

Comments on Notice of Proposed Rulemaking: Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Custodians (Implementation of the GENIUS Act)

Docket Number RIN 3064-AG19

These comments focus on technical clarity, operational implementation, and how the proposed rule interacts with existing banking law. Their intent is to help ensure the final rule meets the GENIUS Act's objectives while maintaining safe and sound banking practices. The FDIC should ensure that these standards are finalized in tandem with RIN 3064-AG20 to provide the regulatory certainty necessary for the subsidiary application process.

Clear and consistent rules are important because payment stablecoins create the impression and expectation of deposits without being deposits. It seems to me that uncertainty in definitions, insurance treatment, redemption mechanics, and custody requirements would create working challenges for supervised institutions and increase the risk of consumer misunderstanding. A precise, operationally grounded rule is therefore necessary to support safe and sound stablecoin issuance.

Definitions

The rule includes definitions whose boundaries determine the scope of regulated activity. Several terms are used inconsistently across the preamble and regulatory text, including *customer*, *holder*, *payment stablecoin holder*, and *downstream holder*. In my view, to ensure the structure is feasible for issuers and does not trigger operational problems, the FDIC should avoid definitions that require issuers to identify anonymous secondary-market participants over whom they have no contractual control.

The rule should specify whether regulatory obligations refer to the immediate party in a direct relationship with the institution, the ultimate beneficial owner, or both, and explain how obligations flow when assets are held through intermediaries or custodial chains. The FDIC should also clarify that these definitions align with the "anti-evasion" mandates cited in the GENIUS Act to ensure consistent enforcement across supervised subsidiaries.

Recommendation: The FDIC should adopt a single hierarchy of terms based on an institution's internal books and records rather than external ledger data.

Suggested language: "For purposes of this part, the term 'customer' means the person or entity that has a direct contractual relationship with the institution; the term 'holder' means the person or entity identified as the owner of a payment stablecoin or tokenized deposit on the books and records of the issuer or its authorized transfer agent or custodian; where a provision refers to 'customer or holder' the obligation applies to both categories."

Deposit Insurance Treatment

The current text leaves room for market misunderstanding. The rule should state more directly that deposits held as reserves do not provide pass-through insurance to token holders.

The rule should also describe the treatment of tokenized deposits in conversion events. Tokenized deposits that meet the statutory deposit definition should remain insured. The FDIC should clarify that “equivalency” of treatment requires timely and accurate sub-accounting to ensure that insurance status is verifiable during an insolvency or conversion event. If a tokenized deposit is converted into a payment stablecoin, the conversion should sever deposit insurance unless the resulting instrument independently meets the statutory deposit definition.

Recommendation: To prevent misrepresentation, the FDIC should require a short, standardized disclosure incorporating digital-specific sub-captions to clarify insurance status for customers and downstream holders.

Suggested language: “Reserve assets held by a permitted payment stablecoin issuer are insured to the issuer as general corporate deposits. A payment stablecoin is not an insured deposit and does not convey FDIC insurance to its holders. Tokenized deposits that meet the statutory definition of deposit remain insured; conversion of a tokenized deposit into a payment stablecoin terminates deposit insurance unless the resulting instrument independently satisfies the statutory deposit definition of ‘deposit’.”

Consumer Disclosures and Insurance Clarity

The FDIC should mandate a standardized disclosure that clarifies the insurance status of tokens, identifies the insured party, and describes the legal priority of claims in insolvency. This disclosure should appear at onboarding, on redemption pages, and in all marketing and advertising materials. Issuers (stablecoin offerors) should not be able to imply the existence of FDIC insurance for token holders (customers). The FDIC should publish a mandatory disclosure template and an FAQ for customers/consumers. The FDIC should require issuers to use a standardized disclosure of this type to avoid the oversimplified summaries that have been shown to cause confusion for other digital assets.

Reserve Eligibility and Composition

The FDIC’s proposed standards prioritize safety and liquidity by requiring a 1:1 reserve ratio. To ensure these standards are implementable, the FDIC should provide additional technical specificity.

Recommendation: The final rule should establish a standard maturity ceiling—typically 90 days—for primary reserve instruments to ensure immediate liquidity. The FDIC should also clarify the interaction between asset-type concentration limits and the proposed §350.4(f) 40% cap on reserves held at a single custodian to prevent “custodial bottlenecks” during stress events. As highlighted by others, these limits must be calibrated to ensure that PPSI subsidiaries are not at a competitive disadvantage compared to national bank counterparts.

The FDIC should also publish a transparent, risk-sensitive supervisory haircut schedule modeled on Level 2A/2B assets under the Liquidity Coverage Ratio (LCR) rule (12 CFR Part 249). Finally, the rule must establish a clear distinction between prohibited interest-bearing claims and permissible reward programs. This distinction should explicitly prohibit yield “workarounds” through affiliates or third-party promotional arrangements, as identified in the NPRM.

Capital, Liquidity, Reporting, and Transitional Coordination

The FDIC should explicitly clarify how a PPSI subsidiary’s capital requirements interact with consolidated group capital rules. While the NPRM emphasizes standalone capitalization, the FDIC should provide a "Capital Recognition" framework under which a parent's "Source of Strength" commitment is recognized for supervisory purposes to reduce the need for redundant, trapped capital at the PPSI subsidiary level. Excessive “trapped” capital at the subsidiary level may inadvertently discourage banks from using the PPSI framework in favor of less-regulated alternatives.

Recommendation: While in most circumstances, transparency is an important goal, the FDIC should designate detailed reporting of reserve composition as Confidential Supervisory Information (CSI) to prevent market destabilization. Public disclosures should be restricted to aggregated, non-proprietary metrics. Furthermore, to avoid disruptive "cliff effects," the FDIC should establish a phased implementation schedule and provide transitional relief for existing tokenized deposit and custody arrangements to ensure market continuity during the approval window specified in RIN 3064-AG20.

Redemption Operational Standards and Liquidity Protections

To reduce liquidity risk and prevent runs provoked by consumer uncertainty, the FDIC should require issuers to maintain transparent redemption policies. These policies should identify and establish standard processing times consistent with the ‘generally within two business days’ expectation set forth in the proposal. The policies should also define the “extraordinary circumstances” under which the FDIC may grant an extension to this timeline.

Requiring these operational disclosures would reduce market confusion, limit runs driven by misinformation, and enhance overall institutional stability. Predictable redemption procedures help prevent confusion and support overall confidence in the payment system by clarifying the issuer’s redemption stack and the sequence of liquidity deployment.

Redemption Mechanics and Significant Redemption Thresholds

The ten-percent threshold is a reasonable starting point for identifying stress, but without further technical specificity, it remains susceptible to “window dressing” or reporting lag. The NPRM does not currently address programmatic flows, cross-platform netting, or staged redemptions, nor does it specify time-zone conventions.

I think this lack of specificity is problematic in blockchain-based systems, where a material share of redemptions may occur through programmable settlement flows that accelerate outflows in

ways that differ from traditional payment channels. Because these systems operate 24/7 without traditional "banking hours" or geographic boundaries, a fixed global time standard is required to prevent reporting discrepancies. The FDIC should also clarify that "significant redemption" reporting requirements under this rule will be integrated into the streamlined application and monitoring process proposed in RIN 3064-AG20.

Recommendation: The FDIC should clarify that aggregation is required across all redemption channels under the PPSI's control, including automated redemptions initiated by smart contracts. The 24-hour window should be measured in Coordinated Universal Time (UTC), which reflects the around-the-clock nature of digital asset ledgers; there are no "business hours." The FDIC should also clarify that "net outstanding issuance" accounts for simultaneous minting and burning during ordinary market-making activity to avoid triggering thresholds during periods of high neutral volume.

Suggested language: "A 'significant redemption request' is any set of redemption requests that, when aggregated across all channels and intermediaries under the issuer's control, would exceed ten percent of outstanding issuance within a 24-hour period measured in Coordinated Universal Time (UTC). Aggregation should include programmatic redemptions and automated conversions that result in net outflows from the issuer. Ordinary market-making activity that does not change net outstanding issuance is excluded from aggregation."

Custody, Key Management, and Third-Party Chains

To reflect business realities, the rule should explicitly permit pooled custody models using robust sub-accounting to ensure individual customer recoverability. In conjunction with this, the FDIC should clarify how custody requirements interact with the rescission of SEC Staff Accounting Bulletin No. 121 (SAB 121) via SAB 122. The FDIC should confirm how custodial assets will be treated for capital purposes and explain how that treatment will be reconciled with accounting standards and other regulators' rules.

Clear custody and key-management standards are essential to ensure operational finality, especially during a failure event when disputes over control can delay asset recovery and resolution.

Recommendation: The FDIC should specify how liability is allocated among issuers, primary custodians, and any sub-custodians, an important underpinning to help ensure legal certainty during a failure event. The rule should also require that issuers have documented key management policies incorporating industry-standard security protocols, such as multi-party signing, threshold signatures, and regular key rotation. The final rule should allow a flexible cold/hot key architecture, subject to rigorous segregation standards, so institutions can maintain operational tempo without compromising operational finality or creating an "unsafe or unsound" condition under Section 8 of the FDI Act.

Interagency and Procedural Coordination

Divergent standards between the FDIC, OCC, and Federal Reserve regarding reserve composition or permitted uses can create compliance and supervisory friction. Different agency standards could create supervisory gaps during joint examinations, where PPSI subsidiaries, custodial affiliates, and parent banking organizations may receive conflicting remediation directives or duplicative reporting requirements. In my view, failure to reconcile these standards risks weakening the dual-banking system by creating disparate requirements for state-chartered versus federally-chartered institutions. This risk is compounded by the “sequencing” issue noted in AG20 comments; the FDIC must ensure that the technical standards in RIN 3064-AG19 do not conflict with the procedural approval requirements currently under parallel consideration.

Recommendation: The agencies should issue a coordinated statement to resolve any material differences in supervisory expectations. Specifically, the FDIC should align its prudential requirements for PPSI subsidiaries with the Treasury’s April 2026 NPRM regarding the treatment of substantially similar state-level regimes. This coordination should extend to the U.S. Treasury and FinCEN to ensure that risk-based AML/CFT obligations are integrated into reserve placement and third-party custody requirements without creating duplicative mandates.

The FDIC should specifically ensure that its subsidiary-level standards are harmonized with the OCC’s proposed treatment of foreign payment stablecoin issuers to prevent regulatory arbitrage in cross-border markets. The FDIC should state its expectation that it will coordinate with the Federal Reserve, OCC, Treasury, and other relevant agencies in the supervision or resolution of material PPSI stress events.

Conclusion

The proposed rule is an important step toward a regulated, bank-centric stablecoin framework. By considering and adopting these technical recommendations, and by ensuring harmonization with the approval standards in RIN 3064-AG20, the FDIC will provide the level of 'reasoned analysis' required for a final rule that is both operationally implementable and legally resilient under the APA.

Thank you for considering these comments.

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