-supervised PPSIs to have documented procedures for the identification and collection of internal loss event data.

Proposed § 247.21(a) would require a covered custodian, as defined in proposed § 247.20, to separately account for the covered assets of a covered customer and to treat and deal with those covered assets as belonging to such covered customer and not as the property of the covered custodian.

Proposed § 247.21(b)(1) would require covered custodian to take appropriate steps to protect the covered assets of covered customers from the claims of creditors of the covered custodian and any sub-custodian, as applicable, including through adopting, implementing, and maintaining written policies, procedures, and internal controls that are adequate to comply with applicable law and that are commensurate with the covered custodian's size, complexity, and risk profile and with the nature of the applicable covered assets for which it provides custodial or safekeeping services.

Disclosure Requirements

Proposed § 247.11(d) would provide that by noon on the last day of each month, a Board-supervised PPSI must publish the monthly composition of the Board-supervised PPSI's reserves held pursuant to the GENIUS Act as of noon on the last day of the previous month on the website of the Board-supervised PPSI, using a format substantially similar to the template provided in Table 1 to proposed § 247.11(d), containing: (1) the total number of outstanding payment stablecoins issued by the Board-supervised PPSI; and (2) the amount and composition of the reserves described in proposed § 247.11(a)(1) of this section, including the average tenor and geographic location of custody of each category of reserve instruments.

Proposed § 247.11(e)(1) would require a Board-supervised PPSI to publish a registered public accounting firm's examination report of the monthly composition report required under proposed § 247.11(d) on its public website at the same time as such report.

Proposed § 247.12(a), (b)(1) would provide that a Board-supervised PPSI must publicly disclose its redemption policy and include, at a minimum, the following information: (i) the timeframe in which the Board-supervised PPSI will redeem payment stablecoins and the timeframe under which the Board-supervised PPSI is required to redeem payment stablecoins under proposed § 247.12(b)(2); (ii) a statement explaining the limitation in proposed § 247.12(b)(3); (iii) a statement explaining the scenarios under proposed § 247.12(c) and (d) proposed § 247.12(b)(2); (iv) a statement with clear instructions on how a customer can redeem a payment stablecoin, including a link to the website(s) where a customer can redeem the payment stablecoin; and (v) the minimum number of payment stablecoins, if any, that the Board-supervised PPSI will redeem, provided that the Board-supervised PPSI must redeem any number greater than or equal to one payment stablecoin, subject to appropriate customer screening and onboarding. A Board-supervised PPSI's redemption policy must provide: (i) clear and conspicuous procedures for timely redemption of outstanding payment stablecoins; (ii) that timely redemption may not exceed two business days following the date of the requested redemption; and (iii) that any discretionary limitations on timely redemptions may only be imposed by the Board or, in the case of a State-qualified PPSI, by the Board or the State payment stablecoin regulator, as applicable.

Proposed § 247.12(e)(1) would require a Board-supervised PPSI to publicly, clearly, and conspicuously disclose in plain language and in a format that is readily noticeable to customers, readily understandable by customers, and not mixed in with other information: (i) the name of the Board-supervised PPSI that issues the payment stablecoin; (ii) that the Board-supervised PPSI is the entity that is obligated to convert, redeem, or repurchase the payment stablecoin for a fixed amount of monetary value; (iii) the link to the monthly composition report of the relevant Board-supervised PPSI's reserves required under proposed § 247.11(d); and (iv) all fees associated with purchasing or redeeming payment stablecoins. Proposed § 247.12(e)(3) would require a Board-supervised PPSI to publish the disclosures in proposed § 247.12(e)(1) on the Board-supervised PPSI's website.

Proposed § 247.12(e)(2) would require a Board-supervised PPSI to update the disclosures in proposed § 247.12(e)(1)(iv) if there are any changes in fees associated with purchasing or redeeming payment stablecoins and provide customers at least seven calendar days' prior notice of the change, including by securely delivering the notice to current customers for which the Board-supervised PPSI has contact information. Proposed § 247.12(e)(3) would require a Board-supervised PPSI to publish any updates made in accordance with proposed § 247.12(e)(2) on the Board-supervised PPSI's website.

Proposed § 247.12(e)(4) would provide that a Board-supervised PPSI must include the disclosures in proposed § 247.12(e)(1) and any updates made in accordance with paragraph proposed § 247.12(e)(2) of this section in any customer agreements that it provides.

Proposed 247.14(*l*)(1) would require Board-supervised PPSI with more than $50 billion in outstanding issuance value that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) to prepare, in accordance with GAAP, an annual financial statement that must include the disclosure of any related party transactions, as defined by GAAP. A registered public accounting firm must perform an audit of the financial statements. The audit must be conducted in accordance with all applicable auditing standards established by the Public Company Accounting Oversight Board, including those relating to auditor independence, internal controls, and related party transactions.

Proposed 247.14(*l*)(2)(i) would require a Board-supervised PPSI with more than $50 billion in outstanding issuance value, that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) to make its audited financial statements publicly available on the Board-supervised PPSI's website.

Frequency: Daily, monthly, annually, and event-generated.

Respondents: Permitted payment stablecoin issuers, covered custodians, and other companies.

Total estimated number of respondents: 5 (20 for sections 247.21(a) and (b)(1)).

Estimated average hours per response:

Initial Setup

Reporting
- Preamble II.B.5.d–10.
- Section 247.10(c)(4)(iii)–0.5.
- Section 247.11(f)(1)(i)–1.
- Section 247.11(f)(1)(ii)–4.
- Section 217.11(h)–4.
- Section 247.14(*l*)(2)(ii)–480.
- Section 247.15(c)–10.
- Section 247.41(c)–1.
- Section 247.50(e)–1.
- Section 247.51(b)(2)–4.
- Section 247.51(b)(3)–40.
- Section 247.51(b)(4)–8.
- Section 247.51(d)–8.

Recordkeeping
- Section 247.17(a)(2)(iii)–16.

Disclosure
- Sections 247.12(a) and (b)(1)–8.
- Section 247.12(e)(1)–8.
- Section 247.12(e)(2)–8.
- Section 247.12(e)(4)–8.

Ongoing

Reporting
- Section 247.11(d)–3.3.
- Section 247.11(e)(2)–0.7.
- Section 247.14(k)–80.
- Section 247.14(*l*)(2)(ii)–40.
- Section 247.14(*l*)(2)(iii)–8.

Recordkeeping
- Preamble II.B.2.a–40.
- Section 247.11(a)(2)–1.27.
- Section 247.13(a)(1)–80.
- Section 247.13(a)(2)–80.
- Section 247.13(b)–160.
- Section 247.14(f)–40.
- Section 247.14(g)–40.
- Section § 247.17(a)(2)(iii)–4.
- Section 247.18(c)(1)(i)–100.
- Section 247.18(c)(1)(ii)–30.
- Section 247.21(a)–8.
- Section 247.21(b)(1)–8.

Disclosure
- Section 247.11(d)–3.3.
- Section 247.11(e)(1)–3.3.
- Section 247.12(e)(2)–8.
- Section 247.14(*l*)(1)–160.
- Section 247.14(*l*)(2)(i)–8.

Total estimated annual burden hours: 10,338 (2,706 hours for initial setup and 7,632 hours for ongoing compliance).

Total cost: $768,630.

Methodology and assumptions: There is considerable uncertainty regarding the number of firms that would elect to engage in the activities or make the investments that would cause the firms to come within the scope of the requirements of this proposed rule.

- *Rules applicable to Board-supervised PPSIs.* The Board is not aware of any method of determining the number of Board-supervised PPSIs that may come into existence, given that there are no such entities at this time and it is difficult to predict how this market will develop. The Board considered the estimates of the number of PPSI respondents in the notices of proposed rulemaking issued by other Federal payment stablecoin regulators, the number of insured State member banks compared to the number of other IDIs, and the existing market of state-regulated payment stablecoin issuers. As a result, the Board has assumed that it would supervise five Board-supervised PPSIs. The population of Board-supervised PPSIs that are subsidiaries of State member banks could be higher or lower depending on market demand, strategic operational choices of eligible institutions, and future developments in the digital landscape. For reporting, recordkeeping, and disclosure requirements that would apply to less than all Board-supervised PPSIs (such as requirements that depend on actions or choices in the discretion of the Board-supervised PPSI), the Board assumes that one Board-supervised PPSI would be subject to the requirement, in order to reflect the potential burden of each requirement subject to the PRA.
- *Tying Prohibition Applicable to All PPSIs.* Subpart E of the proposed rule would apply to (i) all PPSIs pursuant to section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), and (ii) any company, and certain of its subsidiaries and affiliates, that has obtained a unanimous vote of the Stablecoin Certification Review Committee pursuant to section 4(a)(12) of the GENIUS Act (12 U.S.C. 5903(a)(12)). The Board is not aware of any method of determining number of firms that would be subject to subpart E of the proposed rule. There is considerable uncertainty regarding the number of PPSIs that would be approved by the various Federal and State regulators with licensing authority under the GENIUS Act and would thereby become subject to the tying prohibition in section 4(a)(8) of the Act (12 U.S.C. 5903(a)(8)). Further, it is not possible to determine how many companies would obtain a unanimous vote of the Stablecoin Certification Review Committee under section 4(a)(12) of the GENIUS Act and therefore be subject, together with certain of the company's subsidiaries and affiliates, to subpart E of the proposed rule. The Board considered the estimates of the number of PPSI respondents in the notices of proposed rulemaking issued by other Federal payment stablecoin regulators and the existing market of state-regulated payment stablecoin issuers. The Board assumed that a small fraction of firms subject to the tying prohibition in proposed § 247.40 would submit a request to seek an exception from such prohibition under proposed § 247.41(c), and thus has assumed five firms may seek an exception under that provision.
- *Rules Applicable to Board-Supervised Custodians.* There is considerable uncertainty regarding the number of firms that would engage in custodial or safekeeping activities that would be subject to subpart C of the Board's proposed rule.[215] It is possible

[215] Subpart C of the proposed rule would apply to covered custodians, which would generally include (i) a State member bank; (ii) a Board-supervised PPSI; (iii) a bank holding company (as defined in section 2(a) of the BHC Act (12 U.S.C. 1841(a)); (iv) a savings and loan holding company (as defined in section 10(a)(1) of HOLA (12 U.S.C. 1467a(a)(1)); (v) a subsidiary of a bank holding company or a savings and loan holding company that is not (a) a national bank or depository institution subject to supervision by the OCC or FDIC; (b) a PPSI subject to supervision by another primary Federal payment stablecoin regulator, (c) an entity subject to functional regulation by the SEC or CFTC, or (d) an entity, other than a State member bank, subject to supervision by a State bank supervisor, as defined in section 3(r) of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)); (vi) the U.S. operations of foreign banking organizations subject to the supervision or regulation of the Board pursuant to the International Banking Act of 1978 (12 U.S.C. 3101 *et seq.*); and (vii) any corporation organized under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*) or having an agreement with the Board under section 25 of the Federal Reserve Act (12 U.S.C. 601 *et seq.*) (*i.e.,* Edge Act and Agreement corporations).

that many of the firms the Board supervises could elect to provide custodial services to PPSIs. However, it is most likely that Board-supervised firms that are already significantly engaged in custodial activities would seek to offer custodial services to PPSIs with respect to their reserve assets. Because the acceptance of cash represented by deposit liabilities is excepted from the substantive requirements of subpart C of the proposed rule, insured state member banks that accept PPSI reserves as principal in a deposit relationship would not be considered ''covered custodians'' under subpart C of the proposed rule. As a result, the Board assumes that 20 entities that it supervises would engage in custodial or safekeeping activities that would be subject to subpart C of the proposed rule.

The burden hours estimated for each reporting, recordkeeping, or disclosure requirement reflects the amount of time the Board estimates will expended by the relevant respondent to maintain, retain, or disclose or provide information to the Board. Where possible, the estimates were benchmarked against the estimates provided by other agencies in their notices of proposed rulemaking implementing the GENIUS Act and the estimates of burden for comparable or similar requirements in other of the Board's information collections. The total burden is calculated as the sum of the burden hours multiplied by the number of respondents for each reporting, recordkeeping, or disclosure requirement.

Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at $25, 45% Financial Managers at $90, 15% Lawyers at $89, and 10% Chief Executives at $130). Hourly rates for each occupational group are the (rounded) mean hourly wages from the Bureau of Labor Statistics (BLS).[216] Occupations are defined using the BLS Standard Occupational Classification System.[217]

[216] Occupational Employment and Wages, May 2025, published May 15, 2026, *https://www.bls.gov/news.release/ocwage.t01.htm.*

[217] *https://www.bls.gov/soc/.*

Proposed Extension for Three Years, With Revision, of the Following Information Collection

(1) *Collection title:* Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation Q.

Collection identifier: FR Q.

OMB control number: 7100–0313.

General description of collection: The Board's Regulation Q—Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks (12 CFR part 217) sets forth the capital adequacy requirements for State member banks (SMBs), certain bank holding companies (BHCs), U.S. intermediate holding companies (IHCs), and certain covered savings and loan holding companies (SLHCs).[218]

The reporting, recordkeeping, and disclosure requirements included in the FR Q information collection provide the Board and other stakeholders, including market participants, with information regarding the interaction between firms and the regulatory capital framework. Specifically, the reporting and recordkeeping requirements allow the Board to verify that firms are appropriately implementing the capital framework; they also provide the Board with information necessary for monitoring firms participating in the advanced approaches framework. The disclosure requirements are intended to support market discipline by providing information regarding banking organizations' activities, overall risk profiles, and risk management policies. Together, these requirements help to ensure the safety and soundness of the financial system by facilitating the identification of problems at firms and ensuring that firms have implemented any corrective actions imposed by the Board, as well as by allowing stakeholders to make meaningful assessments of firms' financial position.

Frequency: Annual, quarterly, and event-generated.

Respondents: SMBs, certain BHCs, IHCs, and certain covered SLHCs.

Total estimated change in respondents: 1.

Total estimated number of respondents: 1,056.

Total estimated change in burden: 36.

Total estimated annual burden hours: 76,286.

[218] The Board's capital rule generally does not apply to BHCs or covered SLHCs that meet the requirements of the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement, 12 CFR part 225, Appendix C. For the definition of ''Covered savings and loan holding company,'' see 12 CFR 217.2.

Total cost: $5,671,864.[219]

Proposed revisions: The Board is proposing to revise the scope of the respondents for the reporting, recordkeeping, and disclosure requirements included in the FR Q information collection to include Board-supervised PPSIs, pursuant to Regulation UU. This proposed rule would not modify the reporting, recordkeeping, or disclosure requirements in the FR Q information collection in any way.

(2) *Collection title:* Reporting, Recordkeeping, and Disclosure Requirements Associated with Regulation Q (Market Risk Capital Rule).

Collection identifier: FR Q–2.

OMB control number: 7100–0314.

General description of collection: The market risk rule, which requires banking organizations to hold capital to cover their exposure to market risk, is a component of the Board's regulatory capital framework, Regulation Q—Capital Adequacy of Bank Holding Companies, Savings and Loan Holding Companies, and State Member Banks (12 CFR part 217). The rule includes information collections that permit the Board to monitor the market risk profile of Board-regulated banking organizations that have significant market risk. These information collections provide current statistical data identifying market risk areas on which to focus onsite and offsite examinations. They also allow the Board to assess the levels and components of each reporting institution's risk-based capital requirements for market risk and the adequacy of the institution's capital under the market risk rule.

Frequency: Annual, quarterly, and event-generated.

Respondents: Bank holding companies, covered savings and loan holding companies,[220] U.S. intermediate holding companies of foreign banking organizations, and state member banks (collectively, banking organizations) that meet certain risk thresholds. The

[219] Total cost to the responding public is estimated using the following formula: total burden hours, multiplied by the cost of staffing, where the cost of staffing is calculated as a percent of time for each occupational group multiplied by the group's hourly rate and then summed (30% Office & Administrative Support at $25, 45% Financial Managers at $90, 15% Lawyers at $89, and 10% Chief Executives at $130). Hourly rates for each occupational group are the (rounded) mean hourly wages from the BLS, *Occupational Employment and Wages, May 2025,* published May 15, 2026, *https://www.bls.gov/news.release/ocwage.t01.htm.* Occupations are defined using the BLS Standard Occupational Classification System, *https://www.bls.gov/soc/.*

[220] For the definition of ''covered savings and loan holding company,'' see 12 CFR 217.2.

market risk rule applies to any such banking organization with aggregate trading assets and trading liabilities equal to (1) 10 percent or more of quarter-end total assets or (2) $1 billion or more.

Total estimated change in respondents: 1.

Total estimated number of respondents: 38.

Total estimated change in burden: 960.

Total estimated annual burden hours: 37,196.

Total cost: $2,765,523.[221]

Proposed revisions: The Board is proposing to revise the scope of the respondents for the reporting, recordkeeping, and disclosure requirements included in the FR Q–2 information collection to include to include Board-supervised PPSIs, pursuant to Regulation UU. This proposed rule would not modify the reporting, recordkeeping, or disclosure requirements in the FR Q–2 information collection in any way.

B. Regulatory Flexibility Act

The Board is providing an Initial Regulatory Flexibility Analysis (IRFA) with respect to this proposed rule. The Regulatory Flexibility Act (RFA)[222] requires an agency to consider the impact of its proposed rules on small entities. Under regulations issued by the U.S. Small Business Administration (SBA), a ''small'' entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of $850 million or less.[223] For purposes of this section, any reference to ''small'' entities is a reference to this definition.

In connection with a proposed rule, the RFA generally requires an agency to prepare an IRFA describing the impact of the rule on small entities, unless the head of the agency certifies that the proposed rule, if promulgated, will not have a significant economic impact on a substantial number of small entities and publishes such certification along with a statement providing the factual basis for such certification in the **Federal Register**. An IRFA must contain: (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirements and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules that may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule that accomplish its stated objectives and minimize any significant economic impact of the proposed rule on small entities.[224]

The Board has considered the potential impact of the proposal on small entities in accordance with the RFA. Based on its analysis and for the reasons stated below, the proposal is not expected to have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing and inviting comment on this initial regulatory flexibility analysis.

1. Reasons Why Action Is Being Considered by the Board

The GENIUS Act was enacted in July 2025 to provide a framework for the regulation of payment stablecoins. The Act establishes requirements applicable to PPSIs and provides Federal regulators with regulatory, supervisory, and enforcement authority over PPSIs subject to their jurisdiction. The GENIUS Act directs the Board to issue various rules, and the proposal would address each of the Board's responsibilities under the GENIUS Act, as described in greater detail below. The GENIUS Act's effective date is the earlier of 18 months after the enactment date of July 18, 2025, or 120 days after the primary Federal payment stablecoin regulators issue any final regulations implementing the Act.

2. The Objectives of, and Legal Basis for, the Proposed Rule

The Board is proposing regulations to implement the provisions of the GENIUS Act for which the Board has responsibility. The GENIUS Act directs the Board to issue rules (i) to establish regulatory framework applicable to Board-supervised PPSIs, including requirements related to reserves, capital, activities, and risk management, as discussed in sections II.B and II.H of this **SUPPLEMENTARY INFORMATION**; (ii) to implement rules regarding State-qualified PPSIs setting forth (a) the unusual and exigent circumstances in which the Board may exercise its back-up enforcement authority with respect to any State-qualified PPSI and (b) the transition and waiver process for uninsured, state-chartered depository institutions that are State-qualified PPSIs with an outstanding issuance value of more than $10 billion, as discussed in section II.F of this **SUPPLEMENTARY INFORMATION**; (iii) to implement rules for Board-supervised entities seeking to provide custodial services for reserves backing payment stablecoins and certain other assets, as discussed in section II.C of this **SUPPLEMENTARY INFORMATION**; (iv) to make certain changes to its rules for banking organizations, including bank capital requirements and activities rules, to facilitate banking organization participation in payment stablecoin activities, as discussed in sections II.F and II.G of this **SUPPLEMENTARY INFORMATION**; and (v) to promulgate a framework related to the GENIUS Act's prohibition on tying, which would apply to all PPSIs (including PPSIs for which the Board is not the primary regulator), as discussed in section II.E of this **SUPPLEMENTARY INFORMATION**. The proposal would address each of these statutory responsibilities.

3. Description of the Compliance Requirements of the Proposal and Estimate of the Number of Small Entities

Different aspects of the proposed rule would apply to different firms. This section provides a discussion of the scope, impact, and the estimate of small entities impacted by the proposal for each subpart of proposed part 247 and for each amendment to existing rules separately. Consistent with the analysis in section III of this **SUPPLEMENTARY INFORMATION**, the Board utilizes a pre-statutory baseline under which the GENIUS Act is not enacted. Under this baseline, insured State member banks do not issue payment stablecoins directly or through a subsidiary given the lack of regulatory clarity and the high barriers to entry surrounding such activities.

Rules Applicable to Board-Supervised PPSIs. Subpart B of the proposed rule would apply to Board-supervised PPSIs, which are (i) subsidiaries of insured State member banks that have been approved by the Board to issue payment stablecoins and (ii) State-qualified PPSIs that are uninsured State-chartered depository institutions that have transitioned to the Board's regulatory

[221] *See supra* n. 219.

[222] 5 U.S.C. 601 *et seq.*

[223] *See* 13 CFR 121.201. Consistent with the SBA's General Principles of Affiliation, the Board includes the assets of all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity. *See* 13 CFR 121.103.

[224] 5 U.S.C. 603(b)–(c).

framework under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)) and proposed § 247.51.[225]

The Board expects that the impact of the proposed rule on Board-supervised PPSIs could be significant. The GENIUS Act imposes an entirely new regulatory framework on Board-supervised PPSIs, introducing novel compliance burdens that could have significant impact. Additionally, as discussed in section IV.A of this **SUPPLEMENTARY INFORMATION**, the reporting, recordkeeping, and disclosure requirements of subpart B are expected to be $39,538 for initial setup and $103,175 for ongoing compliance per Board-supervised PPSI.[226]

By definition, subpart B of the proposed rule would only apply to a State-qualified PPSIs that have an outstanding issuance value of more than $10 billion, and which, accordingly, would not be considered small for the purposes of this IRFA. This analysis therefore focuses only on Board-supervised PPSIs that are subsidiaries of State member banks. The Board is not aware of any method of determining the identity, industry, or size of Board-supervised PPSIs that are subsidiaries of State member banks, given that there are no such entities at this time and it is difficult to predict how this market will develop. Further, SBA regulations do not provide small entity thresholds specific to PPSIs. As a result, this section of the IRFA discusses the size of the parent State member banks of such PPSIs. The Board believes this approach is appropriate because, under the GENIUS Act, an insured State member bank must have ''control'' of a Board-supervised PPSI.[227]

As of December 31, 2025, there were: 703 insured State member banks, and of those institutions, 439 are considered ''small'' for the purposes of the RFA.[228] The Board recognizes considerable uncertainty regarding the number of firms that would engage in activities or make investments that would subject the firms to the requirements of this proposed rule. For this analysis, the Board estimates that between 5 and 10 insured State member banks may, with the Board's permission, form a Board-supervised PPSI subsidiary in the first few years after the finalization of the proposed rule. Given the early stages of the payment stablecoin market, this range accounts for uncertainty regarding the volume of future participants. The population of Board-supervised PPSIs that are subsidiaries of State member banks could be higher or lower depending on market demand, strategic operational choices of eligible institutions, and future developments in the digital landscape. By utilizing this range, the Board aims to establish an estimate that serves as the basis for evaluating the economic effects of the proposed rule, while acknowledging the inherent uncertainty resulting from a lack of historical precedent.

The Board expects that insured State member banks that are most likely to seek to form a Board-supervised PPSI subsidiary initially will be larger institutions with the compliance infrastructure and capital necessary to support payment stablecoin issuance. As such, the Board anticipates that most, if not all, insured State member banks with Board-supervised PPSIs would not be small entities as defined by the SBA. Even assuming the unlikely scenario that all, *i.e.,* the upper-bound number of 10 insured State member banks, would be small and that all 10 insured State member banks would be significantly impacted by the proposed rule, these impacted entities would comprise a very small percentage of small insured State member banks.

Rules Applicable to State-Qualified PPSIs. Subpart F of the proposed rule would apply to State-qualified PPSIs. By definition, the transition and waiver process in proposed § 247.51 would only apply to State-qualified PPSIs that would have or are approaching an outstanding issuance value of more than $10 billion, and accordingly, would not be considered ''small'' for the purposes of this IRFA.

The State-qualified PPSIs subject to the Board's back-up enforcement authority under proposed § 247.50 could include small entities. However, it is difficult to know how many small entities may be affected by proposed § 247.50 in subpart F of the proposed rule because it remains unclear how many States will choose to adopt a regulatory framework for payment stablecoins and how many State certifications would be approved by the Stablecoin Certification Review Committee. It is also difficult to predict how many entities such States would license to become State-qualified PPSIs.

Nonetheless, the Board expects that the impact of proposed § 247.50 would be insignificant. While the enforcement actions under this authority would impose significant burdens on a firm subject to such enforcement action, the Board would only exercise such authority in ''unusual and exigent circumstances'' as described in the proposed rule, and only when any action taken by the State payment stablecoin regulator has not adequately mitigated the risks presented.

Rules Applicable to Board-Supervised Custodians. Subpart C of the proposed rule would apply to covered custodians, which would generally include (i) a State member bank; (ii) a Board-supervised PPSI; (iii) a bank holding company (as defined in section 2(a) of the BHC Act (12 U.S.C. 1841(a)); (iv) a savings and loan holding company (as defined in section 10(a)(1) of HOLA (12 U.S.C. 1467a(a)(1)); (v) a subsidiary of a bank holding company or a savings and loan holding company that is not (a) a national bank or depository institution subject to supervision by the OCC or FDIC; (b) a PPSI subject to supervision by another primary Federal payment stablecoin regulator, (c) an entity subject to functional regulation by the SEC or CFTC, or (d) an entity, other than a State member bank, subject to supervision by a State bank supervisor, as defined in section 3(r) of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)); (vi) the U.S. operations of foreign banking organizations subject to the supervision or regulation of the Board pursuant to the International Banking Act of 1978 (12 U.S.C. 3101 *et seq.*); and (vii) any corporation organized under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*) or having an agreement with the Board under section 25 of the Federal Reserve Act (12 U.S.C. 601 *et seq.*) (*i.e.,* Edge Act and Agreement corporations).

For those small entities that choose to provide custodial or safekeeping services subject to subpart C of the proposed role, the Board expects that the direct impact of the proposed rule would be insignificant.[229] The requirements discussed in section II.C of this **SUPPLEMENTARY INFORMATION** are principles-based, and the proposal does not include new reporting requirements

[225] These Board-supervised PPSIs are also subject to proposed amendments to the rules of practice and procedure for adjudicatory proceedings in 12 CFR part 263.

[226] *See supra* n. 219.

[227] As discussed in section II.A.2 of this **SUPPLEMENTARY INFORMATION**, the Board is proposing to define ''control'' such that a person would control another person if: (1) the person directly or indirectly or acting through one or more other persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other person; (2) the person controls in any manner the election of a majority of the directors or trustees of the other person; or (3) the Board determines, after notice and opportunity for hearing, that the person directly or indirectly exercises a controlling influence over the management or policies of the other person.

[228] Call Report Data, December 31, 2025.

[229] The Board anticipates that the direct impact of the proposed rule for insured State member banks that only provide custody or safekeeping services for covered assets in the form of cash would be insignificant because such cash may be held in the form of a deposit liability and would not be subject to the substantive requirements under subpart C.

on covered custodians. While covered custodians would be required to maintain records necessary to separately account for the covered assets of each customer and take appropriate steps to protect the covered assets from the claims of creditors, these requirements are consistent with typical business practices of banking organizations providing custody services and not likely to result in significant compliance obligations.

As of December 31, 2025, there were: 704 State member banks (including 703 insured State member banks and one uninsured State member bank), and of those institutions, 439 are considered small for the purposes of the RFA; [230] 3,453 bank holding companies, and of those institutions, 2,380 are considered small for purposes of the RFA; [231] 170 savings and loan holding companies, and of those institutions, 115 are considered small for purposes of the RFA.[232] The Board recognizes considerable uncertainty regarding the number of firms that would engage in custodial or safekeeping activities that would be subject to subpart C of the proposed rule. The Board expects that the initial adopters of the technology needed to custody payment stablecoins or private keys used to issue payment stablecoins will likely be larger institutions with the compliance infrastructure and capital necessary to such activities. A broader range of institutions, however, may custody payment stablecoin reserves, since that is a traditional activity for banking organizations. Smaller firms generally are not significantly engaged in offering custody services for securities, so small insured State member banks may be more likely to accept payment stablecoin reserves in the form of cash and represent such cash as deposit liabilities. The acceptance of cash represented by deposit liabilities is excepted from the substantive requirements of subpart C of the proposed rule, and, therefore, insured State member banks who provide this service are unlikely to incur new compliance obligations.

Amendments to Rules Applicable Banking Organizations—Capital Rule. First, the proposed amendments to 12 CFR part 217, described in section II.F of this SUPPLEMENTARY INFORMATION, would apply to Board-regulated institutions, as that term is defined in 12 CFR part 217.2, which includes State member banks, bank holding companies, and savings and loan holding companies, that consolidate a PPSI. Under the baseline, Board-regulated institutions do not consolidate payment stablecoin issuers; accordingly, this amendment does not have any impact. Moreover, the GENIUS Act specifies that the appropriate federal banking agency cannot require an insured depository institution or depository institution holding company to hold any amount of regulatory capital with respect to a consolidated PPSI subsidiary and its assets and operations in excess of the capital that such PPSI is required to maintain under the capital regulations promulgated under the GENIUS Act. Given the specificity of this provision, any alternatives considered by the Board are unlikely to have a materially different impact. The number of State member banks, bank holding companies, and savings and loan holding companies, and the number of each such firm that is considered small for purposes of the RFA, is provided above. As stated above, the Board recognizes considerable uncertainty regarding the total number of PPSIs, including Board-supervised PPSIs and PPSIs that are not supervised by the Board, that may be affected by the proposed amendments to 12 CFR part 217 because of a direct or indirect ownership interest by a Board-supervised institution.

Consistent with the discussion above, the Board expects that Board-supervised firms seeking to invest in PPSIs would be larger institutions with the compliance infrastructure and capital necessary to support payment stablecoin issuance. Relatedly, the Board expects that the firms initially interested in engaging in payment stablecoin transactions as principal or agent are likely to be larger institutions that seek to adopt the technology or third-party relationships and controls necessary to own and control payment stablecoins.

Amendments to Rules Applicable Banking Organizations—Permissibility Rules. The proposed amendments to parts 208, 211, and 225 of title 12, described in section II.G of this SUPPLEMENTARY INFORMATION, would apply to State member banks, uninsured State branches and State agencies of foreign banks, Edge and agreement corporations, and depository institution holding companies. These proposed amendments would somewhat reduce burdens for small entities that seek to engage in the activities addressed in the amendments, as the proposed rule would clarify permissibility of such activities. As of December 31, 2025, there were: 21 uninsured State agencies of foreign banks, and of those institutions, 8 are considered small for purposes of the RFA; [233] 101 uninsured State branches of foreign banks, and of those institutions, 27 are considered small for purposes of the RFA; [234] 30 Edge and agreement corporations, and of those institutions, 12 are considered small for purposes of the RFA; [235] 121 U.S. operations of foreign banks, and of those institutions, 11 are considered small for purposes of the RFA.[236] The estimates of State member banks, bank holding companies, and savings and loan holding companies is provided above, in the discussion of subpart C of the proposed rule. Similar to the discussion above, the Board expects that firms seeking to invest in PPSIs, directly issue payment stablecoins, or engage in certain distributed ledger technology-related activities would be larger institutions with the compliance infrastructure and capital necessary to support such activities or investments.

Tying Prohibition Applicable to All PPSIs. Subpart E of the proposed rule would apply to (i) all PPSIs pursuant to section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), and (ii) any company, and certain of its subsidiaries and affiliates, that has obtained a unanimous vote of the Stablecoin Certification Review Committee pursuant to section 4(a)(12) of the GENIUS Act (12 U.S.C. 5903(a)(12)). For those small entities subject to subpart E of the proposed rule, the procedural requirements for requesting an exception to the tying prohibition would result in reporting burden of $72 per entity, as discussed in section IV.A of this SUPPLEMENTARY INFORMATION.[237] The burdens of subpart E of the proposed rule, including the reporting burdens and the compliance burdens related to the prohibition, would be insignificant.

The Board does not believe that it is feasible to provide an estimate of the number of small entities to which subpart E of the proposed rule will apply. First, the Board recognizes considerable uncertainty regarding the number of PPSIs that would be approved by the various Federal and State regulators with licensing authority under the GENIUS Act and would thereby become subject to the tying prohibition in section 4(a)(8) of the Act (12 U.S.C. 5903(a)(8)). Further, it is not possible to determine how many companies would obtain a unanimous

[230] Call Report Data, December 31, 2025.

[231] FR Y–9C Data, December 31, 2025; FR Y–9SP Data, December 31, 2025.

[232] FR Y–9C Data, December 31, 2025; FR Y–9SP Data, December 31, 2025.

[233] FFIEC 002 Data, December 31, 2025.

[234] FFIEC 002 Data, December 31, 2025.

[235] FR 2886b Data, December 31, 2025.

[236] FR Y–7Q Data, December 31, 2025.

[237] *See supra* n. 219.

vote of the Stablecoin Certification Review Committee under section 4(a)(12) of the GENIUS Act and therefore be subject, together with certain of the company's subsidiaries and affiliates, to subpart E of the proposed rule. The Board is not aware of any method of determining the identity, industry, or size of the parties that would be subject to subpart E of the proposed rule. As stated above, the Board expects that the initial adopters of this technology will likely be larger institutions with the compliance infrastructure and capital necessary to support payment stablecoin issuance.

4. Consideration of Duplicative, Overlapping, or Conflicting Rules and Significant Alternatives to the Proposal

The Board is aware of no other federal rules that duplicate, overlap, or conflict with the proposal. While other Federal and State regulators are required to adopt similar rules, each set of rules would apply to a different and defined scope of institutions. The GENIUS Act requires the Board to issue the rules described above. The Board is seeking comment on certain potential alternative approaches to discrete aspects of the final rule, as discussed elsewhere in this **SUPPLEMENTARY INFORMATION**, that would not significantly change the estimated economic impact of the proposed rule. Subpart B implements an entirely new regulatory framework that could have significant economic impact on any small Board-supervised PPSIs, and the alternatives would not materially minimize such impact. Similarly, other sections are not expected to have a significant impact on covered firms, and the alternatives considered would not meaningfully affect the impact on any small entities.

5. Conclusion

Based on its analysis and for the reasons stated above, the Board believes that the proposed rule is unlikely to have a significant economic impact on a substantial number of small entities. The Board welcomes comment on all aspects of its analysis. In particular, the Board requests that commenters describe the nature of any impact on small entities and provide empirical data to illustrate and support the extent of the impact. Additionally, the Board requests that commenters describe the number of small entities under the RFA and the impact on small entities.

C. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act of 1994 (RCDRIA) (12 U.S.C. 4802(a)), in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency must consider, consistent with principles of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions and customers of depository institutions, as well as the benefits of such regulations. In addition, section 302(b) of the RCDRIA (12 U.S.C. 4802(b)) requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form. The Board requests comment on any administrative burdens that the proposed rule would place on depository institutions, including small depository institutions, and their customers, and the benefits of the proposed rule that the agencies should consider in determining the effective date and administrative compliance requirements for a final rule.

D. Providing Accountability Through Transparency Act of 2023

The Providing Accountability Through Transparency Act of 2023 (5 U.S.C. 553(b)(4)), requires that a notice of proposed rulemaking include the internet address of a summary of not more than 100 words in length of a proposed rule, in plain language, that shall be posted on the internet website under section 206(d) of the E-Government Act of 2002 (44 U.S.C. 3501 note).

The Board of Governors of the Federal Reserve System (Board) proposes to issue regulations to implement the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act) with respect to Board-supervised permitted payment stablecoin issuers (PPSIs) and certain other entities that are subject to the Board's jurisdiction. In addition, the Board proposes to issue regulations to implement the prohibition on tying in section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), which is applicable generally to all PPSIs.

The proposal and the required summary can be found at *https://www.regulations.gov* and *https://www.federalreserve.gov/apps/proposals/.*

E. Solicitation of Comments and Use of Plain Language

Section 722 of the Gramm-Leach-Bliley Act [238] requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The Board has sought to present the proposed rule in a simple and straightforward manner and invites comment on the use of plain language. For example:

- Has the Board organized the material to suit your needs? If not, how could they present the proposed rule more clearly?
- Are the requirements in the proposed rule clearly stated? If not, how could the proposed rule be more clearly stated?
- Does the proposed regulation contain technical language or jargon that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed regulation easier to understand? If so, what changes would achieve that?
- Would more, but shorter, sections be better? If so, which sections should be changed?
- What other changes can the Board incorporate to make the proposed regulation easier to understand?

List of Subjects

12 CFR Part 208

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Investments, Reporting and recordkeeping requirements, Securities, State member banks.

12 CFR Part 211

Exports, Federal Reserve System, Foreign banking, Investments, Reporting and recordkeeping requirements.

12 CFR Part 217

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

12 CFR Part 225

Administrative practice and procedure, Banks, Banking, Federal Reserve System, Holding companies, Investments, Reporting and recordkeeping requirements, Securities.

[238] Public Law 106–102, sec. 722, 113 Stat. 1338, 1471 (1999), 12 U.S.C. 4809.

12 CFR Part 247

Administrative practice and procedure; Banks, banking; Federal Reserve System; Stablecoins, Stablecoin Issuers.

12 CFR Part 263

Administrative practice and procedure, Federal Reserve System, Investigations.

For the reasons set out in the preamble, the Board proposes to amend 12 CFR chapter II as follows:

PART 208—MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM (REGULATION H)

■ 1. The authority citation for part 208 is revised to read as follows:

Authority: 12 U.S.C. 24, 36, 92a, 93a, 248(a), 248(c), 321–338a, 371d, 461, 481–486, 601, 611, 1814, 1816, 1817(a)(3), 1817(a)(12), 1818, 1820(d)(9), 1833(j), 1828(o), 1831, 1831o, 1831p–1, 1831r–1, 1831w, 1831x, 1835a, 1882, 2901–2907, 3105, 3310, 3331–3351, 3905–3909, 5371, 5371 note, and 5901 *et seq.;* 15 U.S.C. 78b, 78I(b), 78l(i), 780–4(c)(5), 78q, 78q–1, 78w, 1681s, 1681w, 6801, and 6805; 31 U.S.C. 5318; 42 U.S.C. 4012a, 4104a, 4104b, 4106, and 4128.

■ 2. Add § 208.113 to read as follows:

§ 208.113 Payment stablecoin activities and investments.

(a) Section 16(b) of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (12 U.S.C. 5915(b)) provides that entities regulated by the Board are authorized to engage in the payment stablecoin activities and investments contemplated by the GENIUS Act, including acting as a principal or agent with respect to any payment stablecoin and payment of fees to facilitate customer transactions. Additionally, section 16(b) of the GENIUS Act requires the Board to review all existing guidance and regulations, and if necessary, amend or promulgate new regulations and guidance, to clarify that regulated entities are authorized to engage in such activities and investments. This section sets out such clarifications with respect to State member banks.

(b) *Controlling investments in permitted payment stablecoin issuers (PPSIs).* An insured State member bank may own the equity securities of a Board-supervised PPSI, as that term is defined in § 247.2 of this title, provided that the insured State member bank (i) has a controlling interest in such Board-supervised PPSI and (ii) has received the prior approval of the Board for a subsidiary to issue payment stablecoins pursuant to part 247, subpart D of this title.

(c) *Uninsured State member banks and payment stablecoin issuance.* If an uninsured State member bank is also a State-qualified PPSI, as that term is defined in § 247.2 of this title, the entity would be subject to supervision, regulation, and enforcement (i) by the State payment stablecoin regulator, as that term is defined in § 247.2 of this title, and the Board pursuant to part 247, subpart F of this title, under the provisions of the GENIUS Act and its implementing regulations, and, as applicable, the relevant State regulatory framework for State-qualified PPSIs, and (ii) by the Board pursuant to the provisions of the Federal Reserve Act and any other laws and regulations applicable to State member banks.

(d) *Additional digital asset-related activities.* A State member bank may, in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act (12 U.S.C. 5901 *et seq.*) or other permissible activities and investments:

(1) Act as principal or agent with respect to any payment stablecoin, as that term is defined in 12 U.S.C. 5901(22);

(2) Pay fees to facilitate customer transactions;

(3) Pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms; and

(4) Hold as principal non-payment stablecoin digital assets, as that term is defined in 12 U.S.C. 5901(6), necessary to conduct the activities described in (ii) or (iii), provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities.

PART 211—INTERNATIONAL BANKING OPERATIONS (REGULATION K)

■ 3. The authority citation for part 211 is revised to read as follows:

Authority: 12 U.S.C. 221 *et seq.,* 1818, 1835a, 1841 *et seq.,* 3101 *et seq.,* 3901 *et seq.,* 5101 *et seq.,* and 5901 *et seq.;* 15 U.S.C. 1681s, 1681w, 6801 and 6805.

■ 4. Add § 211.10(a)(20) to read as follows:

§ 211.10 Permissible activities abroad.

(a) * * *

(20) *Certain digital asset-related activities.* In connection with the payment stablecoin activities and investments contemplated by the GENIUS Act (12 U.S.C. 5901 *et seq.*) or other permissible activities and investments:

(i) Acting as principal or agent with respect to any payment stablecoin, as that term is defined in 12 U.S.C. 5901(22);

(ii) Paying fees to facilitate customer transactions;

(iii) Paying fees and undertaking other activities as necessary to conduct testing on distributed ledger-based platforms; and

(iv) Holding as principal non-payment stablecoin digital assets, as that term is defined in 12 U.S.C. 5901(6), necessary to conduct the activities described in (ii) or (iii) of this subparagraph, provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities.

* * * * *

■ 5. Add § 211.606 to read as follows:

§ 211.606 Payment stablecoin-related activities.

(a) Section 16(b) of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (12 U.S.C. 5915(b)) provides that entities regulated by the Board are authorized to engage in the payment stablecoin activities and investments contemplated by the GENIUS Act, including acting as a principal or agent with respect to any payment stablecoin and payment of fees to facilitate customer transactions. Additionally, section 16(b) of the GENIUS Act requires the Board to review all existing guidance and regulations, and if necessary, amend or promulgate new regulations and guidance, to clarify that regulated entities are authorized to engage in such activities and investments. This section sets out such clarifications with respect to uninsured State branches or State agencies of a foreign bank.

(b) *Digital asset-related activities.* Uninsured State branches and State agencies of foreign banks may, in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act (12 U.S.C. 5901 *et seq.*) or other permissible activities and investments:

(1) Act as principal or agent with respect to any payment stablecoin, as that term is defined in 12 U.S.C. 5901(22);

(2) Pay fees to facilitate customer transactions;

(3) Pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms; and

(4) Hold as principal non-payment stablecoin digital assets, as that term is defined in 12 U.S.C. 5901(6), necessary to conduct the activities described in (ii) or (iii) of this subparagraph, provided that such principal holdings shall not

exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities.

PART 217—CAPITAL ADEQUACY STANDARDS

■ 6. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321–338a, 481–486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p–1, 1831w, 1835, 1844(b), 1851, 3904, 3906–3909, 4808, 5365, 5368, 5371, 5371 note, 5903, and sec. 4012, Pub. L. 116–136, 134 Stat. 281.

■ 7. In § 217.2, add, in alphabetical order, the definition of ''Permitted payment stablecoin issuer (PPSI)'' to read as follows:

§ 217.2 Definitions.

* * * * *

Permitted payment stablecoin issuer (PPSI) is defined in § 247.2 of this title.

* * * * *

■ 8. Amend § 217.22 by adding a new paragraph (a)(8) to read as follows:

§ 217.22 Regulatory capital adjustments and deductions.

(a) * * *

(8) *Permitted payment stablecoin issuers (PPSIs).* With respect to a Board-regulated institution that consolidates a PPSI under GAAP:

(i) The Board-regulated institution must deconsolidate the PPSI from the Board-regulated institution's balance sheet for purposes of its regulatory capital ratios.

(ii) The Board-regulated institution must deduct from the Board-regulated institution's common equity tier 1 capital a dollar amount equal to the total capital the PPSI is required to hold pursuant to capital requirements imposed on such PPSI by its primary Federal payment stablecoin regulator, as that term is defined in 12 U.S.C. 5901(25), or State payment stablecoin regulator, as that term is defined in 12 U.S.C. 5901(30).

(iii) The Board-regulated institution must exclude any investment in (to the extent not deducted under paragraph (a)(8)(i) of this section) and receivable from the PPSI when calculating standardized total risk-weighted assets, advanced approaches risk-weighted assets, average total consolidated assets, total consolidated assets, and total leverage exposure, as applicable.

* * * * *

PART 225—BANK HOLDING COMPANIES AND CHANGE IN BANK CONTROL (REGULATION Y)

■ 9. The authority citation for part 225 is revised to read as follows:

Authority: 12 U.S.C. 1817(j)(13), 1818, 1828(o), 1831i, 1831p–1, 1843(c)(8), 1844(b), 1972(1), 3106, 3108, 3310, 3331–3351, 3354, 3906, 3907, 3909, 5915(b); 15 U.S.C. 1681s, 1681w, 6801 and 6805.

■ 10. Add § 225.146 to read as follows:

§ 225.146 Payment stablecoin-related activities and investments.

(a) Section 16(b) of the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (12 U.S.C. 5915(b)) provides that entities regulated by the Board are authorized to engage in the payment stablecoin activities and investments contemplated by the GENIUS Act, including acting as a principal or agent with respect to any payment stablecoin and payment of fees to facilitate customer transactions. Additionally, section 16(b) of the GENIUS Act requires the Board to review all existing guidance and regulations, and if necessary, amend or promulgate new regulations and guidance, to clarify that regulated entities are authorized to engage in such activities and investments. This section sets out such clarifications with respect to bank holding companies.

(b) *Controlling investments in certain permitted payment stablecoin issuers (PPSIs).*—(1) A bank holding company may, directly or indirectly, own the equity securities of a PPSI, as that term is defined in § 247.2 of this title, without the prior approval of the Board, provided that:

(i) The bank holding company indirectly owns the equity securities of a PPSI that is controlled by the bank holding company's subsidiary insured depository institution and such insured depository institution has received the prior approval of the appropriate Federal banking agency, as that term is defined in 12 U.S.C. 1813, under section 5 of the GENIUS Act (12 U.S.C. 5904); or

(ii) The bank holding company controls (within the meaning of 12 CFR 225.2) a PPSI, other than a PPSI described in paragraph (b)(1)(i) of this section, the securities of which are of the kinds and amounts explicitly eligible by Federal statute for investment by a national bank in reliance on section 4(c)(5) of the Bank Holding Company Act (12 U.S.C. 1843(c)(5)) and the Board's Regulation Y (12 CFR 225.22(d)(4)).

(2) A PPSI controlled by a bank holding company would, as a subsidiary of such bank holding company, be subject to supervision, regulation, and enforcement (i) by its primary Federal or State payment stablecoin regulator under the provisions of the GENIUS Act and its implementing regulations, and (ii) by the Board under the applicable provisions of the Bank Holding Company Act and other laws and regulations applicable to bank holding companies.

(c) *Additional digital asset-related activities.* A bank holding company may, in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act (12 U.S.C. 5901 *et seq.*) or other permissible activities and investments:

(1) Act as principal or agent with respect to any payment stablecoin, as that term is defined in 12 U.S.C. 5901(22);

(2) Pay fees to facilitate customer transactions;

(3) Pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms; and

(4) Hold as principal non-payment stablecoin digital assets, as that term is defined in 12 U.S.C. 5901(6), necessary to conduct the activities described in (ii) or (iii) of this subparagraph, provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities.

■ 11. Add part 247 to read as follows:

PART 247—STABLECOINS (REGULATION UU)

Subpart A—Authority, Purpose, Scope, Definitions, and Severability

Subpart B—Rules Applicable to Board-Supervised Permitted Payment Stablecoin Issuers.

Subpart C—Custody

Authority: 12 U.S.C. 248, 321–339a, 483, 602, 1818, 1828, 1831o, 1831p–1, 3901 et. seq., and 5901 et. seq.

Subpart A—Purpose, Scope, Definitions, and Severability

§ 247.1 Authority, purpose, and scope.

(a) *Authority and purpose.* This part is issued pursuant to the Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act (12 U.S.C. 5901 *et seq.*) to implement the Board's regulatory responsibilities under the GENIUS Act.

(b) *Scope.* This part applies to Board-supervised PPSIs and certain other persons. Specifically:

(1) subpart B of this part implements certain provisions of section 4 of the GENIUS Act (12 U.S.C. 5903), which requires the Board to issue regulations applicable to Board-supervised PPSIs;

(2) subpart C of this part implements section 10 of the GENIUS Act (12 U.S.C. 5909), which imposes requirements on Board-supervised persons seeking to provide custodial or safekeeping services for payment stablecoin reserves, payment stablecoins used as collateral, or the private keys used to issue payment stablecoins;

(3) subpart D of this part implements section 5 of the GENIUS Act (12 U.S.C. 5904), which requires the Board to establish applications procedures applicable to insured State member banks seeking approval for a subsidiary to issue payment stablecoins;

(4) subpart E of this part implements section 4(a)(8) of the GENIUS Act (12 U.S.C. 5903(a)(8)), which imposes a tying prohibition on all PPSIs, and applies that tying prohibition in a manner consistent with section 4(a)(12)(B)(i)(III) (12 U.S.C. 5903(a)(12)(B)(i)(III)) to certain companies unanimously approved by the Stablecoin Certification Review Committee under section 4(a)(12) of the GENIUS Act (12 U.S.C. 5903(a)(12); and

(5) subpart F of this part implements rules pertaining to State-qualified PPSIs—specifically, the Board's backup-enforcement authority during unusual and exigent circumstances under section 7(e) of the GENIUS Act (12 U.S.C. 5906(e)) and the transition and waiver process for uninsured State-chartered depository institutions under section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)).

§ 247.2 Definitions.

For purposes of this part, the following definitions apply:

Affiliate means a person that controls, is controlled by, or is under common control with another person.

Bank Secrecy Act means:

(1) section 21 of the Federal Deposit Insurance Act (12 U.S.C. 1829b);

(2) chapter 2 of title I of Public Law 91–508 (12 U.S.C. 1951 *et seq.*); and

(3) subchapter II of chapter 53 of title 31, United States Code and notes thereto (31 U.S.C. 5311 *et seq.*).

Board means the Board of Governors of the Federal Reserve System.

Board of directors means an entity's board of directors or the group of individuals that serve the nearest equivalent function of acting as the governing body of the entity.

Board-supervised PPSI means a permitted payment stablecoin issuer supervised and regulated by the Board pursuant to the GENIUS Act (12 U.S.C. 5901 *et seq.*).

Control. A person controls another person if:

(1) the person directly or indirectly or acting through one or more other persons owns, controls, or has power to vote 25 percent or more of any class of voting securities of the other person;

(2) the person controls in any manner the election of a majority of the directors or trustees of the other person; or

(3) the Board determines, after notice and opportunity for hearing, that the person directly or indirectly exercises a controlling influence over the management or policies of the other person.

Covered shareholder means a person who directly or indirectly or acting in concert with one or more persons, or together with members of their immediate family, will own, control, or hold the power to vote 25 percent or more of any class of voting securities of an entity; who controls in any manner the election of a majority of the entity's board of directors; or that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of an entity. A person is presumed to exercise a controlling influence over the management or policies of an entity if such person, directly or indirectly or acting in concert with one or more persons, together with members of their immediate family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities of an entity.

Customer means a person that purchases (through any consideration) the products or services of another person.

Deposit means ''deposit'' as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(*l*)).

Deposit liability means the liability issued by an insured depository institution (including an insured credit union) to a depositor (or member) in respect of any amount standing to the credit of a deposit account (or share account), which is a liability to a depositor (or member) from the perspective of the insured depository institution.

Depository institution means

(1) a depository institution as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(1)); or

(2) a credit union.

Digital asset has the same meaning as in section 2(6) of the GENIUS Act (12 U.S.C. 5901(6)).

Director means an individual who serves on the board of directors of an entity, except an advisory director who:

(1) is not elected by the shareholders of the entity;

(2) does not have the authority to vote on matters before the board of directors or any committee of the board of directors; and

(3) and provides solely general policy advice to the board of directors or any committee.

Distributed ledger means technology in which:

(1) data is shared across a network that creates a public digital ledger of verified transactions or information among network participants; and

(2) cryptography is used to link the data to maintain the integrity of the public ledger and execute other functions.

Eligible deposit claim means:

(1) the insured or uninsured claim of a PPSI against an insured depository institution (including any foreign branches or agents, including correspondent banks, of an insured depository institution) other than an insured credit union in respect of any amount standing to the credit of a deposit account and payable on demand, which is an asset from the

perspective of the depositor, including a Board-supervised PPSI; and

(2) the insured claim of a PPSI against an insured credit union in respect of any amount standing to the credit of a share account, which is an asset from the perspective of the accountholder, including a Board-supervised PPSI.

Fair value means fair value as determined under GAAP.

FDIC means the Federal Deposit Insurance Corporation.

GAAP means generally accepted accounting principles as used in the United States.

GDP growth adjustment means the most recent annual scalar published by the Board equal to the greater of:

(1) the ratio of:

(i) the average of nominal United States gross domestic product in the three calendar years prior to publication of the scalar, as reflected by the most current estimates published by the Bureau of Economic Analysis on or before September 30th of the year of the publication of the scalar, or a comparable value; to

(ii) the average of nominal United States gross domestic product in the three calendar years prior to [the effective date of a final rule], as reflected by the most current estimates published by the Bureau of Economic Analysis; or

(2) the GDP growth adjustment published by the Board the prior calendar year.

Immediate family means the spouse of an individual, the individual's minor children, and any of the individual's children (including adults) residing in the individual's home.

Insider means a covered shareholder, an executive officer, a director, or a related interest of or the immediate family of any of these persons.

Institution-affiliated party has the same meaning as in section 2(13) of the GENIUS Act (12 U.S.C. 5901(13)).

Insured depository institution means

(1) an insured depository institution, as defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(2)); and

(2) an insured credit union, as defined in section 101 of the Federal Credit Union Act (12 U.S.C. 1752).

Insured State member bank means a State member bank, the deposits of which are insured by the FDIC.

Monetary value has the same meaning as in section 2(17) of the GENIUS Act (12 U.S.C. 5901(17)).

Money means

(1) monetary value; and

(2) any other medium of exchange that the Board has determined is currently authorized or adopted by a domestic or foreign government, including a monetary unit of account established by an intergovernmental organization or by agreement between two or more countries.

Nonpublic personal information, as used in this part:

(1) means information—

(i) provided by a customer to a Board-supervised permitted payment stablecoin issuer to obtain a financial product or service;

(ii) about a customer resulting from any transaction involving a financial product or service between the Board-supervised permitted payment stablecoin issuer and a customer; or

(iii) otherwise obtained by the Board-supervised permitted payment stablecoin issuer in connection with providing a financial product or service to a customer; and

(2) does not include publicly available information, unless such publicly available information, when combined with other information, would reveal the identity of a customer or would enable access to the customer's account.

OCC means the Office of the Comptroller of the Currency.

Officer means the president, chairman, chief executive officer, chief operating officer, chief financial officer, chief investment officer, chief risk officer, chief technology officer, and Bank Secrecy Act officer. The term includes any individual serving in the functional capacity of the listed titles or their equivalent, without regard to title, salary, or compensation. The term also includes any other person identified by the Board or appropriate Federal Reserve Bank, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the entity.

Outstanding issuance value means the total consolidated par value of all of a permitted payment stablecoin issuer's outstanding payment stablecoins.

Payment stablecoin has the same meaning as section 2(22) of the GENIUS Act (12 U.S.C. 5901(22)).

Permitted payment stablecoin issuer or *PPSI* has the same meaning as in section 2(23) of the GENIUS Act (12 U.S.C. 5901(23)).

Person has the same meaning as in section 2(24) of the GENIUS Act (12 U.S.C. 5901(24)).

Primary Federal stablecoin regulator has the same meaning as in section 2(25) of the GENIUS Act (12 U.S.C. 5901(25)).

Principal shareholder means a person who directly or indirectly or acting in concert with one or more persons, or together with members of their immediate family, will own, control, or hold the power to vote 10 percent or more of any class of voting securities of an entity; or any person that the Board determines has the power, directly or indirectly, to exercise a controlling influence over the management or policies of an entity.

Private key means the unique alphanumeric sequence that allows an individual to transfer a particular unit of a digital asset using a distributed ledger.

Publicly available information means any information that a person has a reasonable basis to believe is lawfully made available to the general public from:

(1) Federal, State, or local government records;

(2) widely distributed media;

(3) disclosures to the general public that are required to be made by Federal, State, or local law; or

(4) a distributed ledger.

Registered public accounting firm has the meaning set forth in section 2 of the Sarbanes-Oxley Act of 2002 (15 U.S.C. 7201(12)).

Related interest has the same meaning as in 12 CFR 215.2.

Reserve asset means an asset maintained by a permitted payment stablecoin issuer of a type enumerated in § 247.11(b).

Stablecoin Certification Review Committee has the meaning set forth in section 2(27) of the GENIUS Act (12 U.S.C. 5901(27)).

State has the same meaning as in section 2(28) of the GENIUS Act (12 U.S.C. 5901(28)).

State-chartered depository institution has the meaning given the term ''State depository institution'' in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(c)(5)).

State member bank means a State-chartered bank that has been approved for membership in the Federal Reserve System.

State payment stablecoin regulator has the meaning set forth in section 2(30) of the GENIUS Act (12 U.S.C. 5901(30)).

State-qualified payment stablecoin issuer or State-qualified PPSI has the meaning set forth in section 2(31) of the GENIUS Act (12 U.S.C. 5901(31)).

Subsidiary has the meaning set forth in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813(w)(4)).

Trading volume means the aggregate number of payment stablecoins issued by a permitted payment stablecoin issuer that were purchased or sold on exchanges during a specified period of time.

Voting securities has the same meaning as in § 225.2 of this title.

§ 247.3 Severability.

The provisions of this part are separate and severable from one another. If any provision is stayed or determined to be invalid, it is the Board's intention that the remaining provisions shall continue in effect.

§§ 247.4–247.9 [Reserved]

Subpart B—Rules Applicable to Board-Supervised Permitted Payment Stablecoin Issuers

§ 247.10 Permissible and prohibited activities.

(a) *Permitted activities.* A Board-supervised PPSI may only:

(1) issue payment stablecoins;

(2) redeem payment stablecoins;

(3) manage reserves related to the issuance or redemption of payment stablecoins, including purchasing, selling, and holding reserve assets or providing custodial services for reserve assets, consistent with applicable State and Federal law;

(4) provide custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins, consistent with subpart C of this part;

(5) assess fees associated with purchasing or redeeming payment stablecoins;

(6) in connection with the payment stablecoin activities and investments contemplated by the GENIUS Act:

(i) act as principal or agent with respect to any payment stablecoin;

(ii) pay fees to facilitate customer transactions;

(iii) pay fees and undertake other activities as necessary to conduct testing on distributed ledger-based platforms;

(iv) hold as principal non-payment stablecoin digital assets, as that term is defined in 12 U.S.C. 5901(6), necessary to conduct the activities described in (ii) or (iii) of this subparagraph, provided that such principal holdings shall not exceed quantities reasonably expected to be necessary to meet near-term demand for the conduct of such activities; and

(7) undertake any other activities that directly support any of the activities described in paragraphs (a)(1) through (4) of this section.

(b) *Rule of construction.* A Board-supervised PPSI may conduct an activity that is not listed in paragraph (a) of this section only if (i) the proposed activity is (A) incidental to the activities specified in paragraphs (a)(1) through (4) and (a)(7) of this section, or (B) is a digital asset service provider activity specified in section 2(7)(A) of the Act (12 U.S.C. 5901(7)(A)) or an activity incidental thereto; (ii) the activity is permissible under applicable State and Federal laws; (iii) the activity is expressly authorized by the Board; and (iv) the claims of payment stablecoin holders rank senior to any potential claims of non-stablecoin creditors with respect to the reserve assets, consistent with section 11 of the GENIUS Act.

(c) *Prohibitions.*—(1) *Prohibition on the use of deceptive names.* A Board-supervised PPSI must not use a deceptive name by using any combination of terms relating to the United States Government, including ''United States,'' ''United States Government,'' and ''USG,'' in the name of the payment stablecoin. This prohibition does not apply to abbreviations relating directly to the currency to which the payment stablecoin is pegged, such as ''USD.''

(2) *Prohibition on deceptive marketing.* A Board-supervised PPSI must not market a payment stablecoin in such a way that a reasonable person would perceive the payment stablecoin to be:

(i) legal tender as described in 31 U.S.C. 5103;

(ii) issued by the United States; or

(iii) guaranteed or approved by the Government of the United States.

(3) *Prohibition on deceptive representations.* A Board-supervised PPSI must not directly or through implication represent that payment stablecoins are backed by the full faith and credit of the United States, guaranteed by the United States Government, or subject to Federal deposit insurance or Federal share insurance.

(4) *Prohibition on remuneration.* A Board-supervised PPSI must not pay the holder of any payment stablecoin any form of interest or yield (whether in cash, tokens, or other consideration) solely in connection with the holding, use, or retention of such payment stablecoin.

(i) The Board presumes that a Board-supervised PPSI is paying interest or yield (whether in cash, tokens, or other consideration) to the holder of a payment stablecoin solely in connection with the holding, use, or retention of such payment stablecoin if:

(A) the Board-supervised PPSI has a contract, agreement, or other arrangement with an affiliate of the Board-supervised PPSI or related third party to pay interest or yield to the affiliate or related third party; and

(B) the affiliate or related third party identified in paragraph (c)(4)(i)(A) of this section or, if the person is a related third party, an affiliate of such related third party, has a contract, agreement, or other arrangement to pay interest or yield (whether in cash, tokens, or other consideration) to a holder of any payment stablecoin issued by the Board-supervised PPSI solely in connection with the holding, use, or retention of such payment stablecoin.

(C) To the extent the person, or an affiliate of the person, identified in paragraph (c)(4)(i)(A) of this section is a related third party of the Board-supervised PPSI because the Board-supervised PPSI issues payment stablecoins on the related third party's behalf or under the related third party's branding, the arrangement identified in paragraph (c)(4)(i)(B) of this section considers the holder of the payment stablecoin to be the holder of a payment stablecoin issued by the Board-supervised PPSI on the related third party's behalf or under the related third party's branding.

(ii) For purposes of paragraph (c)(4)(i) of this section, a related third party means:

(A) a person offering to pay interest or yield to payment stablecoin holders as a service; and

(B) any person that the Board-supervised PPSI issues payment stablecoins on the person's behalf or under the person's branding.

(iii) A Board-supervised PPSI may rebut the presumption in paragraph (c)(4)(i) of this section by submitting written materials that, in the Board's judgment, demonstrate that the contract, agreement, or other arrangement is not prohibited under paragraph (c)(4) of this section and is not an attempt to evade the prohibition.

(5) *Prohibition on rehypothecation.* With the exception of reserve assets permitted under § 247.11(b)(4) or (5), a Board-supervised PPSI must not pledge, rehypothecate, or reuse any assets held as reserves under § 247.11(a)(1) either directly or indirectly (*e.g.,* through a third-party custodian of the reserve assets) except for the purpose of:

(i) satisfying margin obligations in connection with investments in permitted reserves under § 247.11(b)(4) or (5);

(ii) satisfying obligations associated with the use, receipt, or provision of standard custodial services; or

(iii) creating liquidity to meet reasonable expectations of requests to redeem payment stablecoins, such that reserves in the form of Treasury bills may be sold as purchased securities in repurchase agreements with a maturity of 93 days or less, provided that either:

(A) the repurchase agreements are cleared by a clearing agency registered with the Securities and Exchange Commission; or

(B) the Board-supervised PPSI receives prior approval from the Board.

(6) *Prohibition on evasive activity.* A Board-supervised PPSI must not engage in any activity that the Board determines is an evasion of the requirements of section 4 of the GENIUS Act (12 U.S.C. 5903) or its implementing regulations.

§ 247.11 Reserve assets.

(a) *Reserve requirement.* A Board-supervised PPSI must:

(1) maintain reserve assets that:

(i) are identifiable;

(ii) are segregated from, are not commingled with other assets owned or held by the Board-supervised PPSI, and are not available to satisfy the claims of any creditor (other than through the redemption of payment stablecoins) unless and until all payment stablecoins have been redeemed at par;

(iii) at all times have a total fair value that equals or exceeds the outstanding issuance value of the Board-supervised PPSI; and

(iv) are held:

(A) in custody by a person that is eligible to provide such services under, and is in compliance with, the provisions in section 10 of the GENIUS Act (12 U.S.C. 5909) and any applicable implementing regulations;

(B) as an eligible deposit claim;

(C) as money standing to the credit of an account at a Federal Reserve Bank; or

(D) by the Board-supervised PPSI;

(2) record the fair value of reserve assets required under paragraph (a)(1) of this section at a minimum of once each calendar day at 5:00 p.m. in the time zone of the Board-supervised PPSI's appropriate Federal Reserve Bank;

(3) demonstrate the operational capability to access and monetize the identifiable reserve assets, commensurate with the Board-supervised PPSI's risk profile and business model; and

(4) withdraw excess reserve assets only once per month (upon the publication of the composition report required by paragraph (d) of this section) and only when the total fair value of all reserve assets exceeds outstanding issuance value. A Board-supervised PPSI may withdraw any excess reserve assets, calculated and reported as of the last day of the previous month, after the information in the month-end report is examined and certified pursuant to paragraph (e) of this section, provided that a Board-supervised PPSI may not withdraw any reserve assets if the withdrawal would cause the current fair value of reserve assets to fall below the current outstanding issuance value, calculated as of the day of withdrawal.

(b) *Permissible reserve assets.* The reserve assets required under paragraph (a)(1) of this section must comprise exclusively:

(1) United States coins and currency (including Federal Reserve notes) or money standing to the credit of an account with a Federal Reserve Bank;

(2) eligible deposit claims subject to any limitation established by the FDIC and the National Credit Union Administration, as applicable, pursuant to section 4(a)(1)(A) of the GENIUS Act (12 U.S.C. 5903(a)(1)(A)) to address safety and soundness risks of such insured depository institution;

(3) Treasury bills, Treasury notes, or Treasury bonds with a remaining maturity of 93 days or less;

(4) money received under repurchase agreements, with the Board-supervised PPSI acting as a seller of securities and with a no longer than overnight maturity, that are backed by Treasury bills with a maturity of 93 days or less;

(5) reverse repurchase agreements, with the Board-supervised PPSI acting as a purchaser of securities and with a no longer than overnight maturity, that are collateralized by Treasury bills, Treasury notes, Treasury bonds on a no longer than overnight basis, subject to overcollateralization in line with standard market terms, that are:

(i) tri-party;

(ii) centrally cleared through a clearing agency registered with the Securities and Exchange Commission; or

(iii) bilateral with a counterparty that the Board-supervised PPSI has determined to be adequately creditworthy even in the event of severe market stress;

(6) securities issued by an investment company registered under section 8(a) of the Investment Company Act of 1940 (15 U.S.C. 80a–8(a)), or other registered Government money market fund, and that are invested solely in underlying assets described in paragraphs (b)(1) through (5) of this section;

(7) any other similarly liquid Federal government-issued asset approved by the Board, in consultation with the State payment stablecoin regulator, if applicable, of the Board-supervised PPSI. In determining whether a potential reserve asset qualifies as ''any other similarly liquid Federal government-issued asset,'' the Board will consider the following factors, among others, with respect to assets issued by the Federal government (and not assets that are merely guaranteed by or are otherwise obligations of the Federal government):

(i) the asset has liquidity characteristics, including during times of stress, comparable to the other reserve assets allowed under paragraph (b);

(ii) Board-supervised PPSIs will be operationally capable of monetizing the asset to meet redemption requests, including sudden and high-volume requests;

(iii) the asset poses levels of risk comparable to those of the assets allowed under this paragraph (b) including interest rate risk and counterparty credit risk; and

(iv) whether the asset introduces additional risks that may be difficult for Board-supervised PPSIs to manage; or

(8) any reserve described in paragraphs (b)(1) through (3) of this section or paragraph (b)(6) or (7) of this section in tokenized form, provided that such tokenized asset (i) confers legal rights that are identical to those of the non-tokenized form of the same asset, and (ii) is in compliance with all applicable laws and regulations.

(c) *Reserve asset diversification and concentration.* A Board-supervised PPSI must maintain reserve assets that are sufficiently diverse to ensure that it can comply with the one-to-one requirement at all times, including under stress. Among other actions, a Board-supervised PPSI must manage concentration risks from:

(1) uninsured eligible deposit claims against one or a small number of insured depository institutions, including any foreign branches or agents (including correspondent banks) of an insured depository institution; and

(2) reverse repurchase transaction exposures to one or a small number of counterparties and their affiliates, excluding designated financial market utilities.

(d) *Composition report.* By noon on the last day of each month, a Board-supervised PPSI must publish the monthly composition of the Board-supervised PPSI's reserves held pursuant to the GENIUS Act as of noon on the last day of the previous month on the website of the Board-supervised PPSI, using a format substantially similar to the template provided in table 1 to this paragraph (d) of this section, containing:

(1) the total number of outstanding payment stablecoins issued by the Board-supervised PPSI; and

(2) the amount and composition of the reserves described in paragraph (a)(1) of this section, including the average tenor and geographic location of custody of each category of reserve instruments.

TABLE 1 TO § 247.11(d)—MONTHLY COMPOSITION TEMPLATE

As of YYYY/MM/DD in thousands of U.S. dollars	Amount	Geographic location	Average tenor
Number of Outstanding Payment Stablecoins			
1.[1]			
2.			
3.			
4. Total Outstanding Payment Stablecoins.			
Fair Value of Reserve Assets			
5. United States coin and currency, or money standing to the credit of a Federal Reserve Bank account.			
6. Eligible deposit claims:			
7. Insured eligible deposit claims.			
8. Uninsured eligible deposit claims.			
9. Treasury bills, Treasury notes, or Treasury bonds.			
10. Other similarly liquid Federal government-issued assets approved by Board.			
11. Money received under repurchase agreements.			
12. Reverse repurchase agreements.			
13. Securities issued by an investment company solely invested in qualifying reserve assets.			
14. Reserves in tokenized form.[2]			
15. Total Reserve Assets.[3]			
16. Outstanding repurchase agreement liabilities.			
17. Total Reserve Assets Net of Outstanding Repurchase Agreement Liabilities.			

[1] List different classes of payment stablecoin separately, if applicable. To the extent that different classes of payment stablecoins are secured by distinct pools of reserve assets, Board-supervised PPSIs should publish a composition table for each class of payment stablecoin and describe the legal mechanism for how the assets are separately secured.
[2] Board-supervised PPSIs must separately list any reserves in tokenized form by category of reserve asset, using multiple rows if appropriate.
[3] Do not double count any reserve assets that may be listed in more than one row for purposes of computing the total.

(e) *Monthly certification; examination of reports by registered public accounting firm.*—(1) The report required under paragraph (d) of this section must have been examined by a registered public accounting firm prior to publication. The registered public accounting firm's examination report must be published on the website of the Board-supervised PPSI at the same time as the month-end report required under paragraph (d) of this section.

(2) *Certification.* The Chief Executive Officer and Chief Financial Officer (or the persons performing the equivalent functions) of a Board-supervised PPSI must submit a certification as to the accuracy of each monthly report required under paragraph (d) of this section to the Board.

(f) *Failure to meet the one-to-one requirement.*—(1) If, at any time, a Board-supervised PPSI fails to satisfy the requirement in paragraph (a)(1)(iii) of this section, the Board-supervised PPSI must, within 24 hours of such a failure, submit:

(i) notification to the Board through its appropriate Federal Reserve Bank of such failure; and

(ii) a plan describing how the Board-supervised PPSI will return to compliance with such requirement.

(A) The Board reserves discretion to require the Board-supervised PPSI to modify the plan under paragraph (f)(1)(ii) of this section as appropriate in light of circumstances surrounding the shortfall.

(2) *Automatic liquidation and prohibition on fees.* By no later than 5:00 p.m. in the time zone of the Board-supervised PPSI's appropriate Federal Reserve Bank on the business day following the deadline for submission of a plan under paragraph (f)(1) of this section, the Board-supervised PPSI must:

(i) begin liquidating all of its reserve assets and redeeming outstanding payment stablecoins, consistent with § 247.12, unless either:

(A) the Board-supervised PPSI has returned to compliance with the minimum reserve asset requirement under paragraph (a)(1)(iii) of this section, or

(B) the Board directs the Board-supervised PPSI to proceed with the plan submitted under paragraph (f)(1)(ii) and as may be modified pursuant to paragraph (f)(1)(ii)(A) of this section;

(ii) not charge customers a fee to redeem their payment stablecoins at any time during the liquidation; and

(iii) not issue payment stablecoins at any time during the liquidation.

(g) *Failure to meet reserve asset requirements.*—If at any point the Board determines that a Board-supervised PPSI has not demonstrated that it meets the reserve asset requirements in paragraph (a), (b), or (c) of this section, the Board may require the Board-supervised PPSI to submit a plan describing how it will attain compliance, as well as the timeline for the plan. If the Board determines, either before or after the submission of a plan, that a Board-supervised PPSI faces a significant risk of being unable to attain compliance with the reserve requirements in paragraph (a), (b), or (c) of this section within a reasonable period, the Board may order the Board-supervised PPSI to redeem all of its outstanding payment stablecoins. The Board's authority to require a compliance plan or order redemption does not limit the Board's authority to pursue other measures, including enforcement actions, if appropriate.

§ 247.12 Redemption and fees.

(a) *Redemption policy.* A Board-supervised PPSI must publicly disclose its redemption policy and include, at a minimum, the following information:

(1) the timeframe in which the Board-supervised PPSI will redeem payment stablecoins and the timeframe under which the Board-supervised PPSI is required to redeem payment stablecoins under paragraph (b)(2) of this section;

(2) a statement explaining the limitation in paragraph (b)(3) of this section;

(3) a statement explaining the scenarios under subsections (c) and (d) of this section in which the redemption may take longer than the time period

provided for in paragraph (b)(2) of this section;

(4) a statement with clear instructions on how a customer can redeem a payment stablecoin, including a link to the website(s) where a customer can redeem the payment stablecoin; and

(5) the minimum number of payment stablecoins, if any, that the Board-supervised PPSI will redeem, provided that the Board-supervised PPSI must redeem any number greater than or equal to one payment stablecoin, subject to appropriate customer screening and onboarding.

(b) *Redemption policy requirements.* A Board-supervised PPSI's redemption policy must provide:

(1) clear and conspicuous procedures for timely redemption of outstanding payment stablecoins;

(2) that timely redemption may not exceed two business days following the date of the requested redemption; and

(3) that any discretionary limitations on timely redemptions may only be imposed by the Board or, in the case of a Board-supervised PPSI that is a State-qualified PPSI, by the Board or the State payment stablecoin regulator, as applicable.

(c) *Timeliness extended in certain scenarios.* The Board may, in its discretion, extend timely redemption described in paragraph (b)(2) of this section if the Board determines that the Board-supervised PPSI faces a threat to its safety and soundness or poses a threat to financial stability, or that such an extension is otherwise in the public interest.

(d) *Safe harbors for failing to timely redeem.* A Board-supervised PPSI shall not be deemed to have failed to timely redeem a payment stablecoin if the Board-supervised PPSI can demonstrate to the Board's satisfaction that: (i) additional time is (or was) needed to conduct customer identification and due diligence reviews in connection with legal requirements under the Bank Secrecy Act, sanctions, or federal anti-money laundering/countering the financing of terrorism laws or regulations; or (ii) the delay is (or was) outside of the Board-supervised PPSI's control. Reliance on either safe harbor under this paragraph is contingent on the Board-supervised PPSI demonstrating that it has made all reasonable efforts to resolve the delay in a timely manner.

(e) *Disclosures and fees associated with purchase and redemption.* A Board-supervised PPSI must:

(1) publicly, clearly, and conspicuously disclose in plain language and in a format that is readily noticeable to customers, readily understandable by customers, and not mixed in with other information:

(i) the name of the Board-supervised PPSI that issues the payment stablecoin;

(ii) that the Board-supervised PPSI is the entity that is obligated to convert, redeem, or repurchase the payment stablecoin for a fixed amount of monetary value;

(iii) the link to the monthly composition report of the relevant Board-supervised PPSI's reserves required under § 247.11(d); and

(iv) all fees associated with purchasing or redeeming payment stablecoins.

(2) update the disclosures in paragraph (e)(1)(iv) of this section if there are any changes in fees associated with purchasing or redeeming payment stablecoins and provide customers at least seven calendar days' prior notice of the change, including by securely delivering the notice to current customers for which the Board-supervised PPSI has contact information;

(3) publish the disclosures in paragraph (e)(1) of this section and any updates made in accordance with paragraph (e)(2) of this section on the Board-supervised PPSI's website; and

(4) include the disclosures in paragraph (e)(1) of this section and any updates made in accordance with paragraph (e)(2) of this section in any customer agreements that it provides.

§ 247.13 Risk management.

(a) *General operational and managerial standards.*—(1) *Internal controls and information systems.* A Board-supervised PPSI must have internal controls and information systems to support effective risk management that are tailored to the size and complexity of the Board-supervised PPSI and the nature, scope, and risk of its activities. The internal controls and information systems must provide for:

(i) an organizational structure with appropriate segregation of duties and an internal control structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies;

(ii) effective risk assessment;

(iii) timely and accurate financial, operational, and regulatory reporting, including with respect to the reports required under this part;

(iv) adequate procedures to monitor, safeguard, manage, control, and monetize assets, including reserve assets; and

(v) compliance with applicable laws and regulations.

(2) *Internal audit system.* A Board-supervised PPSI must have an internal audit system that is tailored to the size and complexity of the Board-supervised PPSI and the nature, scope, and risk of its activities and that provides for:

(i) adequate monitoring of the system of internal controls through an internal audit function, or for a Board-supervised PPSI whose size, complexity, or scope of operations does not warrant a full-scale internal audit function, a system of independent reviews of key internal controls;

(ii) independence and objectivity;

(iii) qualified persons responsible for the audit function;

(iv) adequate independent testing and review of internal controls and information systems, and verification of published information available to customers, calculations for required reserves, and regulatory filings;

(v) adequate documentation of tests and findings and any corrective actions;

(vi) verification and review of management actions to address deficiencies; and

(vii) review by the Board-supervised PPSI's audit committee or board of directors of the effectiveness of the internal audit system.

(3) *Asset growth.* A Board-supervised PPSI's asset growth must be prudent and commensurate with a Board-supervised PPSI's risk management capabilities, operational capacity, and staffing.

(4) *Earnings.* A Board-supervised PPSI must evaluate and monitor earnings and ensure that earnings are sufficient to support operations and maintain the capital levels required by §§ 247.15 through 247.18.

(5) *Oversight of third-party relationships.* A Board-supervised PPSI must:

(i) exercise appropriate due diligence in its third party relationships;

(ii) require its service providers by contract to implement appropriate measures designed to satisfy the applicable requirements under this part; and

(iii) as appropriate, monitor its third-party relationships, including by reviewing audits, summaries of test results, or other equivalent evaluations.

(6) *Interest rate exposure.* A Board-supervised PPSI must:

(i) manage interest rate risk in a manner that is appropriate to the size and complexity of the Board-supervised PPSI and the complexity of its assets and liabilities; and

(ii) provide periodic reporting to management and the board of directors regarding interest rate risk with adequate information for management and the board of directors to assess the level of risk.

(7) *Insider and affiliate transactions.* A Board-supervised PPSI shall ensure that transactions between the Board-supervised PPSI and its insiders or affiliates (other than, for a Board-supervised PPSI that is a subsidiary of an insured State member bank, such insured State member bank):

(i) do not pose a significant risk of material financial loss; and

(ii) either:

(A) are conducted on terms that are the same or at least as favorable to the Board-supervised PPSI as those prevailing at the time for comparable transactions with or involving non-insiders or non-affiliates; or

(B) in the absence of comparable transactions, are offered on terms and under circumstances that, in good faith, would be offered to or would apply to non-affiliates or non-insiders.

(b) *Information technology and security.*—(1) *Information technology and security program.* A Board-supervised PPSI must implement a comprehensive written information security risk and control framework, including a program that assesses and manages information technology and information security risks. A Board-supervised PPSI's information technology and security program should be tailored to its size and complexity and the nature, scope, and risk of its activities.

(2) *Board of directors approval.* The board of directors or an appropriate board committee must approve the information technology and security program described in paragraph (b)(1) of this section and oversee the development, implementation, and maintenance of the program, including the appointment of a qualified Information Technology and Security Officer. Such oversight includes assigning specific responsibility for program implementation and review of program-related reports.

(3) *Required elements of program.* A Board-supervised PPSI's information technology and security program must include:

(i) an inventory and classification of assets, processes, and sensitivity of data;

(ii) controls supporting and safeguarding sensitive information and processes;

(iii) evaluation, validation, and reporting processes to ensure that key information technology systems and controls, including smart contracts, are operating as intended;

(iv) periodic independent testing; and

(v) a comprehensive and effective incident identification and assessment process and incident response program.

(4) *Business continuity.* A Board-supervised PPSI's information technology and security program must include measures to ensure continuity of operations and recover critical functions in the face of disruptions, including by conducting business impact analyses, testing vulnerabilities, and testing with critical service providers.

(5) *Nonpublic personal information.* A Board-supervised PPSI's information technology and security program must include administrative, technical, and physical safeguards designed to:

(i) ensure the security and confidentiality of records containing nonpublic personal information about a customer;

(ii) protect against any anticipated threats or hazards to the security or integrity of such records;

(iii) protect against unauthorized access to or use of such records that could result in substantial harm or inconvenience to any customer; and

(iv) ensure the proper disposal of such records.

(6) *Safe handling of digital assets.* A Board-supervised PPSI must develop, implement, and maintain appropriate measures to ensure secure handling of digital assets, including private key management, backup, and recovery, incorporating:

(i) relevant technical, operational, strategic, market, legal, and compliance considerations relating to each digital asset and its underlying ledger; and

(ii) information on material developments specifically related to supported digital assets and their underlying ledgers.

(c) *Board-supervised PPSIs that are subsidiaries of State member banks.* A Board-supervised PPSI that is a subsidiaries of a State member bank is deemed to be in compliance with the requirements of this section if:

(i) such Board-supervised PPSI participates in the enterprise-wide risk management framework of its parent State member bank or consolidated banking organization, and

(ii) that parent State member bank or consolidated banking organization has an enterprise-wide risk management framework that aligns to the guidelines in appendix D–1 of part 208 of this title.

(d) *Bank Secrecy Act/anti-money laundering and sanctions requirements.*—(1) *Definitions.* For the purposes of this section:

(i) *AML/CFT enforcement action* means any formal or informal action taken under authority of the GENIUS Act (12 U.S.C. 5901 *et seq.*), or other applicable law, that seeks to penalize, remedy, prevent, or respond to noncompliance with past or ongoing violations of, or past or ongoing deficiencies relating to, an AML/CFT requirement applicable to a Board-supervised PPSI. The term includes—

(A) a cease-and-desist order, written agreement, consent order, or memorandum of understanding; or

(B) the assessment of a civil money penalty.

(ii) *AML/CFT requirement* means:

(A) a requirement of the Bank Secrecy Act or the implementing regulations at 31 CFR Chapter X applicable to a Board-supervised PPSI; or

(B) a requirement of 12 U.S.C. 5903(a)(5)(A)(i)–(v), 12 U.S.C. 5903(a)(6)(B), or 12 U.S.C. 5903(f)(1) applicable to a Board-supervised PPSI.

(iii) *Significant AML/CFT supervisory action* means any written communication or other formal supervisory determination that—

(A) identifies one or more alleged deficiencies, weaknesses, violations of law, or unsafe or unsound practices or conditions relating to an AML/CFT requirement;

(B) communicates supervisory expectations to a Board-supervised permitted payment stablecoin issuer regarding actions or remedial measures required to correct the deficiency, weakness, violation, or practice or condition; and

(C) contemplates significant or programmatic actions or remedial measures to be taken by the Board-supervised permitted payment stablecoin issuer.

(D) The term does not include examiner observations, suggestions, or other informal comments.

(2) In order to ensure compliance with Bank Secrecy Act and sanctions requirements, each Board-supervised permitted payment stablecoin issuer must comply with the Bank Secrecy Act, sections 4(a)(5) and 4(a)(6) of the GENIUS Act, and applicable regulations at 31 CFR Chapter V and 31 CFR Chapter X, including any AML/CFT program, sanctions program, recordkeeping, and reporting requirements.

(3) *Enforcement and supervision policy.*—(i) *In general.* Except with respect to a significant or systemic failure to implement the AML/CFT program in accordance with applicable regulations at 31 CFR Chapter X, a Board-supervised permitted payment stablecoin issuer that has established an AML/CFT program in accordance with applicable regulations at 31 CFR Chapter X will not be subject to an AML/CFT enforcement action or to a significant AML/CFT supervisory action.

(ii) *Program establishment violations.* Nothing in this paragraph (d) may be construed to restrict an AML/CFT enforcement action or a significant AML/CFT supervisory action with respect to any failure to establish an AML/CFT program.

(iii) *Criminal Enforcement Unaffected.* Nothing in this paragraph (d) may be construed to affect criminal enforcement under the Bank Secrecy Act.

§ 247.14 Audits, reports, and supervision.

(a) *General.* The Board will conduct a full-scope examination of every Board-supervised PPSI subject to its supervision at least once during each 12-month period, unless otherwise specified in paragraph (d) of this section. Such examinations may be undertaken in conjunction with, or separately from, an examination of the parent State member bank.

(b) *Access to books and records.* Upon request by the Board, a Board-supervised PPSI must grant the Board prompt and complete access to all officers, directors, employees, agents, and relevant books, records, or documents of any type.

(c) *Location of examinations.* The Board may conduct examinations of every Board-supervised PPSI subject to its supervision, as specified in paragraph (a) of this section, either on-site or remotely.

(d) *Extended exam cycle for certain Board-supervised PPSIs.* Notwithstanding paragraph (a) of this section, the Board may conduct a full-scope examination of a Board-supervised PPSI subject to its supervision at least once during each 18- to 36-month period, as determined by the Board in its sole discretion, if the following conditions are satisfied:

(1) The Board-supervised PPSI currently is not subject to a formal enforcement proceeding or order;

(2) No person acquired control, as defined in § 247.2, of the Board-supervised PPSI during the preceding 12-month period in which a full-scope examination would have been required but for this paragraph (d);

(3) The Board-supervised PPSI has an outstanding issuance value of less than $1 billion multiplied by the GDP growth adjustment or less than $25 billion multiplied by the GDP growth adjustment in total monthly trading volume; and

(4) The Board-supervised PPSI is in compliance with all of the reserve requirements set forth in § 247.11 and the reporting requirements of this section.

(e) *Authority to conduct more frequent examinations.* This section does not limit the authority of the Board to examine any Board-supervised PPSI as frequently as the Board deems necessary, including examinations of a limited scope.

(f) *Recordkeeping requirements.* All Board-supervised PPSIs must maintain a complete set of books and records in English.

(g) *Records retention policy.* All Board-supervised PPSIs must develop and implement a records retention policy that ensures the Board-supervised PPSI can demonstrate compliance with the GENIUS Act, this part, and all applicable laws and regulations.

(h) *Confidential weekly reporting.* All Board-supervised PPSIs must submit to the Board, on a weekly basis, in the manner and form specified by the Board, a confidential report containing the information requested in the form available on the Board's public website.

(i) *Quarterly reports of financial condition and income.* All Board-supervised PPSIs must submit to the Board a quarterly report on the financial condition and income of the Board-supervised PPSI, including, but not limited to, an income statement, which includes gross income, expenses, and net income and a balance sheet which includes assets including reserve assets and their total fair value, liabilities including stablecoin liabilities and their total outstanding issuance value, capital, changes in equity, and assets under custody, if any, in a standardized format as prescribed by the Board, within 30 days of the end of the prior quarter. Forms and instructions are available on the Board's public website. Each quarterly report of financial condition and income must contain a declaration by the Board-supervised PPSI's Chief Financial Officer, or the individual performing an equivalent function, that the report is true and correct to the best of their knowledge and belief. The correctness of the report of financial condition must be attested to by the signatures of the directors and senior management of the Board-supervised PPSI other than the Chief Financial Officer, or the individual performing an equivalent function, making such declaration, with the attestation stating that the report has been examined by them and to the best of their knowledge and belief is true and correct.

(j) *Submission of other reports.* All Board-supervised PPSIs must, upon request, submit to the Board a report on:

(1) the financial condition of the Board-supervised PPSI;

(2) the systems of the Board-supervised PPSI for monitoring and controlling financial and operational risks;

(3) compliance of the Board-supervised PPSI and any subsidiary thereof with the GENIUS Act, including section 4(a)(5) of the Act (12 U.S.C. 5903(a)(5)), and this part.

(k) *Ongoing compliance reporting.* Not later than 180 days after the approval of an application under subpart D of this part, and on an annual basis thereafter, a Board-supervised PPSI must submit to the Board a certification by its board of directors that the Board-supervised PPSI has implemented anti-money laundering and economic sanctions compliance programs that are reasonably designed to prevent the Board-supervised PPSI from facilitating money laundering, in particular, facilitating money laundering for cartels and organizations designated as foreign terrorist organizations under section 219 of the Immigration and Nationality Act (8 U.S.C. 1189) and the financing of terrorist activities, consistent with the requirements of the GENIUS Act.

(*l*) *Audits.* A Board-supervised PPSI with more than $50 billion in outstanding issuance value that is not subject to the reporting requirements under section 13(a) or 15(d) of the Securities and Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)) must prepare, in accordance with GAAP, an annual financial statement that must include the disclosure of any related party transactions, as defined by GAAP.

(1) A registered public accounting firm must perform an audit of the financial statements described in this paragraph (*l*). The audit must be conducted in accordance with all applicable auditing standards established by the Public Company Accounting Oversight Board, including those relating to auditor independence, internal controls, and related party transactions.

(2) A Board-supervised PPSI required to prepare an audited annual financial statement under this paragraph (*l*) must:

(i) make the audited financial statements publicly available on the Board-supervised PPSI's website; and

(ii) submit the audited financial statements annually, within 120 days after the end of its fiscal year, to the Board.

(3) If a Board-supervised PPSI is unable to timely file all or any portion of the financial statement described in this paragraph (*l*), it must submit a written notice of late filing to the Board. The notice must:

(i) disclose the Board-supervised PPSI's inability to timely file all, or specified portions, of its annual financial statement and the reasons therefore in reasonable detail;

(ii) include the date by which the financial statement will be filed; and

(iii) be filed on or before the deadline for filing the financial statement.

(m) *Use of existing reports.* In supervising and examining a Board-supervised PPSI, the Board will, to the fullest extent possible, use existing reports and other supervisory information.

(n) *Avoidance of duplication.* The Board will, to the fullest extent possible, avoid duplication of examination activities, reporting requirements, and requests for information.

§ 247.15 Capital adequacy and minimum requirements.

(a) *General.* Each Board-supervised PPSI must meet the overall capital adequacy standards in accordance with §§ 247.15 through 247.18 at all times.

(b) *Minimum capital requirements.* A Board-supervised PPSI must hold minimum capital as provided in this paragraph.

(1) *Total minimum capital requirement.* Each Board-supervised PPSI must maintain the total minimum capital specified in paragraph (b)(1)(i) of this section and in paragraph (b)(1)(ii) of this section.

(i) A dollar amount of tangible equity equal to the sum of:

(A) the credit risk requirement for uninsured eligible deposit claims in § 247.17(a)(1);

(B) the credit risk requirement for reverse repurchase agreements in § 247.17(a)(2);

(C) the indirect exposure requirement in § 247.17(a)(3); and

(D) the operational risk requirement in § 247.18.

(ii) The capital the Board-supervised PPSI holds to satisfy the capital requirements in § 247.17(b).

(2) *De novo capital requirement.*—(i) Notwithstanding paragraph (b)(1) of this section, a Board-supervised PPSI that is in its de novo period must maintain total minimum capital that is equal to the greater of:

(A) $5 million multiplied by the GDP growth adjustment; and

(B) the total minimum capital requirement, calculated under paragraph (b)(1) of this section.

(ii) For purposes of this paragraph (b)(2), a Board-supervised PPSI is in its de novo period if less than three years have elapsed since Board-supervised PPSI received initial approval from an appropriate Federal or State payment stablecoin regulator to issue payment stablecoins.

(c) *Failure to meet minimum capital requirements.*—(1) If a Board-supervised PPSI fails to satisfy its minimum capital requirements in paragraph (b) of this section as of the end of a quarter, it must, within 5 business days of the end of such quarter, submit a capital plan to the Board that:

(i) provides a detailed strategy for restoring its capital levels to ensure that it meets or exceeds the minimum capital requirements under paragraph (b) of this section, and

(ii) is feasible for returning the Board-supervised PPSI to compliance within one quarter given general market conditions and the Board-supervised PPSI's specific circumstances.

(2) If a Board-supervised PPSI fails to meet its minimum capital requirements paragraph (b) of this section by the end of the quarter following the quarter described in paragraph (c)(1) of this section, it must, starting the next day:

(i) begin liquidation of reserve assets and redemption of outstanding stablecoins, consistent with § 247.12, concluding liquidation of all reserve assets as soon as practicable;

(ii) not charge customers a fee to redeem their payment stablecoins at any time during the liquidation; and

(iii) not issue any new payment stablecoins going forward.

(d) *Capital adequacy.* Notwithstanding the minimum capital requirements in this part, a Board-supervised PPSI must hold an amount of tangible equity sufficient to ensure the ongoing operations of the Board-supervised PPSI.

(e) *Reservation of authority.*—(1) *Additional capital in the aggregate.* The Board may require a Board-supervised PPSI to hold an amount of regulatory capital greater than otherwise required under this part if the Board determines that the Board-supervised PPSI's capital requirements under this part are not commensurate with the Board-regulated institution's credit, market, interest rate, operational, or other risks.

(2) *De novo capital requirements.* With respect to any Board-supervised PPSI, the Board may shorten or extend the de novo period under paragraph (b)(2)(ii) of this section, and may increase or decrease the minimum capital requirement under paragraph (b)(2)(i)(A) of this section, provided that the Board determines the revised amount is sufficient to ensure the ongoing operations of Board-supervised PPSI.

(3) *Capital components.* If the Board determines that a particular common stock or any cumulative or non-cumulative perpetual stock instrument has characteristics or terms that diminish its ability to absorb losses, or otherwise presents concerns regarding the sufficiency of support it provides for the ongoing operations of a Board-supervised PPSI, the Board may require the Board-supervised PPSI to exclude all or a portion of such element from tangible equity.

(4) *Capital requirements.* If the Board determines that any of the Board-supervised PPSI's capital requirements are not commensurate with the Board-supervised PPSI's risks, the Board may:

(i) direct a Board-supervised PPSI to assign a different credit risk requirement for uninsured eligible deposit claims than would otherwise be required under § 247.17(a)(1) or for reverse repurchase agreements than would otherwise be required under § 247.17(a)(2);

(ii) require a Board-supervised PPSI to adjust its methodology for calculating its indirect exposure requirement under § 247.17(a)(3);

(iii) require a Board-supervised PPSI to calculate its baseline operational risk requirement using a different methodology than under § 247.18;

(iv) require a Board-supervised PPSI to assign a different scalar floor, scaled loss rate, threshold loss rate, or loss elasticity for its calculation of operational risks under § 247.18(b); or

(v) direct a Board-supervised PPSI to adjust its methodology for collecting data on or calculating its annual operational losses for purposes of § 247.18.

(5) *Capital requirements for non-reserve assets.* If the Board determines that a Board-supervised PPSI's capital requirements under § 247.17(b) are not commensurate with the risks of the Board-supervised PPSI's non-reserve assets, the Board may require the Board-supervised PPSI to adjust its requirements under § 247.17(b) or its approach for complying with the requirements of part 217 of this title pursuant to § 247.17(b).

§ 247.16 Capital elements.

(a) *Regulatory capital components.* A Board-supervised PPSI's regulatory capital consists of tangible equity.

(b) *Tangible equity.* Tangible equity is the sum of equity capital elements in this paragraph (b) minus regulatory adjustments and deductions in paragraph (c) of this section. The tangible equity capital elements are:

(1) any common stock instruments (plus any related surplus) issued by the Board-supervised PPSI, net of treasury stock, that meet all the following criteria:

(i) the instrument is paid-in, is issued directly by the Board-supervised PPSI, and represents the most subordinated claim in a receivership, insolvency, liquidation, or similar proceeding of the Board-supervised PPSI;

(ii) the instrument has no maturity date and can only be redeemed via discretionary repurchases;

(iii) any cash dividend payments are fully discretionary and may be paid only after all legal and contractual obligations of the Board-supervised PPSI have been satisfied, including payments due on more senior claims;

(iv) the holders of the instruments bear losses as they occur equally, proportionately, and simultaneously with the holders of all other common stock instruments before any losses are borne by holders of claims on the Board-supervised PPSI with greater priority in a receivership, insolvency, liquidation, or similar proceeding; and

(v) if the Board-supervised PPSI purchases or buys back the instrument, the Board-supervised PPSI must either:

(A) replace the instrument to be purchased with an equal amount of instruments that meet the criteria under paragraph (b)(1) of this section; or

(B) demonstrate to the satisfaction of the Board that, following the purchase or buy-back, the Board-supervised PPSI will continue to hold capital commensurate with its risk;

(2) any cumulative or non-cumulative perpetual stock instrument (plus any related surplus) issued by the Board-supervised PPSI, net of treasury stock, that meets the following criteria:

(i) the paid-in amount is classified as equity under GAAP;

(ii) the instrument is paid-in and issued directly by the Board-supervised PPSI;

(iii) the instrument has no maturity date and does not contain a dividend step-up or any other term or feature that creates an incentive to redeem;

(iv) the instrument is not secured, not covered by a guarantee of the Board-supervised PPSI or of an affiliate of the Board-supervised PPSI, and not subject to any other arrangement that legally or economically enhances the seniority of the instrument;

(v) the instrument is subordinate to the claims of general creditors and subordinated debt holders of the Board-supervised PPSI in a receivership, insolvency, liquidation, or similar proceeding;

(vi) the instrument, by its terms, provides for the payment of dividends only after a declaration by the board of directors of the Board-supervised PPSI; and

(vii) if callable by its terms, the instrument may be called by the Board-supervised PPSI only after a minimum of five years following issuance (except that the terms of the instrument may allow it to be called earlier than five years upon the occurrence of a regulatory event that precludes the instrument from being included in tangible equity or a tax event), and only upon the following conditions:

(A) the Board-supervised PPSI did not create at issuance of the instrument, through any action or communication, an expectation that the call option will be exercised; and

(B) prior to exercising the call option, or immediately thereafter, the Board-supervised PPSI must either

(*1*) replace the instrument to be called with an equal amount of instruments that meet the criteria under paragraph (b)(1) or (b)(2) of this section; or

(*2*) demonstrate to the satisfaction of the Board that following redemption, the Board-supervised PPSI will continue to hold capital commensurate with its risk;

(3) retained earnings; and

(4) accumulated other comprehensive income, as reported under GAAP.

(c) *Regulatory capital adjustments and deductions.* A Board-supervised PPSI must deduct from the sum of its regulatory capital goodwill and other intangible assets.

§ 247.17 Capital requirements for financial risks.

(a) *Risk-based capital requirements for stablecoin reserves.*—A Board-supervised PPSI must calculate its risk-based capital requirements under paragraphs (a)(1) through (a)(3) daily, using the most recent available data.

(1) *Credit risk requirement for uninsured eligible deposit claims.* The credit risk requirement for uninsured eligible deposit claims is equal to two percent of the Board-supervised PPSI's uninsured eligible deposit claims held as reserves under § 247.11(a)(1).

(2) *Credit risk requirement for reverse repurchase agreements.* The credit risk requirement for reverse repurchase agreements is equal to 2 percent of the total counterparty exposure amount, as calculated under the methodology set forth in paragraphs (a)(2)(i) through (iii) of this section.

(i) *Total counterparty exposure amount.* A Board-supervised PPSI must determine the total counterparty exposure amount for reverse repurchase agreements held as reserves under § 247.11(a)(1) or a netting set of qualifying repo transactions by summing the exposure amounts, as determined by paragraph (a)(2)(ii) of this section, for all such transactions or netting sets.

(ii) *Exposure amount equation.* The exposure amount for a reverse repurchase agreement or netting set of qualifying repo transactions is equal to $\max\{0, [(\Sigma E - \Sigma C) + \Sigma(Es \times Hs)]\}$, where:

(A) ΣE equals the value of the exposure (the sum of the cash the Board-supervised PPSI has sold subject to repurchase or posted as collateral to the counterparty under the transaction (or netting set));

(B) ΣC equals the value of the collateral (the sum of the current fair values of all instruments the Board-supervised PPSI has purchased subject to resale or taken as collateral from the counterparty under the transaction (or netting set));

(C) Es equals the absolute value of the net position in a given instrument; and

(D) Hs equals the market price volatility haircut appropriate to the instrument referenced in Es as provided in Table 1.

TABLE 1 TO § 247.17. MARKET PRICE VOLATILITY HAIRCUTS

Residual maturity	Haircut to the fair value of the collateral (in percent)
93 days or less	0.0%
Greater than 93 days and less than or equal to 1 year	0.35
Greater than 1 year and less than or equal to 5 years	1.41
Greater than 5 years	2.83

(iii) The definitions below apply for purposes of paragraph (a)(2) of this section.

(A) ''Netting set'' means a group of qualifying repo transactions with a single counterparty that are subject to a qualifying master netting agreement.

(B) ''Qualifying master netting agreement'' means a written, legally enforceable agreement that:

(*1*) creates a single legal obligation for all individual transactions covered by the agreement upon an event of default following any stay permitted by paragraph (*2*) of this definition, including upon an event of receivership, conservatorship, insolvency, liquidation, or similar proceeding, of the counterparty;

(*2*) provides the Board-supervised PPSI the right to accelerate, terminate, and close-out on a net basis all transactions under the agreement and to liquidate or set-off collateral promptly upon an event of default, including upon an event of receivership, conservatorship, insolvency, liquidation, or similar proceeding, of the counterparty, provided that, in any such case:

(*i*) any exercise of rights under the agreement will not be stayed or avoided under applicable law in the relevant jurisdictions, other than where the agreement is subject by its terms to, or incorporates, any of the laws referenced in this paragraph (a)(2)(iii)(B)(*2*)(*i*); or in receivership, conservatorship, or resolution under the Federal Deposit Insurance Act, Title II of the Dodd-Frank Act, or under any similar insolvency law applicable to GSEs, or laws of foreign jurisdictions that are substantially similar to the U.S. laws referenced in this paragraph (a)(2)(iii)(B)(*2*)(*i*) in order to facilitate the orderly resolution of the defaulting counterparty; and

(*ii*) the agreement may limit the right to accelerate, terminate, and close-out on a net basis all transactions under the agreement and to liquidate or set-off collateral promptly upon an event of default of the counterparty to the extent necessary for the counterparty to comply with the requirements of subpart I of the Board's Regulation YY (part 252 of this title), part 47 of this title, or part 382 of this title, as applicable; and

(*3*) does not contain a walkaway clause (that is, a provision that permits a non-defaulting counterparty to make a lower payment than it otherwise would make under the agreement, or no payment at all, to a defaulter or the estate of a defaulter, even if the defaulter or the estate of the defaulter is a net creditor under the agreement).

(*4*) For purposes of this paragraph (a)(2)(iii)(B), in order to conclude that a qualifying master netting agreement is legally enforceable, the Board-supervised PPSI must:

(*i*) conduct sufficient legal review to conclude with a well-founded basis (and maintain sufficient written documentation of that legal review) that the criteria listed in paragraphs (a)(2)(iii)(B)(*1*) through (*3*) of this section are satisfied and that, in the event of a legal challenge (including one resulting from default or from receivership, insolvency, liquidation, or similar proceeding), the relevant court and administrative authorities would find the agreement to be legal, valid, binding, and enforceable under the law of the relevant jurisdictions; and

(*ii*) establish and maintain written procedures to monitor possible changes in relevant law and to ensure that the agreement continues to satisfy the criteria listed in paragraphs (a)(2)(iii)(B)(*1*) through (*3*) of this section.

(C) ''Qualifying repo transactions'' means transactions described in § 247.11(b)(4) or § 247.11(b)(5) held as reserves under § 247.11(a)(1), provided that:

(*1*)(*i*) the transaction is a ''repurchase agreement'' under section 599 of the Bankruptcy Code (11 U.S.C. 559) or section 11(e)(8)(D)(v) of the Federal Deposit Insurance Act; or

(*ii*) if the transaction does not meet the criteria set forth in paragraph (a)(2)(iii)(C)(*1*)(*i*) of this section, then the transaction is executed under an agreement that provides the Board-regulated institution the right to accelerate, terminate, and close-out the transaction on a net basis and to liquidate or set-off collateral promptly upon an event of counterparty default; and

(*2*) the Board-supervised PPSI has conducted sufficient legal review to conclude with a well-founded basis (and maintain sufficient documentation of that legal review) that the agreement underlying the exposure:

(*i*) meets the requirements of paragraph (a)(2)(iii)(C)(*1*) of this section, and

(*ii*) is legal, valid, binding, and enforceable under applicable law in the relevant jurisdictions.

(3) *Indirect exposure requirement.* If a Board-supervised PPSI holds securities in an investment company or other fund pursuant to § 247.11(b)(6), the indirect exposure requirement is calculated according to any reasonable methodology by which the Board-supervised PPSI looks through the investment company or other fund to assess the Board-supervised PPSI's indirect credit risk from uninsured eligible deposit claims or reverse repurchase agreements in a manner that is similar to how the Board-supervised PPSI would apply the requirement in paragraphs (a)(1) and (a)(2) of this section as if it held the assets of the investment company or other fund directly.

(b) *Non-reserve assets.*—(1) *Applicable framework.*—(i) A Board-supervised PPSI with a parent State member bank is subject to part 217 of this title as if it were its parent State member bank, subject to the exclusions and adjustments in paragraph (b)(2) of this section.

(ii) A Board-supervised PPSI that is a State-qualified PPSI that has transitioned to the Board's regulatory framework pursuant to § 247.51 is subject to part 217 of this title as if it is a State member bank, subject to the adjustments in paragraph (b)(2) of this section.

(2) *Adjustments.*—(i) *Reserve asset exclusion.* A Board-supervised PPSI must exclude reserve assets held under § 247.11(a)(1) from standardized total risk-weighted assets, advanced approaches risk-weighted assets, average total consolidated assets, total consolidated assets, and total leverage exposure, as applicable.

(ii) *Tangible equity deduction.*—(A) For the purposes of §§ 247.15 through 247.18, an excluded tangible equity instrument is an instrument that the Board-supervised PPSI designates as an excluded tangible equity instrument under paragraph (b)(2)(ii)(B) of this section.

(B) A Board-supervised PPSI must designate an instrument as an excluded tangible equity instrument if such instrument is held to satisfy the minimum capital requirements and capital adequacy standards in § 247.15, other than § 247.15(b)(1)(ii).

(C) A Board-supervised PPSI must:

(*1*) deduct common stock designated as an excluded tangible equity instrument from the sum of the Board-supervised PPSI's common equity tier 1 capital elements, before making any adjustments to or deductions from common equity tier 1 capital under § 217.22 of this title;

(2) deduct any non-cumulative perpetual preferred stock instrument designated as an excluded tangible equity instrument from the sum of the Board-supervised PPSI's additional tier 1 capital elements, before making any adjustments to or deductions from additional tier 1 capital under § 217.22 of this title; and

(*3*) deduct any cumulative perpetual preferred stock instrument designated as an excluded tangible equity instrument from the sum of the Board-supervised PPSI's tier 2 capital elements, before making any adjustments to or deductions from tier 2 capital under § 217.22 of this title.

(iii) *Reporting.* For purposes of compliance with the capital adequacy requirements and calculations in part 217, any references to the Call Report, FR Y–9C, or other forms, or schedules or line items thereof, should be deemed to be references to the reporting forms Board-supervised PPSIs are required to submit pursuant to § 247.14(i).

(iv) *Risk-weighted assets.* A Board-supervised PPSI must calculate risk-weighted assets using part 217, subpart D of this title and may not calculate risk-weighted assets using part 217, subpart E of this title.

§ 247.18 Capital requirements for operational risks.

(a) A Board-supervised PPSI must calculate its operational risk requirement as of the end of the quarter, using the most recent available data. The operational risk requirement is equal to:

(1) the baseline operational risk requirement, as calculated under paragraph (b)(1) of this section, multiplied by

(2) the loss scalar, as calculated under paragraph (b)(2) of this section.

(b) For purposes of this section:

(1) A Board-supervised PPSI must calculate its baseline operational risk requirement in accordance with Table 1 to § 247.18:

TABLE 1 TO § 247.18—BASELINE OPERATIONAL RISK REQUIREMENT

If the outstanding issuance value of the Board-Supervised PPSI is:	The baseline operational risk requirement is:
Less than or equal to $20 billion	2.0% of the outstanding issuance value plus 25% of three-year average revenue.
Greater than $20 billion and less than or equal to $50 billion.	$400 million plus 1.5% of the excess outstanding issuance value over $20 billion plus 25% of three-year average revenue.
Greater than $50 billion	$850 million plus 1.0% of the excess outstanding issuance value over $50 billion plus 25% of three-year average revenue.

where:

(i) the outstanding issuance value, as defined as in § 247.2, is calculated using daily values averaged over the quarter;

(ii) three-year average revenue is the average of annual revenues excluding revenues earned from reserve assets, calculated on a rolling quarterly basis, over the preceding three years, where annual revenue excluding reserve assets is equal to:

(A) annual revenues of the Board-supervised PPSI, minus

(B) annual revenues of the Board-supervised PPSI from reserve assets, held under § 247.11(a)(1), including any interest payments on reserve assets or gain from the sale of any reserve assets; and

(iii) the dollar values in Table 1 to § 247.18 are multiplied by the GDP growth adjustment.

(2) A Board-supervised PPSI must calculate its loss scalar as follows:

$$Loss\ Scalar = max\left(Scalar\ Floor, \left(\frac{Scaled\ Loss\ Rate}{Threshold\ Loss\ Rate}\right)^{Loss\ Elasticity}\right)$$

where the:

(i) scalar floor is 0.8,

(ii) threshold loss rate is 1/15,

(iii) loss elasticity is 0.5, and

(iv) scaled loss rate is four times the 20-quarter average, calculated on a rolling quarterly basis, of the ratio of the Board-supervised PPSI's quarterly operational losses, calculated consistent with paragraph (c) of this section, to the baseline operational risk requirement for the same such quarter.

(c) A Board-supervised PPSI's calculation of quarterly operational losses for purposes of paragraph (b) of this section must be based on internal loss data collected by the Board-supervised PPSI, except as provided for in paragraphs (c)(2) and (c)(3) of this section.

(1) A Board-supervised PPSI must have operational loss event data collection processes that meet the following requirements:

(i) The processes must produce operational loss event data that satisfy the following criteria:

(A) Operational loss event data must be comprehensive and capture all operational loss events that resulted in operational losses equal to or higher than $20,000 multiplied by the GDP growth adjustment (before any recoveries are taken into account) from all activities and exposures of the Board-supervised PPSI;

(B) Operational loss event data must include operational loss event data relating to entities that have been acquired by or merged with the Board-supervised PPSI during the preceding five years, including for any period prior to the acquisition or merger during the five-year period, for each year during which such entities were in operation;

(C) Operational loss event data must include gross operational loss amounts, recovery amounts, the date when the event occurred or began (occurrence date), the date when the Board-supervised PPSI became aware of the event (discovery date), and the date (or dates) when losses or recoveries related to the event were recognized in the Board-supervised PPSI's profit and loss accounts (accounting date). In addition, the Board-supervised PPSI must collect descriptive information about the drivers of operational loss events.

(D) A Board-supervised PPSI must identify internal losses as pertaining to at least one of the following seven categories of losses: (i) internal fraud, (ii) external fraud, (iii) employment practices and workplace safety, (iv) clients, products, and business practices, (v) damage to physical assets, (vi) business disruption and system failures, (vii) execution, delivery, and process management. A Board-supervised PPSI must be able to map its operational loss event data into the seven operational loss event type categories. In so categorizing, the Board-supervised PPSI must assign each dollar of loss to only one operational loss event type category.

(ii) Procedures for the identification and collection of internal loss event data must be documented.

(iii) The Board-supervised PPSI must have processes to independently review the comprehensiveness and accuracy of operational loss event data.

(iv) The Board-supervised PPSI must subject the procedures in paragraph (c)(1)(ii) of this section and the processes in (c)(2)(iii) of this section to regular independent review by internal or external audit functions.

(2) For any year in which a Board-supervised PPSI was not operating during the full year or was not required to collect internal loss data because the Board-supervised PPSI was not yet subject to part 247, a Board-supervised PPSI should calculate that quarter's scaled loss rate as the threshold loss rate multiplied by 1.5^(1/(Loss Elasticity)).

(3) Notwithstanding paragraph (c)(1) of this section, a Board-supervised PPSI may, with the Board's prior written approval, calculate a given quarter's scaled loss rate as the threshold loss rate multiplied by 1.5^(1/(Loss Elasticity)) and would not be subject to the requirements in paragraph (c)(1).

§ 247.19 [Reserved]

Subpart C—Rules Applicable to Board-Supervised Custodians

§ 247.20 Definitions.

For the purposes of this subpart, the following definitions apply:

Applicable law means the law of a State or other jurisdiction governing a covered custodian's custody relationships, any applicable Federal law governing those relationships, the terms of the custody agreement, and any applicable court order.

Covered assets means payment stablecoin reserves, payment stablecoins used as collateral, and private keys used to issue payment stablecoins, as well as cash and other property received in the course of the provision of custodial or safekeeping services for payment stablecoin reserves, payment stablecoins used as collateral, and private keys.

Covered custodian means any entity that (i) provides custodial or safekeeping services for covered assets, (ii) is subject to supervision or regulation by the Board, and (iii) is not (a) a PPSI (as defined in § 247.2 of this part), bank, savings association, Federal branch, or insured branch (as those terms are defined in section 3 of the Federal Deposit Insurance Act (12 U.S.C. 1813)) that is subject to supervision by the FDIC or OCC; (b) an entity, other than a federally regulated depository institution, subject to supervision by a State bank supervisor, as defined in section 3(r) of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)), provided that such State bank supervisor makes available to the Board such information as the Board determines necessary and relevant under section 10(d) of the Act (12 U.S.C. 5909(d)); or (c) an entity for which the Securities and Exchange Commission or Commodity Futures Trading Commission is the primary financial regulatory agency as described in section 2(12) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 U.S.C. 5301(12)).

Covered custodians under this section would generally include (i) a State member bank; (ii) a Board-supervised PPSI; (iii) a bank holding company (as defined in section 2(a) of the BHC Act (12 U.S.C. 1841(a)); (iv) a savings and loan holding company (as defined in section 10(a)(1) of the Home Owners' Loan Act (12 U.S.C. 1467a(a)(1)); (v) a subsidiary of a bank holding company or a savings and loan holding company that is not (a) a national bank or depository institution subject to supervision by the OCC or FDIC; (b) a PPSI subject to supervision by another primary Federal payment stablecoin regulator, (c) an entity subject to functional regulation by the SEC or CFTC, or (d) an entity, other than a State member bank, subject to supervision by a State bank supervisor, as defined in section 3(r) of the Federal Deposit Insurance Act (12 U.S.C. 1813(r)), provided that such State bank supervisor makes available to the Board such information as the Board determines necessary and relevant under section 10(d) of the Act (12 U.S.C. 5905(d)); (vi) the U.S. operations of foreign banking organizations subject to the supervision or regulation of the Board pursuant to the International Banking Act of 1978 (12 U.S.C. 3101 *et seq.*); and (vii) any corporation organized under section 25A of the Federal Reserve Act (12 U.S.C. 611 *et seq.*) or having an agreement with the Board under section 25 of the Federal Reserve Act (12 U.S.C. 601 *et seq.*) (*i.e.,* Edge Act and Agreement corporations).

Covered customer means a person for or on whose behalf a covered custodian receives, acquires, or holds covered assets.

Digital wallet means a software program or hardware device that stores and manages the private keys associated with a particular unit of a digital asset.

Sub-custodian means a person that provides custody and safekeeping services to a covered custodian, including through a digital wallet for which such person controls the associated private keys, with respect to covered assets of a covered customer, for which the covered custodian otherwise serves as a custodian under this subpart.

§ 247.21 Covered asset custodial property requirements.

(a) *Separate accounting, treatment, and dealing.* A covered custodian must separately account for the covered assets of a covered customer and must treat and deal with those covered assets as belonging to such covered customer and not as the property of the covered custodian.

(b) *Protection, possession, and control.*—(1) A covered custodian must take appropriate steps to protect the covered assets of covered customers from the claims of creditors of the covered custodian and any sub-custodian, as applicable, including through adopting, implementing, and maintaining written policies, procedures, and internal controls that are adequate to comply with applicable law and that are commensurate with the covered custodian's size, complexity, and risk profile and with the nature of the applicable covered assets for which it provides custodial or safekeeping services.

(2) (i) A covered custodian must maintain possession or control of the covered assets of a covered customer that are held directly, including in a digital wallet for which the covered custodian controls the associated private keys; however, a covered custodian may maintain the covered assets of a covered customer through the use of a sub-custodian if consistent with applicable law, provided the covered custodian maintains adequate safeguards and internal controls reasonably designed to provide the covered custodian with oversight of such sub-custodian's compliance with the requirements of this subpart.

(ii) With regards to any payment stablecoin or stablecoin reserve in the form of a tokenized asset held in safekeeping under this subpart, a covered custodian, or sub-custodian, as applicable, maintains control for purposes of paragraph (b)(2)(i) of this section if it can reasonably demonstrate, consistent with the standard of care established by applicable law, that no other party, including the covered customer, can transfer the payment stablecoin or tokenized asset using a distributed ledger without the consent of the custodian or sub-custodian, as applicable.

(c) *Withdrawals and application of covered assets.* Notwithstanding any other provision of this subpart, a covered custodian may withdraw and apply such share of the covered assets of a covered customer necessary to transfer, adjust, or settle a transaction or transfer of assets applicable to that covered customer, including the payment of commissions, taxes, storage, and other charges lawfully accruing in connection with the provision of services to that covered customer by the covered custodian.

(d) *Holdings of cash.* Notwithstanding any other provision of this section, an insured depository institution that is a covered custodian is not required to separate or segregate from its own property any payment stablecoin reserves in the form of cash received from a PPSI in exchange for eligible deposit claims against the insured depository institution. Such holdings may be reflected as deposit liabilities of the insured depository institution, provided such treatment is consistent with Federal law.

§ 247.22 Segregation requirement and use of omnibus accounts.

(a)*Segregation of covered assets.* A covered custodian must segregate all covered assets of covered customers from and not commingle them with the assets of the covered custodian, except as permitted under § 247.21(d).

(b) *Commingling covered assets.* A covered custodian may, for convenience, commingle the covered assets of multiple covered customers, in one or more omnibus accounts to the extent that the steps it has taken pursuant to § 247.21(b) are adequate to maintain safe and sound practices for the use of omnibus accounts, and to the extent that the use of omnibus accounts is consistent with applicable law.

§ 247.23 Self-custody hardware and software exclusion.

The requirements of this subpart do not apply to any covered custodian solely on the basis that such entity engages in the business of providing hardware or software to facilitate a person's or entity's self-custody of their payment stablecoins or private keys.

§ 247.24–.29 [Reserved]

Subpart D—[Reserved]

Subpart E—Rules Applicable to All Permitted Payment Stablecoin Issuers

§ 247.40 Tying prohibition.

(a) *Tying prohibition.* A PPSI may not provide services to a customer on the condition that the customer (i) obtain an additional paid product or service from the PPSI, or any of its subsidiaries, or (ii) agree to not obtain an additional product or service from a competitor of the PPSI.

(b) *Certain non-financial companies.* With respect to any company that that has obtained a unanimous vote of the Stablecoin Certification Review Committee pursuant to 12 U.S.C. 5903(a)(12), neither the company nor its affiliates may provide services to a customer on the condition that the customer (i) obtain an additional paid product or service from the company or its affiliates, or any subsidiary of the company or its affiliates, or (ii) agree to not obtain an additional product or service from a competitor of the company or its affiliates.

§ 247.41 Tying exceptions.

(a) *Exceptions to tying prohibition.* The Board may, by regulation or order, permit exceptions to the prohibition set forth in § 247.40, provided that such exception to § 247.40 would not be contrary to the purpose of the GENIUS Act (12 U.S.C. 5901 *et seq.*).

(b) *Consultation.* The Board would consult with the other primary Federal payment stablecoin regulators, as appropriate, when considering a potential exception to the prohibition in § 247.40 by regulation. The Board would consult with the primary Federal payment stablecoin regulator, if any, of a particular PPSI when considering a potential exception to the prohibition in § 247.40 by order.

(c) *Procedures for an exception request.* Entities subject to the prohibition in § 247.40 may submit a request to the Secretary of the Board to seek an exception from such prohibition. Any entity seeking an exception must provide a detailed description of the proposed arrangement, including:

(1) the service upon which conditions are being placed and the entity providing such service;

(2) either (i) the additional paid services and products and the entity providing such paid services and products or (ii) the additional product or service of the competitor, as applicable;

(3) the relevant contractual terms, including copies (or draft copies, as appropriate) of any contracts, agreements, terms of service, or other documents relevant to the proposed arrangement;

(4) a description of the benefits, if any, that the proposed arrangement would produce for customers or other relevant persons;

(5) a discussion of how the proposed arrangement would not be contrary to the purpose of the GENIUS Act; and

(6) in the case of a proposed exception for an arrangement providing services to a customer on the condition that the customer agree to not obtain an additional product or service from a competitor, whether the additional product or service will be offered to customers on competitive terms separate from the service upon which conditions are being placed.

(d) *Additional information.* The Board may require additional information in connection with any request under this section.

§§ 247.42–247.49 [Reserved]

Subpart F—Rules Applicable to State-Qualified Payment Stablecoin Issuers

§ 247.50 Unusual and exigent circumstances enforcement authority.

(a) *Scope.* This section addresses the Board's authority to impose restrictions on any State-qualified PPSI and its institution-affiliated parties during unusual and exigent circumstances pursuant to section 7(e)(1) of the GENIUS Act (12 U.S.C. 5906(e)(1)).

(b) *In general.* If the Board determines that unusual and exigent circumstances exist under subsection (c), and that there is reasonable cause to believe that the continuation of any activity, including the failure to act, by a State-qualified PPSI constitutes a serious risk to the financial safety, soundness, or stability of the State-qualified PPSI, the Board may, after requisite notice to the relevant State payment stablecoin regulator under subsection (d), take an enforcement action against a State-qualified PPSI or an institution-affiliated party of such State-qualified PPSI for a violation of the GENIUS Act (12 U.S.C. 5901 *et seq.*) in the form of a directive with the effect of a cease-and-desist order that has become final. These restrictions may include, but are not limited to, limitations on:

(1) redemptions of payment stablecoins;

(2) transactions between the State-qualified PPSI, its holding company, and the subsidiaries or affiliates of either the State-qualified PPSI or the holding company; and

(3) any activities of the State-qualified PPSI that might create a serious risk that the liabilities of a holding company and the affiliates of the holding company may be imposed on the State-qualified PPSI.

(c) *Unusual and exigent circumstances.* In determining whether unusual and exigent circumstances exist for purposes of 12 U.S.C. 5906(e)(1) and this section, the Board will consider whether any of the following conditions are present with respect to a particular State-qualified PPSI:

(1) significant fluctuations in the price of stablecoins issued by a State-qualified PPSI;

(2) disruptions in timely redemptions as defined in 12 CFR 247.12 by a State-qualified PPSI;

(3) deployment by a State-qualified PPSI of nonstandard liquidity management tools to dissuade redemptions;

(4) volatility in the secondary market for cash-equivalent securities that a State-qualified PPSI relies upon to maintain the value of reserve assets;

(5) actual or likely losses from a State-qualified PPSI's other activities that impair the State-qualified PPSI's ability to meet timely redemptions or other obligations;

(6) disorderly failure, significant impairment to the operations, or substantiated concerns about the imminent disorderly failure, of—

(i) one or more State-qualified PPSIs;

(ii) one or more reserve custodians relied upon by the State-qualified PPSI; or

(iii) any infrastructure necessary for the transmission or redemption of payment stablecoins issued by the State-qualified PPSI;

(7) a request with good cause shown by a State-qualified PPSI or the State-qualified PPSI's primary regulator to issue a directive under 12 U.S.C. 5906(e)(1); and

(8) any other factor of a similar nature that evinces the existence of a serious risk to the financial safety and soundness of a State-qualified PPSI or the stability of the U.S. financial system, as determined by the Board.

(d) *Procedures.*

(1) *Prior written notice.*

(i) *Elements of notice.* The Board will provide the State payment stablecoin regulator of a State-qualified PPSI with not less than 48 hours' prior written notice before taking an enforcement action under 12 U.S.C. 5906(e)(1) and this section. The prior written notice will include:

(A) the Board's determination that unusual and exigent circumstances exist;

(B) a brief description of how the State-qualified PPSI is believed to have violated the GENIUS Act; and

(C) a brief description of the activity conducted by the State-qualified PPSI that constitutes a serious risk to the financial safety, soundness, or stability of the State-qualified PPSI.

(ii) *Waiver.* A State payment stablecoin regulator may elect to waive its right to a 48-hour notice period.

(2) *Consultation.*—(i) Prior to taking an enforcement action under 12 U.S.C. 5906(e), the Board may elect to consult with a State-qualified PPSI or its State payment stablecoin regulator regarding the factors described in subsection (c), if the Board has reason to believe:

(A) the State-qualified PPSI is in violation of the GENIUS Act;

(B) the continuation of an activity by the State-qualified PPSI constitutes a serious risk to the financial safety, soundness, or stability of the State-qualified PPSI; or

(C) "unusual and exigent circumstances" exist or may soon come into existence based on the considerations described in § 247.50(c).

(ii) The Board may request evidence from the State-qualified PPSI or its State payment stablecoin regulator demonstrating why the Board should not issue a directive under this section.

(e) *Administrative review.*—(1) After a directive under subsection (b) of this section is issued, the applicable State-qualified PPSI, or any institution-affiliated party of the State-qualified PPSI subject to the directive, may object and present to the Board, in writing, the reasons why the directive should be modified or rescinded.

(2) If, after 10 days after the receipt of a response described in paragraph (e)(1) of this section, the Board does not affirm, modify, or rescind the directive, the directive shall automatically lapse.

§ 247.51 Transition and waiver process for uninsured State-chartered depository institutions.

(a) *Scope.*—(1) This section addresses requirements related to a State-qualified PPSI that is an uninsured State-chartered depository institution transitioning to the Board's regulatory framework pursuant to section 4(d) of the GENIUS Act (12 U.S.C. 5903(d)).

(2) For purposes of this section a "covered PPSI" refers only to those State-qualified PPSIs that are uninsured State-chartered depository institutions.

(b) *Transition to Federal regulatory framework.*—(1) *Transition requirements.* A covered PPSI with an outstanding issuance value of more than $10 billion must:

(i) not later than 360 days after reaching such threshold, transition to the Federal regulatory framework under this part and comply with the provisions of this part applicable to Board-supervised PPSIs; or

(ii) beginning on the date the payment stablecoin reaches such threshold, cease issuing, on a net basis, new payment stablecoins until the issuer is under the $10 billion outstanding issuance value threshold.

(2) *Initial notice requirement.*—(i) A covered PPSI with an outstanding issuance value of more than $10 billion must provide written notification to the Board within five calendar days after reaching such threshold.

(ii) The written notification must include the following information:

(A) the State or States that currently regulate the covered PPSI;

(B) the covered PPSI's outstanding issuance value as of the date of the notice;

(C) the date that the covered PPSI first reached the $10 billion outstanding issuance value threshold; and

(D) an indication of whether and when the covered PPSI ceased issuing, on a net basis, new payment stablecoins and whether the covered PPSI intends to seek a waiver pursuant to paragraph (d) of this section.

(3) *Capital.*—(i) Within 270 days of reaching the $10 billion outstanding issuance value threshold, a covered PPSI must submit an analysis of the covered PPSI's current capital position and anticipated capital needs, sufficient to ensure ongoing operations, based on its business model and risk profile.

(ii) The Board will review the submission required under paragraph (b)(3)(i) of this section and evaluate the capital adequacy of the covered PPSI, including whether such PPSI is projected to be in compliance with the capital requirements in §§ 247.15 through 247.18 360 days after the covered PPSI reaches the $10 billion outstanding issuance value threshold.

(iii) For purposes of complying with the transition requirements under paragraph (b)(1)(i) of this section, the covered PPSI must comply with the capital requirements set out in §§ 247.15 through 247.18 within 360 days after the covered PPSI reaches the $10 billion outstanding issuance value threshold.

(iv) A covered PPSI is not required to submit a capital analysis under this paragraph (b)(3) if the covered PPSI has received a waiver pursuant to paragraph (d) of this section.

(4) *Compliance notice requirement and transition date.*—(i) For purposes of complying with paragraph (b)(1)(i) of this section, a covered PPSI must provide written notification to the Board regarding whether it is in compliance with the Federal regulatory framework applicable to Board-supervised PPSIs under this part. If the covered PPSI is not in compliance with the Federal regulatory framework applicable to Board-supervised PPSIs under this part, the written notice must identify the provisions with which the covered PPSI does not comply, provide the covered PPSI's plan for remediating its noncompliance, and explain why the covered PPSI did not comply with the

Federal regulatory framework within the 360-day transition period.

(ii) A covered PPSI that does not cease issuing new payment stablecoins in accordance with paragraph (b)(1)(ii) of this section must transition to the regulatory framework applicable to Board-supervised PPSIs under this part on the earlier of 360 days after reaching the $10 billion outstanding issuance value threshold or the date on which the covered PPSI provides written notification under paragraph (b)(4)(i) of this section.

(c) *Initial examination.* A covered PPSI that transitions to the regulatory framework under this part must undergo an initial Board examination at the Board's request or no later than six months after the date on which the covered PPSI provides written notification under paragraph (b)(4)(i) of this section.

(d) *Waiver from Federal supervision.*—(1) *Waiver request.* A covered PPSI seeking to remain solely supervised by a State payment stablecoin regulator must submit to the Board a written waiver request containing information necessary to evaluate such request under paragraphs (d)(2) and (3) of this section within 240 days of reaching the $10 billion outstanding issuance value.

(2) *Waiver criteria.* The Board will consider the following exclusive criteria when deciding whether to grant a waiver:

(i) the adequacy of capital maintained by the covered PPSI;

(ii) the past operations and examination history of the covered PPSI;

(iii) the experience of the State payment stablecoin regulator in supervising payment stablecoin and digital asset activities; and

(iv) the supervisory framework, including regulations and guidance, applicable to the covered PPSI with respect to payment stablecoins and digital assets.

(3) *Waiver presumption.*—(i) Except as provided in paragraph (d)(3)(ii) of this section, the Board will approve a waiver request under this section if the relevant State payment stablecoin regulator has:

(A) established a prudential regulatory regime (including regulations and guidance) for the supervision of digital assets or payment stablecoins as of April 19, 2025, and which has a framework that has been approved pursuant to section 4(c) of the GENIUS Act (12 U.S.C. 5903(c)); and

(B) approved one or more State-qualified PPSIs to issue payment stablecoins under the supervision of such State payment stablecoin regulator.

(ii) Paragraph (d)(3)(i) of this section does not apply to a waiver request if the Board finds by clear and convincing evidence that the criteria in paragraph (d)(2) of this section are not substantially met or that the covered PPSI poses significant safety and soundness risks to the financial system of the United States.

§§ 247.52–247.59 [Reserved]

PART 263–RULES OF PRACTICE FOR HEARINGS

■ 12. The authority citation for part 263 is revised to read as follows:

Authority: 5 U.S.C. 504, 554–557; 12 U.S.C. 248, 324, 334, 347a, 504, 505, 1464, 1467, 1467a, 1817(j), 1818, 1820(k), 1829, 1831o, 1831p–1, 1832(c), 1847(b), 1847(d), 1884, 1972(2)(F), 3105, 3108, 3110, 3349, 3907, 3909(d), 4717, 5323, 5362, 5365, 5463, 5464, 5466, 5467, 5905; 15 U.S.C. 21, 78l(i), 78o–4, 78o–5, 78u–2; 1639e(K); 28 U.S.C. 2461 note; 31 U.S.C. 5321; and 42 U.S.C. 4012a.

■ 13. Revise § 263.1 to read as follows:

§ 263.1 Scope.

* * * * *

(h) Suspension or revocation of registration, cease-and-desist, temporary cease-and-desist, removal and prohibition proceedings, or civil money penalties under section 6 of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (''GENIUS Act'') (12 U.S.C. 5905).

(i) This subpart also applies to all other adjudications required by statute to be determined on the record after opportunity for an agency hearing, unless otherwise specifically provided for in the Local Rules (see § 263.3(i)).

* * * * *

■ 14. Revise § 263.3 to read as follows:

§ 263.3 Definitions.

* * * * *

(g) *Institution* includes:

* * * * *

(9) Any Board-supervised PPSI, as that term is defined in 12 CFR 247.2; and

(10) Any other entity subject to the supervision of the Board.

(h) *Institution-affiliated party* means any institution-affiliated party as that term is defined in section 3(u) of the FDICA (12 U.S.C. 1813(u)). For actions pursuant to the GENIUS Act, institution-affiliated party means any institution-affiliated party as that term is defined in section 2(13) of the GENIUS Act (12 U.S.C. 5901(13)).

* * * * *

■ 15. Revise § 263.450 to read as follows

§ 263.450 Scope.

(a) The procedures of this subpart must be followed when a formal investigation is instituted and conducted pursuant to: section 8(n) of the FDIA (12 U.S.C. 1818(n)); section 10(c) of the FDIA (12 U.S.C. 1820(c)); section 7(j)(15) of the FDIA (12 U.S.C. 1817(j)(15)); section 5(f) of the BHC Act (12 U.S.C. 1844(f)); sections 10(b)(4) and 10(g)(2) of HOLA (12 U.S.C. 1464(b)(4) and 1467a(g)(2)); section 162 of the Dodd-Frank Act (12 U.S.C. 5362); and section 6 of the GENIUS Act (12 U.S.C. 5905).

* * * * *

By order of the Board of Governors of the Federal Reserve System.

Michele Taylor Fennell,

Associate Secretary of the Board.

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