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# **RE: RIN 3064-AG20 – APPROVAL REQUIREMENTS FOR ISSUANCE OF PAYMENT STABLECOINS BY SUBSIDIARIES OF FDIC-SUPERVISED INSURED DEPOSITORY INSTITUTIONS**

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## **1. EXECUTIVE SUMMARY**

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This comment addresses the operational mechanics and technical feasibility of the FDIC’s proposed procedures for stablecoin issuance under the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act). While the FDIC’s objective to establish a safe, regulated perimeter for stablecoin issuance is sound, the proposed parameters for parent-subsiary separation and reserve attestation introduce structural friction. Without precise technical standards governing smart contract control and continuous reserve reconciliation, the approval process will either stall during examination or create systemic liquidity risks due to latency between 24/7 blockchain environments and legacy banking hours. These recommendations aim to translate the statutory safeguards of the GENIUS Act into operationally feasible supervisory practices compatible with real-time distributed ledger systems.

## **2. PROCEDURAL & STATUTORY IMPLEMENTATION CONSIDERATIONS**

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To maximize regulatory certainty and ensure alignment with the administrative record, the Final Rule must anchor its operational requirements explicitly to the text of 12 U.S.C. 5901-5916. Relying on generalized "safety and soundness" standards to govern novel, real-time cryptographic ledgers creates implementation vulnerabilities. By delineating clear, textually grounded technical safe harbors, the FDIC can avoid ambiguity regarding the agency's interpretive boundaries, ensuring predictable administrative application that honors clear Congressional intent and withstands rigorous judicial scrutiny.

## **3. SECTION-BY-SECTION TECHNICAL ANALYSIS**

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### **Issue 1: Reserve Asset Verification Cadence**

**IMPLIED PROPOSED TEXT:**

*"The subsidiary must provide end-of-day reports demonstrating 1:1 reserve backing of outstanding stablecoin liabilities."*

**THE ISSUE:**

Traditional end-of-day reporting is operationally dissonant with 24/7/365 stablecoin redemption cycles. A standard T+1 or end-of-day snapshot allows for unmonitored intraday fractionalization during periods of high network velocity.

**PROPOSED REDLINE:**

"The subsidiary must provide programmatic, continuous cryptographic attestation of reserve assets, reconciled at minimum on an hourly basis, utilizing an independent third-party oracle network or automated API integration with the custodial entity."

**OPERATIONAL SAFEGUARDS & RATIONALE:**

This mechanism gives examiners verifiable, immutable data streams. Adopting continuous automated monitoring rather than analog reporting for digital assets anchors the agency's supervisory capacity in real-time reality, minimizing the risk of a "run" on the subsidiary occurring between reporting intervals.

## **Issue 2: Intercompany Liquidity and Settlement Facilities**

**IMPLIED PROPOSED TEXT:**

*"The parent depository institution may not extend uncollateralized credit to the issuing subsidiary."*

**THE ISSUE:**

While protecting the parent bank is statutorily required, this phrasing fails to account for standard daylight overdrafts required for fiat-to-digital settlement bridges. Atomic settlement occasionally requires temporary, intraday capital staging.

**PROPOSED REDLINE:**

"The parent depository institution may not extend credit to the subsidiary, except for strictly defined, fully collateralized intraday liquidity facilities necessary solely for the atomic settlement of stablecoin mint/burn operations, which must be resolved prior to the close of the Fedwire business day."

**OPERATIONAL SAFEGUARDS & RATIONALE:**

This ensures the parent bank is shielded from counterparty risk overnight, while acknowledging the mechanical necessity of intraday settlement capital. It reduces the likelihood of failed mint/burn transactions during high-stress market conditions without violating the separation of entities.

### **Issue 3: Distributed Ledger Control and Technology Neutrality**

#### **IMPLIED PROPOSED TEXT:**

*"The subsidiary must maintain proprietary control over the underlying distributed ledger infrastructure used for issuance."*

#### **THE ISSUE:**

This is technically infeasible for issuance on public, permissionless blockchains, which is where the vast majority of stablecoin utility currently resides. It conflicts with the GENIUS Act's intent to utilize existing market infrastructure safely.

#### **PROPOSED REDLINE:**

"The subsidiary must maintain proprietary cryptographic control over its minting, burning, and administrative smart contract keys, but may utilize public distributed ledger infrastructure provided continuous risk and vulnerability assessments are conducted on the underlying network."

#### **OPERATIONAL SAFEGUARDS & RATIONALE:**

This delineates control of the asset from control of the network. It aligns the rule with the statutory framework by regulating the issuance mechanism and the subsidiary's direct operations, rather than inadvertently attempting to regulate decentralized internet infrastructure.

## **4. OPERATIONAL IMPACT ASSESSMENT**

Ground truth reality dictates that if the Final Rule demands complete physical and network separation between parent bank legacy ledgers and subsidiary stablecoin systems, compliance failure is highly probable due to necessary API dependencies. Strict segregation without safe harbors for data-sharing and intraday settlement will force banks to either over-capitalize subsidiaries—locking up unnecessary liquidity—or abandon the FDIC channel entirely.

If compliance costs are merely shifted to over-collateralization rather than reduced through efficient technology, institutions will rely on unregulated third-party stablecoin wrappers. This outcome frustrates the core purpose of the GENIUS Act. The FDIC can mitigate these risks and improve

administrative predictability by adopting the suggested redlines, directly translating statutory guardrails into technically feasible compliance pathways. These modifications ensure the framework functions seamlessly in production environments.

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*Submitted in an individual expert capacity.*

*All views expressed are my own and do not represent any institution or organization.*