Comment on FDIC Proposed Rule on Activities of Insured Depository Institutions Related to the Issuance of Dollar-Denominated Stablecoins

Docket No. RIN 3064-AG20

I appreciate the opportunity to comment on the FDIC's proposed rule establishing a pre-approval and supervisory framework for insured depository institutions seeking to issue dollar-denominated stablecoins. The FDIC's interest in ensuring that these activities are conducted safely is appropriate. At the same time, the proposal appears to understate the degree to which stablecoin issuance can recreate familiar pathways to bank losses, liquidity stress, operational breakdowns, consumer harm, and ultimately insurance-fund exposure. A more explicit acknowledgment of these dynamics would strengthen the final rule. The following observations reflect concerns about how the framework may function in practice, particularly under stress.

Rigid timelines and the "deemed complete" provision

The proposed 30-day "deemed complete" rule and 120-day mandatory decision deadline create a risk that the FDIC will be required to act before it has a full understanding of the activity. Stablecoin structures are complex, often opaque in their operational details, and in many designs dependent on third-party technology providers. They typically require extensive engagement to evaluate.

A rigid timeline increases the likelihood that material weaknesses will be missed or that institutions will be approved before supervisors have a complete picture of the risks. The "deemed complete" mechanism, in particular, could allow applicants to submit large volumes of documentation and trigger the review clock before critical information is provided or fully assessed. Similar pressures have arisen in other areas of bank supervision when decision timelines are tight. A more flexible approach would reduce the risk that the FDIC inadvertently approves activities that later prove destabilizing for both institutions and their customers.

The statutory timelines also create the possibility that applicants could strategically use the "deemed complete" provision to accelerate review before supervisors have the information needed to assess the activity. In other regulatory contexts, compressed statutory clocks have occasionally encouraged applicants to submit voluminous or incomplete materials in ways that trigger review deadlines without meaningfully advancing supervisory understanding. A similar dynamic in the stablecoin context would increase the risk that complex or technology-dependent activities proceed without adequate scrutiny. Explicitly recognizing this risk would help ensure the final rule provides sufficient safeguards.

Some of the challenges identified above stem from the statutory structure established by the GENIUS Act itself, including the compressed timelines and the subsidiary-based issuance model. These statutory requirements limit the FDIC's ability to conduct the iterative, risk-focused supervisory review that complex, technology-dependent activities typically require. While the proposed rule attempts to mitigate these constraints, certain supervisory and consumer-protection risks cannot be fully addressed within the statutory framework. Clarifying where the FDIC retains discretion – and where legislative refinement may ultimately be necessary – would improve transparency.

Siloed treatment of stablecoin issuance

The proposal treats stablecoin issuance as a standalone activity, but in practice it can affect multiple dimensions of a bank's risk profile. Stablecoins can function as runnable liabilities—meaning instruments that can be withdrawn rapidly and in large volumes during stress—and redemption surges can drain liquidity more rapidly and with different triggers than traditional deposit withdrawals.

Operational failures in smart-contract systems or blockchain infrastructure can lead to interruptions in service, which may in turn drive reputational damage, liquidity stress, and losses. These failures can also leave consumers uncertain about the status or accessibility of their funds, particularly when the underlying technology is not well understood by end users. Treating this as a narrow, siloed activity risks obscuring the broader supervisory and consumer-protection implications. A more integrated supervisory approach would better reflect the interconnected nature of stablecoin-related risks.

Reliance on existing supervisory information

The proposal's reliance on existing supervisory information "whenever possible" may leave supervisors without the detail needed to evaluate novel risks. Traditional examinations do not generally capture the technical processes by which blockchain-based transactions are validated, recorded, and settled, the governance of smart-contract platforms, or the degree of concentration and control among technology providers.

They also do not typically address the transparency of redemption processes, the clarity of consumer disclosures, or the accuracy of representations made to users about the stability or liquidity of the instrument. Assuming that existing supervisory materials are sufficient for assessing these aspects risks applying frameworks designed for different risk profiles. A more explicit requirement for activity-specific information tailored to stablecoin operations would help avoid gaps that could later translate into losses or consumer confusion.

Redemption mechanics, liquidity management, and consumer impact

Stablecoin redemption can be faster, more volatile, and more synchronized across users than ordinary deposit withdrawal, particularly when driven by market sentiment, platform-level issues, or broader stress in digital-asset markets. Redemption spikes can occur with limited warning and can generate liquidity drains that occur faster than what traditional liquidity-risk models are designed to capture, including intraday models that assume more gradual outflow dynamics.

If redemption processes fail or slow down, consumers may experience delayed access to funds or uncertainty about the status of their holdings, which can trigger further outflows and reputational damage. These risks are compounded when consumers do not have clear, accurate, and timely information about redemption rights, settlement timing, or the conditions under which redemptions may be paused or delayed.

The proposal would benefit from clearer expectations around intraday liquidity, contingency funding, operational continuity, and transparency to users, particularly under adverse conditions. Without such clarity, institutions may underestimate the speed and severity with which stablecoin-related liquidity stress can escalate into broader financial instability, even when reserve assets remain fully intact.

Reserve asset requirements and stress-testing expectations

Although the proposal requires reserves to be held in high-quality, highly liquid assets, it does not establish explicit expectations for stress testing. Stablecoins are particularly susceptible to rapid redemption cycles, and institutions engaged in issuance should be prepared for extreme but plausible scenarios, including large, simultaneous redemption surges and market disruptions affecting reserve assets or the operational infrastructure supporting redemptions.

Without explicit stress-testing expectations, institutions may maintain reserve structures that appear adequate in normal conditions but prove insufficient under stress. This gap could expose the Deposit Insurance Fund to losses if stablecoin-related stress spills over into the broader balance sheet. Clearer expectations would also promote competitive neutrality—meaning that institutions offering similar products face comparable standards—and support consumer confidence by helping ensure that all institutions issuing stablecoins are subject to consistent liquidity-risk standards.

Derivatives-driven amplification of redemption risk

Although the proposal focuses on the mechanics of issuance and redemption, it does not address the possibility that a bank-issued stablecoin could become embedded in derivatives markets or leveraged trading strategies outside the institution’s direct control.

In current digital-asset markets, stablecoins are commonly used as margin collateral, settlement currency, and a source of liquidity for perpetual futures and other leveraged instruments.

These markets can experience abrupt liquidation cascades, sharp increases in derivatives funding rates, and correlated margin calls. If a bank-issued stablecoin were adopted in such environments, derivatives-driven volatility could trigger sudden, synchronized redemption demands that exceed the assumptions of traditional liquidity-risk models. Even if the issuing institution does not itself participate in derivatives activity, stablecoin use in these markets could create indirect but significant liquidity, operational, and reputational risks, including procyclical liquidity demands that materialize within minutes rather than days.

Recognizing this potential channel of amplification would help ensure that supervisory expectations reflect the ways stablecoins are actually used in practice and the downstream consumer impacts that can arise when redemption channels become strained.

Governance and third-party dependencies

Stablecoin issuance often depends on third-party technology providers that control critical operational components, including smart-contract deployment, upgrade authority, and certain aspects of transaction processing. These dependencies can create single points of failure that are outside the institution's direct operational control.

If a technology provider experiences an outage, a governance dispute—for example, disagreements among technology providers over control of key system functions—a security incident, or a misalignment of incentives, the issuing institution may face immediate operational disruption and financial and reputational consequences. Consumers may also face uncertainty about the status of their holdings if the institution cannot provide clear, timely information about the nature of the disruption, particularly when the underlying technology or methodology is unfamiliar to end users.

The proposal's governance documentation requirements do not fully address these risks. A more detailed supervisory framework addressing third-party dependencies, operational transparency, and technology-provider governance would help ensure that institutions maintain sufficient oversight and retain meaningful control over core functions, including the ability to continue redemptions during technology-provider outages.

Multi-chain and cross-chain operational risks

Many stablecoins operate across multiple blockchains or rely on cross-chain bridges—mechanisms that allow assets to move between blockchains—which introduce additional vulnerabilities. Bridge failures, design flaws, cyber incidents, and liquidity fragmentation

across chains—where funds are spread thinly across multiple networks, reducing the ability to meet redemptions quickly—have been observed in non-bank digital-asset markets and are relevant if banks adopt similar architectures.

These events can create sudden and severe operational disruptions that are difficult for consumers to understand or anticipate. The proposal appears to assume issuance on a single chain and does not address these complexities. Providing guidance on multi-chain and cross-chain operations would help institutions avoid adopting structures that could later prove unstable or difficult to manage in a safe and sound manner, especially when redemption liquidity is dispersed across multiple networks.

Interagency coordination considerations

Stablecoin issuance intersects with areas overseen by the OCC, the Federal Reserve, and state banking regulators, including chartering authority, payment-system oversight, and state digital-asset regimes. Because each of these authorities touches a different part of the activity, institutions may face inconsistent or duplicative expectations unless coordination is clear and deliberate. There is also a risk that certain aspects of stablecoin-related risk fall between jurisdictions if roles and responsibilities are not well defined.

Given the speed at which stress associated with stablecoins and related markets can propagate, even small gaps in coordination can have meaningful consequences for both institutions and consumers. A more explicit articulation of how the FDIC intends to coordinate with other relevant regulators would help ensure that supervisory responsibilities are aligned and that no material risks are left unaddressed, including those arising from technology-provider oversight and payment-system interactions.

Thank you for considering these comments.

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