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

Docket No. RIN 3064 AG20

FDIC's effort to set baseline reserve requirements for bank-issued stablecoins is important. The proposal should, however, be strengthened to require explicit stress testing and liquidity planning and to address derivatives-driven amplification of redemption risk, third-party technology dependencies, multi-chain and cross-chain operational risks, interagency coordination, and procedural issues related to rigid timelines, "deemed complete" processes, and siloed treatment of reviews. Without clearer expectations in these areas, the Deposit Insurance Fund and consumers could face material and rapid losses during extreme but plausible events. I urge the FDIC to adopt supervisory expectations that reflect how stablecoins are actually used in practice and to harmonize those expectations with other relevant regulators.

Stress Testing and Liquidity Planning

Institutions issuing stablecoins should be required to maintain a documented stress testing and liquidity planning program that treats short-horizon redemption dynamics as the central design constraint for reserves and operational readiness. This program should run on a regular cadence and be refreshed after material product, market, or operational changes; it should explicitly include short-horizon scenarios that assume redemptions can materialize within minutes to hours as well as within a 24-hour window.

Stress testing should incorporate reverse stress tests that identify the conditions under which redemption demands would materially impair the institution or expose the Deposit Insurance Fund, and it should require documented mitigants for those failure modes. Liquidity buffers should be sized conservatively to cover the most severe plausible 24-hour run and should emphasize immediately available liquidity such as cash and central bank reserves, with stressed haircuts applied to reserve asset valuations. Independent model validation and board-level review should be required to ensure that assumptions, behavioral responses, and operational execution are aligned, and supervisors should receive quarterly reports of stress test results together with immediate notification of any event that materially impairs redemption capability.

Reserve Asset Requirements and Supervisory Scenarios

While the proposal's requirement that reserves be held in high-quality, highly liquid assets is an important baseline, it is insufficient without standardized supervisory scenarios and clear expectations for how reserves perform under stress. Institutions should demonstrate that reserve structures remain adequate under large simultaneous redemptions, derivatives-driven runs, reserve market freezes, and operational outages. Supervisory scenarios should be standardized to promote comparability across issuers, and institutions should be required to size committed liquidity sources and contingency facilities to meet the most severe plausible short-term redemption scenarios. These expectations should be integrated into capital and deposit insurance

assessments to avoid regulatory arbitrage and to ensure that reserve treatment, custody arrangements, and legal segregation are documented and enforceable under applicable law.

Derivatives-Driven Amplification of Redemption Risk

The proposal does not sufficiently recognize that stablecoins are often used outside the issuing institution as margin collateral, settlement currency, and liquidity for leveraged instruments, and that these uses can create rapid, procyclical redemption pressures. Supervisory expectations should require issuers to monitor and report the extent to which their stablecoin is used in derivatives and leveraged markets, to incorporate derivatives-driven amplification into stress scenarios, and to maintain pre-arranged contingency liquidity sources sized to address rapid, correlated redemptions. Contingency planning should include pre-arranged credit lines, committed repo facilities, and prioritized access to central bank facilities where applicable, and issuers should identify and mitigate concentrations of holdings among counterparties or trading venues that could trigger synchronized redemptions.

Governance and Third-Party Dependencies

Because stablecoin issuance frequently relies on third-party technology providers for critical functions such as smart contract deployment, upgrade authority, and transaction processing, the supervisory framework should require a formal third-party risk management program tailored to stablecoin operations. Institutions should perform rigorous vendor due diligence, secure contractual rights that preserve the ability to continue redemptions during vendor outages or disputes, and document failover arrangements that are regularly tested. Issuers should retain meaningful control or contractual authority over core functions—such as mint/burn controls, emergency pause mechanisms, and upgrade authority—and should publish clear, plain-language disclosures to users about third-party dependencies and contingency plans. Governance documentation should include escalation and communication protocols and demonstrate how redemptions will be maintained during technology-provider outages to reduce operational, financial, and reputational risks.

Multi-Chain and Cross-Chain Operational Risks

The proposal appears to assume issuance on a single chain and does not address the additional vulnerabilities introduced by multi-chain architectures and cross-chain bridges. Institutions that operate across multiple blockchains or rely on bridges should be required to justify those architectures and to demonstrate how liquidity and redemption capability will be preserved across chains during bridge failures or chain-specific outages. Issuers should maintain localized liquidity on each chain where the stablecoin is actively issued or redeemed, sized to meet short-term redemption scenarios on that chain, and should perform formal risk assessments of any cross-chain bridges, including independent audits and contingency plans that preserve on-chain redemption options or off-chain settlement alternatives in the event of bridge failure.

Rigid Timelines, Deemed Complete Processes, and Siloed Treatment

The procedural framework for review and approval should avoid rigid timelines and automatic "deemed complete" constructs that could force approvals before cross-functional risks are fully assessed. Fast statutory or administrative deadlines that treat applications as deemed complete without permitting coordinated, cross-agency review risk producing approvals that are procedurally complete but substantively insufficient. Similarly, siloed treatment—where chartering, payments oversight, reserve treatment, and technology risk are reviewed in isolation—can leave material risks unexamined.

The FDIC should therefore avoid automatic deemed-complete triggers, build flexible review timelines that permit coordinated assessments among the FDIC, OCC, Federal Reserve, and state regulators for novel or complex proposals, and require joint or coordinated review protocols for material applications so that chartering, liquidity, payments, and technology risks are evaluated holistically. The agency should publish clear procedural guidance describing when expedited timelines apply and the circumstances that justify extended review to protect safety and soundness.

Interagency Coordination Considerations

Stablecoin issuance intersects with multiple supervisory domains, and the FDIC should articulate how it will coordinate with other federal and state authorities. This coordination should include memoranda of understanding that delineate supervisory responsibilities for chartering, payment system oversight, reserve asset treatment, and technology provider supervision, as well as mechanisms for joint or coordinated examinations of systemically significant issuers and rapid information-sharing protocols during stress events. Harmonized expectations across regulators will promote regulatory parity so that banks and non-bank issuers offering similar stablecoin products face comparable liquidity, stress testing, and governance standards, and will reduce the risk that material issues fall between jurisdictions.

Legal, Audit, Cybersecurity, and Resolution Considerations

A comprehensive supervisory framework should also address the legal enforceability of reserve segregation and redemption rights, external attestation and audit standards for reserves, cybersecurity and incident response expectations, and recovery and resolution planning. Issuers should provide legal opinions and documentation confirming segregation and enforceability of redemption rights, obtain periodic third-party attestations and defined audit coverage for reserve sufficiency and reconciliation, and implement cybersecurity controls, penetration testing, and tested runbooks with clear consumer communication protocols for incidents. Recovery and resolution plans should include supervisory triggers and playbooks for suspension of minting, prioritized redemptions, or orderly wind-down, and supervisors should clarify how losses tied to stablecoin stress would be assessed and recovered to protect the Deposit Insurance Fund.

Implementation and Reporting

To operationalize these expectations, the FDIC should require regular supervisory reporting of stress test results and liquidity metrics, with immediate notification for any event that materially impairs redemption capability. Supervisors should receive independent model validation reports and board-level attestations of stress testing programs and contingency plans. Issuers should document how multi-chain liquidity is maintained and how third-party failovers operate, and they should report standardized metrics—such as daily redemption volumes, liquidity coverage for short horizons, concentration of holders, and reconciliation of on-chain supply to off-chain reserves—to enable consistent supervisory assessment. A high-level public summary of stress testing approaches and contingency plans should be published to support consumer confidence while protecting sensitive operational details.

Conclusion

Requiring explicit stress testing and liquidity planning, addressing derivatives amplification, strengthening third-party and multi-chain controls, formalizing interagency coordination, and protecting supervisory review from rigid timelines and siloed treatment will align supervisory standards with how stablecoins are actually used. These enhancements will reduce the risk of rapid spillovers to the Deposit Insurance Fund, promote competitive neutrality across issuers, and help ensure a safer stablecoin ecosystem. The FDIC ought to adopt these enhancements and to coordinate closely with other regulators to ensure comprehensive oversight.

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