



June 9, 2026

Jennifer M. Jones
Deputy Executive Secretary
Attention: Comments – RIN 3064-AG19
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, DC 20429

Re: GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions; RIN 3064-AG19; 12 CFR Parts 324, 330 and 350 (April 10, 2026)

Dear Ladies and Gentlemen:

Better Markets appreciates¹ the opportunity to comment on the Federal Deposit Insurance Corporation’s (“FDIC”) proposal (“Proposal”)² to implement the majority of the FDIC’s statutory responsibilities under the GENIUS Act (“Act”).³

While the Proposal is another required step under the Act toward establishing a federal framework for payment stablecoins, it contains several critical analytical gaps that, if left unaddressed, would undermine the financial stability of the United States, facilitate regulatory arbitrage, and expose both the banking system and the broader economy to heightened and unnecessary financial risks.

¹ Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans’ jobs, savings, retirements, and more.

² Federal Deposit Insurance Corporation. Notice of Proposed Rulemaking. “GENIUS Act Requirements and Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers and Insured Depository Institutions.” Proposed Rule, 91 FR 69 (April 10, 2026), available at: <https://www.fdic.gov/board/federal-register-notice-genius-act-requirements-and-standards-fdic-supervised-permitted>.

³ Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act), Public Law 119–27, 139 Stat. 419 (2025) (codified at 12 U.S.C. 5901–5916).

Better Markets has submitted a comment letter⁴ to the FDIC’s prior proposal (“approval proposal”)⁵ to implement its approval requirements for permitted payment stablecoin issuers (“PPSI”) under the Act. As noted in the letter, that proposal was rushed, incomplete, and insufficiently coordinated with other federal regulators. We have similar concerns with this Proposal and urge the FDIC to pause this haphazard process and coordinate with the other responsible regulators in this process. These concerns are also widely shared by banking organizations, including community banks.⁶

The current Proposal does not even attempt to develop a strong and robust capital and reserve requirement framework, fails to meaningfully address step-in risk, and underestimates both the systemic and consumer protection implications of scaling stablecoin activities within the banking and financial systems. The Proposal would also undermine the Act’s required coordinated approach with the other prudential regulators, particularly the Board of Governors of the Federal Reserve System (“Federal Reserve Board”). The FDIC has not demonstrated that the benefits attributed to PPSIs outweigh the significant risks identified throughout this letter. The FDIC’s Proposal is particularly troubling because of its unique role in the federal financial system to protect the nation’s deposits and administer the Deposit Insurance Fund (“DIF”).

Background

Contrary to the hype of the stablecoin industry⁷, stablecoins have, in fact, repeatedly demonstrated fragility, including episodes of depegging, liquidity stress, and run-like dynamics that resemble vulnerabilities historically addressed through prudential regulation of money market funds (“MMFs”) and bank deposits.⁸ These risks reflect structural weaknesses in reserve

⁴ See Christopher Appel. “Reckless FDIC Stablecoin Proposal Prioritizes Industry Convenience Over Economic Stability for Main Street.” (May 18, 2026), available at: <https://bettermarkets.org/newsroom/reckless-fdic-stablecoin-proposal-prioritizes-industry-convenience-over-economic-stability-for-main-street/> and <https://bettermarkets.org/wp-content/uploads/2026/05/Better-Markets-Comment-Letter-FDIC-Stablecoins.pdf>.

⁵ Federal Deposit Insurance Corporation. Notice of Proposed Rulemaking. “Approval Requirements for Issuance of Payment Stablecoins by Subsidiaries of FDIC-Supervised Insured Depository Institutions.” Proposed Rule, 90 FR 242 (December 19, 2025), available at: <https://www.govinfo.gov/content/pkg/FR-2025-12-19/pdf/2025-23510.pdf>.

⁶ See Bank Policy Institute, Consumer Bankers Association, Financial Services Forum Comment Letter. “Implementing the Guiding and Establishing National Innovation for U.S. Stablecoins Act for the Issuance of Stablecoins by Entities Subject to the Jurisdiction of the Office of the Comptroller of the Currency” (May 1, 2026), available at: <https://bpi.com/joint-trades-comment-on-occ-genius-act-implementation> at 3 “Section Comment Period and Interagency Coordination”. See also Independent Community Banks of America Comment Letter. “ICBA urges OCC to strengthen GENIUS Act safeguards on stablecoin risks.” (May 4, 2026), available at: <https://www.icba.org/w/icba-urges-occ-to-strengthen-genius-act-safeguards-on-stablecoin-risks>.

⁷ See Amanda Fischer, “Forget Myths: The Stablecoin Reality” (March 20, 2025), available at: <https://bettermarkets.org/newsroom/open-banker-op-ed-forget-myths-the-stablecoin-reality>.

⁸ See Better Markets, “Three Questions for Any (Un)Stablecoin Legislation” (February 26, 2025), available at: <https://bettermarkets.org/wp-content/uploads/2025/02/Stablecoin-FS-02.26.25.pdf>.

composition, transparency, and redemption mechanisms that can amplify shocks and transmit stress into the broader financial system. Financial regulators have long been deeply concerned about the financial stability threat of stablecoins because they are acutely vulnerable to runs.⁹

Notwithstanding repeated concerns about legislation to incorporate payment stablecoins into the federal regulatory perimeter (including by Better Markets¹⁰), Congress passed the Act in July 2025. Various federal agencies, including the Department of the Treasury (“Treasury”), Office of the Comptroller of the Currency (“OCC”), FDIC, the Federal Reserve Board, and the National Credit Union Administration (“NCUA”) have issued, or will likely soon issue, proposals to implement various provisions of the Act.

The Act establishes a regulatory framework for payment stablecoin activities. The Act generally prohibits any person other than a PPSI from issuing a payment stablecoin in the United States. The Act also prohibits digital asset service providers from offering or selling a payment stablecoin to a person in the United States unless the issuer is a PPSI or the issuer is a foreign payment stablecoin issuer (“FPSI”) that meets certain requirements. The Act also sets forth various regulatory and licensing requirements for PPSIs and foreign payment stablecoin issuers.

The Act provides the FDIC with regulatory or enforcement authority over PPSIs issued by subsidiaries of state nonmember banks, subject to the FDIC’s regulatory or enforcement authority under section 4 or 7 of the Act (12 U.S.C. §§ 5903 and 5906).

Summary of the Proposal

The Proposal would establish a prudential regulatory framework for PPSIs supervised by the FDIC pursuant to the Act. Specifically, the Proposal would apply to subsidiaries of FDIC-supervised insured depository institutions (“IDIs”) that are approved to issue payment stablecoins, as well as certain FDIC-supervised custodians providing payment stablecoin-related custodial and safekeeping services.

The Proposal would create a new regulatory framework under Part 350 of the FDIC’s regulations governing the activities, reserve assets, redemption practices, capital, liquidity, risk management, reporting, auditing, supervision, and custodial arrangements of FDIC-supervised PPSIs. The Proposal would also establish requirements governing the custody and safekeeping of reserve assets and payment stablecoins, including standards applicable to eligible financial institutions that maintain reserve assets on behalf of stablecoin issuers.

The Proposal would further implement the Act’s requirements regarding reserve asset composition and management. Among other things, the Proposal would require PPSIs to maintain reserve assets equal to the outstanding issuance value of their payment stablecoins, establish concentration limits applicable to reserve assets maintained with eligible financial

⁹ See Financial Stability Oversight Council. 2024 Annual Report, available at: <https://home.treasury.gov/system/files/261/FSOC2024AnnualReport.pdf>.

¹⁰ See Better Markets Comment Letter to U.S. Department of the Treasury, GENIUS Act Implementation; RIN 1505 ZA-10; TREAS–DO–2025–0037; 12 CFR Chapter XV, 31 CFR Subtitles A and B (September 19, 2025), available at: <https://bettermarkets.org/wp-content/uploads/2025/11/Better-Markets-Comment-Letter-GENIUS-Act-Implementation.pdf>.

institutions, require periodic public and confidential reporting regarding reserve asset composition, and establish redemption and liquidity management requirements designed to support the convertibility of payment stablecoins into monetary value.

In addition, the Proposal would establish capital, liquidity, operational risk management, governance, compliance, and auditing requirements for FDIC-supervised PPSIs. The FDIC proposes a principles-based framework that would require issuers to maintain sufficient financial resources and operational capacity to support payment stablecoin activities, while reserving substantial discretion to the agency to determine whether individual issuers maintain adequate capital, liquidity, and risk-management practices.

Finally, the Proposal would amend the FDIC's deposit insurance regulations to clarify that deposits maintained as reserve assets backing payment stablecoins are insured to the permitted payment stablecoin issuer under existing deposit insurance rules and are not insured to payment stablecoin holders on a pass-through basis. The Proposal would also clarify that deposits recorded using distributed ledger technology, including tokenized deposits, remain deposits for purposes of the Federal Deposit Insurance Act and are not payment stablecoins.

While the Proposal represents an important step in implementing the Act, it suffers from several fundamental weaknesses. Most notably, the Proposal relies heavily on supervisory discretion rather than objective prudential standards, fails to establish a credible framework for addressing system-wide redemption stress, inadequately addresses step-in and concentration risks, and provides insufficient analysis of the financial stability implications associated with the rapid growth of payment stablecoins.

Comments

I. The FDIC Must Satisfy Several Critical Preconditions Before Finalizing Any Rule

Better Markets' specific comments on the substance of the Proposal are set forth in Section II below. Before addressing those substantive deficiencies, however, we urge the FDIC not to finalize the Proposal until the following critical preconditions are met. The FDIC has chosen to publish a comprehensive, implementing rulemaking that would govern capital, reserve composition, risk management, redemption, custody, and supervision of PPSIs. It is among the most consequential and novel financial regulatory frameworks established since the Dodd-Frank Act.¹¹ Yet the FDIC is proceeding on a path to finalize this framework while the regulatory architecture around that framework remains critically incomplete. This lack of completeness threatens the safety and soundness of the regime the FDIC is attempting to construct. Proceeding to any final rule of this Proposal would be premature, imprudent, and would expose the financial system to exactly the risks the Act was intended to address.

¹¹ See Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376 (July 2010). Section 171, available at: <https://www.congress.gov/bill/111th-congress/house-bill/4173>.

A. The FDIC Must Conduct a Comprehensive Deposit Insurance Fund Assessment Before Finalizing Any Rule

The FDIC’s primary responsibility is to protect the DIF. Yet the Proposal contains no analysis of the Proposal’s potential material impact on the DIF’s exposure, adequacy, or long-term sustainability at the scale Congress and independent analysts have projected for payment stablecoins. The FDIC’s affirmative choice to not address this critical issue is concerning, and the agency must address it as a precondition to any further rulemaking.

The Proposal clarifies that reserve deposits backing payment stablecoins can be insured to the PPSI as corporate deposits, but the insured treatment cannot be passed through to stablecoin holders. Better Markets supports that clarification, which helps to address an important ambiguity. However, that treatment will imply that stablecoin reserve deposits held at FDIC-supervised IDIs would represent a new category of concentrated (and potentially enormous) contingent liability on the DIF, which the FDIC has neither quantified nor disclosed in the Proposal.

The math is straightforward. The OCC included estimates in its proposal that stablecoin issuance could reach between \$1 trillion and \$2 trillion. The Proposal permits a single PPSI to maintain up to 40 percent of its reserves at a single IDI. A PPSI with \$100 billion in outstanding issuance could therefore maintain up to \$40 billion in reserve deposits at a single FDIC-insured institution.¹² Under the current deposit insurance maximum of \$250,000, the vast majority of that \$40 billion would be uninsured—exposed to exactly the run dynamics that the Proposal’s own reserve and liquidity requirements are designed to prevent.

Circle, the issuer of USDC, held approximately \$3.3 billion in deposits at Silicon Valley Bank (“SVB”), a sum that was almost entirely uninsured given the \$250,000 limit. When concerns regarding SVB’s insolvency became public on March 10, 2023, USDC depegged to \$0.87 on the dollar within hours as stablecoin holders ran the product upon learning of Circle’s uninsured SVB exposure.¹³ The FDIC’s subsequent invocation of the systemic risk exception to protect SVB’s uninsured depositors—a decision that cost the DIF approximately \$16.7 billion—was driven in part by the systemic contagion risk that uninsured depositor losses would have produced across the financial system.¹⁴ Put another way, the DIF absorbed extraordinary losses precisely because uninsured, concentrated deposits at a single institution created systemic risk. The Proposal neither acknowledges this episode nor analyzes whether the proposed framework would reproduce its conditions on a far greater scale.

¹² *Supra* 2 at 18542. “Proposed § 350.4(f) would require that a PPSI limit its total counterparty exposure to any one eligible financial institution, regardless of type of reserve asset, to no more than 40 percent of its reserve assets, across all brands of payment stablecoins issued by the PPSI.”

¹³ *See* CNBC. “Stablecoin USDC breaks dollar peg after firm reveals it has \$3.3 billion in SVB Exposure.” (March 11, 2023), available at: <https://www.cnbc.com/2023/03/11/stablecoin-usdc-breaks-dollar-peg-after-firm-reveals-it-has-3point3-billion-in-svb-exposure.html>.

¹⁴ *See* Federal Deposit Insurance Corporation. *Special Assessment Pursuant to Systemic Risk Determination*. “Currently, the FDIC estimates the total cost of the failures of Silicon Valley Bank and Signature Bank that must be recovered through the special assessment is approximately \$16.7 billion.” (April 17, 2026), available at: <https://www.fdic.gov/deposit-insurance-assessments/special-assessment-pursuant-systemic-risk-determination>.

A stablecoin ecosystem of \$1 trillion in outstanding issuance, with reserve deposits distributed across FDIC-supervised IDIs under the proposed 40 percent concentration limit, would generate reserve deposit relationships that dwarf SVB's entire deposit base. The DIF's designated reserve ratio is set at 2 percent—a long-range minimum goal the fund has never actually reached — and as of June 30, 2025, the actual reserve ratio stood at just 1.36 percent, a single basis point above the statutory floor set by Congress of 1.35 percent.¹⁵ The FDIC's own staff analysis has concluded that a reserve ratio at or above 2 percent would have been necessary to maintain a positive fund balance through the crises of the late 1980s and 2008.¹⁶ A fund that has never reached its own minimum target set by the FDIC Board, which currently sits one basis point above the statutory floor, is not positioned to absorb a new category of concentrated, highly-correlated and confidence-sensitive contingent liabilities whose scale the Proposal does not attempt to quantify. If the FDIC were forced to invoke the systemic risk exception to protect uninsured reserve depositors in a large-scale PPSI failure—as it did for SVB—the resulting DIF liability could exceed anything the fund has previously been required to absorb. The FDIC has not analyzed this scenario.

The FDIC's silence is particularly indefensible given the agency's statutory obligation to maintain the DIF at its designated reserve ratio and to conduct the loss and income projections necessary to set deposit insurance assessment rates. Those obligations cannot be satisfied if the FDIC finalizes a framework that creates material new DIF exposure without first quantifying what that exposure is. An agency whose foundational mission is to protect the DIF is inviting the public to comment on a framework that generates significant contingent liabilities on that fund while declining to disclose the size, probability, or fiscal consequences of those liabilities.

Accordingly, Better Markets strongly urges the FDIC to release a comprehensive DIF impact assessment as a precondition to finalizing any rule. That assessment must be published for public comment and must address at minimum: the proportion of stablecoin reserve deposits that would be uninsured under current corporate deposit coverage rules at projected issuance levels; the aggregate DIF liability that could arise if one or more large PPSIs failed and the FDIC were required to invoke the systemic risk exception to protect uninsured reserve depositors; whether the DIF's current capitalization is adequate to absorb that liability under scenarios comparable to the 2023 banking crisis without exhausting its lines of credit from the U.S. Treasury¹⁷ or extraordinary congressional appropriation; and whether the proposed 40 percent single-counterparty concentration limit—or any alternative limit—adequately constrains DIF exposure at the scale the OCC and independent analysts project.

If the FDIC's assessment reveals that the DIF is not adequately capitalized to absorb the contingent liabilities the proposed framework would create, the FDIC must either revise the framework to reduce that exposure—through lower reserve deposit concentration limits (as

¹⁵ See Andrew Felton. Memo to Board of Directors of the Federal Deposit Insurance Corporation. *Designated Reserve Ratio for 2026*. (November 18, 2025), available at: <https://www.fdic.gov/board/board-memo-notice-designated-reserve-ratio-2026.pdf>.

¹⁶ *Id.*

¹⁷ See Federal Deposit Insurance Corporation. *Section 14. Borrowing Authority*. available at: <https://www.fdic.gov/federal-deposit-insurance-act/section-14-borrowing-authority>.

proposed below by Better Markets), requirements that PPSIs structure reserve deposits to remain within insured limits, or enhanced deposit insurance assessments on IDIs that accept significant stablecoin reserve deposits. Otherwise, it must demonstrate that the systemic risk exception would not be invoked in a PPSI failure scenario and explain the basis for that conclusion with specificity.

The FDIC should not finalize any rule under this proceeding until this assessment has been completed, published, and subjected to public comment. To proceed otherwise would be to invite the American public to underwrite a fiscal commitment whose magnitude the FDIC itself has not calculated.

B. The FDIC Has Not Demonstrated That It Possesses the Supervisory Capacity to Oversee This Novel and Risky Financial Product

Neither the FDIC nor any federal banking agency has supervised a PPSI. Unlike banks, which operate during defined business hours through well-understood balance sheet structures, PPSIs operate continuously, 24 hours a day, 7 days a week, across permissionless, global blockchain networks that require specialized on-chain analytics, real-time reserve monitoring, and technical expertise that the FDIC does not currently possess in any demonstrated form. The Proposal's impact analysis estimates the FDIC will supervise between 5 and 30 PPSIs under the new framework.¹⁸ Yet the Proposal does not contain a description of how the FDIC intends to build, hire, or contract for the examination infrastructure needed to supervise these entities, the data systems it will use to monitor reserve composition and redemption activity in real time, or a coordination plan with blockchain analytics providers or interagency partners to detect stress in emerging situations.

The FDIC's approval process framework¹⁹ provides for an automatic 120-day deemed-approval of applications—a mechanism calibrated for routine bank chartering, not novel, fast-scaling digital asset entities whose business model, risk profile, and technology infrastructure are all without precedent in the FDIC's supervisory experience. The FDIC should publish, prior to finalizing this rule, a supervisory readiness assessment that addresses staffing, technology, data infrastructure, and interagency coordination capacity, and should commit that no PPSI approvals will be granted until that capacity is demonstrably in place. An agency cannot reasonably conclude that a supervisory framework will be effective where it has not demonstrated the capacity to implement it.

¹⁸ *Supra* 2 at 18562. “Recognizing this uncertainty, without predicting the actual amount of FDIC-supervised PPSIs, for the purposes of this analysis, the FDIC estimates that between 5 and 30 FDIC-supervised IDIs would apply for and receive approval to issue payment stablecoins through FDIC-supervised PPSIs in the first few years after the enactment of the proposed rule.”

¹⁹ *Supra* 5.

The FDIC’s supervisory capacity concerns were recently identified by the agency’s Office of the Inspector General (“OIG”).²⁰ In a March 2026 report, the FDIC OIG cited workforce attrition as one of eight top management and performance challenges facing the agency as of early 2026, finding that the FDIC experienced a 20 percent reduction in staff in 2025—transitioning from over 6,300 employees to just over 5,000—with an additional 17 percent of remaining staff eligible for retirement in 2026. In the process, the FDIC has significantly drained its human capital and made working for the agency far less desirable.

Most directly relevant to PPSI supervision, the Division of Complex Institution Supervision and Resolution—the division responsible for PPSI oversight and the point of contact for this rulemaking—lost over 20 percent of its staff in 2025, with significant losses specifically in its Resolution Readiness Branch, and has consistently operated below authorized staffing levels even before those reductions. The OIG further found that the current three-year training period for new examiners makes forward-looking workforce planning essential. As Better Markets has noted in our prior comment letter, it is troubling that the FDIC’s proposed PPSI approval process would commit the FDIC to reviewing and approving stablecoin applications within 120 days—with deemed approval as the penalty for agency inaction—when the agency’s OIG has concluded that its examination and supervisory capacity is under severe strain. An automatic approval clock is a mechanism calibrated for a fully staffed agency with established supervisory expertise. Conversely, it is a reckless design choice for an agency simultaneously absorbing a 20 percent workforce reduction and taking on a category of supervision it has never before conducted.

At a broader level, the Proposal provides no analysis demonstrating that the FDIC possesses sufficient staffing, technical expertise, or operational capacity to review PPSI applications and effectively supervise PPSIs. The Financial Stability Board has recently concluded that agency capacity is critical for effective stablecoin oversight and the FDIC’s posture contravenes that imperative.²¹

C. The Federal Reserve Board Has Not Issued an Implementing Proposal, and the FDIC’s Approach Is Inconsistent With the Act’s Coordination Mandate

As of the date of this comment letter, the Federal Reserve Board has published no implementing proposal under the Act. The Federal Reserve Board is one of four primary federal payment stablecoin regulators designated by Congress under the Act and the agency with primary responsibility for monetary policy transmission, systemic risk oversight, and financial stability. This is a major procedural gap and is inconsistent with the statutory requirements of the Act.

²⁰ See Federal Deposit Insurance Corporation. Office of Inspector General. “Top Management and Performance Challenges Facing the Federal Deposit Insurance Corporation.” (March 26, 2026), available at: https://www.fdicoinc.gov/sites/default/files/reports/2026-03/TMPC_Final_March%202026.pdf.

²¹ See Financial Stability Board. BIS Papers No. 170. “The Impact of Stablecoins on the international monetary and financial system.” (May 2026), available at: <https://www.bis.org/publ/bppdf/bispap170.pdf>.

The Act is clear that the regulations issued to carry out the Act “shall be issued in coordination by the primary federal payment stablecoin regulators.”²² Section 13 reinforces this mandate, directing every primary federal payment stablecoin regulator to coordinate on any implementing regulations and to submit a joint report to Congress confirming the regulations promulgated within 180 days of the Act’s effective date. Congress required the primary federal payment stablecoin regulators to act in coordination. Yet when the Proposal was issued, the Federal Reserve Board had not published an implementing proposal, making meaningful interagency coordination substantially more difficult.

The practical consequences of this coordination failure are severe. Capital requirements, liquidity standards, reserve composition rules, and supervisory frameworks developed by the FDIC in isolation will diverge—potentially significantly—from those that the Federal Reserve Board and OCC will ultimately adopt for their supervised institutions. These differences will be immediately exploited by sophisticated market participants seeking the most permissive chartering, supervisory, and regulatory environment. Congress deliberately constructed an interagency architecture for payment stablecoin regulation—vesting the Secretary of the Treasury as chair of the Stablecoin Certification Review Committee (“SCRC”) alongside the Federal Reserve Board Chair and FDIC Chair, tying the Act’s effective date to the issuance of final rules by all primary regulators acting in concert, and requiring joint regulatory reporting to Congress—precisely to prevent the fragmented, race-to-the-bottom outcome that the FDIC’s rulemaking invites. The FDIC should not finalize any rule until the Federal Reserve Board has published its own proposal and all the relevant agencies have meaningfully harmonized their respective frameworks.

D. A System-Wide Stress Test Must Be Conducted Before the Framework Becomes Effective

The Proposal requires individual-issuer stress testing only at the supervisory discretion of the FDIC. It contains no provision for a concurrent, industry-wide stress exercise that would reveal correlated vulnerabilities across issuers who all hold concentrated positions in the same short-dated Treasury instruments and government MMF shares. The March 2020 “dash for cash” panic—in which MMFs, which hold structurally similar reserve assets, required extraordinary Federal Reserve Board intervention to avoid catastrophic runs—was a system-wide event triggered by correlated selling from similarly situated entities. A stablecoin ecosystem of even \$500 billion in outstanding issuance, collectively concentrated in short-dated Treasuries, would face materially the same dynamics under stress.

The FDIC, in coordination with the Federal Reserve Board and OCC, should be required to design and conduct a multi-issuer, system-wide stress scenario before the Act becomes effective, publish the aggregate results, and use the findings to calibrate the minimum capital and reserve requirements that will apply to all PPSIs. Finalizing prudential standards without this empirical

²² *Supra* 3, § 7.

foundation is precisely the kind of regulatory gap that produced the vulnerabilities exposed in 2008, 2020, and the 2023 banking crises.

If the FDIC is unable to administer such an exercise with its existing resources and expertise, it should work jointly with the Federal Reserve Board or other relevant authorities to ensure it is conducted prior to the framework becoming effective.²³

E. The BSA/AML and Customer Identification Program Frameworks Are Incomplete, and Any Final Rule Must Not Precede Compliance

Subsequent to the Proposal, the FDIC published a proposed rule that would establish Bank Secrecy Act (“BSA”), anti-money laundering and countering the financing of terrorism (“AML/CFT”), and sanctions compliance standards for FDIC-supervised PPSIs under the Act.²⁴

The FDIC should not finalize the prudential framework before finalizing the BSA/AML and sanctions framework. The two proposals, in addition to the approval proposal, are inseparable components of a single regulatory regime for PPSIs. The risks posed by payment stablecoins arise from issues addressed by both proposals. Congress expressly recognized this relationship in the Act by requiring both prudential standards and comprehensive BSA/AML and sanctions obligations for PPSIs.

Yet the FDIC’s prudential proposal repeatedly assumes the existence of an effective illicit-finance compliance regime without identifying what that regime ultimately will require. The agency therefore asks commenters to evaluate the costs, benefits, operational burdens, supervisory expectations, and risk profile of the proposed framework while a critical component of that framework remains unresolved. That approach deprives commenters of the ability to assess the cumulative effects of the FDIC’s regulatory framework and prevents the agency from evaluating how the various requirements interact.

The problem is particularly acute because compliance obligations can materially affect business models, operational structures, technology architecture, liquidity management, and third-party relationships. Treasury’s separate proposal implementing the Act’s AML/CFT and sanctions provisions contemplates significant obligations relating to customer identification, suspicious activity monitoring, sanctions screening, reporting, governance, and blockchain-based compliance

²³ For an example of the confidence-inducing effects of credible stress tests, see the 2009 Supervisory Capital Assessment Program, the Federal Reserve’s stress test of the 19 largest U.S. bank holding companies, conducted at the direction of the Treasury and the federal banking agencies. At the time, the transparent, system-wide supervisory exercise restored market confidence in a financial sector under stress. See Federal Reserve Board, *The Supervisory Capital Assessment Program: Overview of Results* (May 7, 2009), available at: <https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20090507a1.pdf>; see also IMF Working Paper No. 13/88, *Market-Based Structural Top-Down Stress Tests of the Banking System* at 8 (2013), available at: <https://www.imf.org/en/publications/wp/issues/2016/12/31/market-based-structural-top-down-stress-tests-of-the-banking-system-40468>.

²⁴ Federal Deposit Insurance Corporation. Notice of Proposed Rulemaking. “Bank Secrecy Act and Sanctions Compliance Standards for FDIC-Supervised Permitted Payment Stablecoin Issuers.” (May 22, 2026), available at: <https://www.fdic.gov/board/bank-secrecy-act-and-sanctions-compliance-standards-fdic-supervised-permitted-payment>.

controls.²⁵ As extensively documented, stablecoins are prominently associated with ransomware, sanctions evasion, and consumer scams.²⁶ Depending on how those requirements are finalized, they may substantially alter the operational and financial profile of PPSIs. The FDIC cannot reasonably evaluate the prudential framework in isolation while those requirements remain subject to change.

The Administrative Procedure Act requires agencies to consider all important aspects of a regulatory problem. In effect, the FDIC has divided a single regulatory framework into multiple rulemakings while failing to explain how the components fit together or how the combined requirements will affect regulated entities. Finalizing the prudential proposal before the BSA/AML and sanctions proposal would therefore risk arbitrary and capricious decision-making because the agency would be acting without considering a significant portion of the regulatory obligations that PPSIs ultimately will face.

Accordingly, the FDIC should either (1) finalize the prudential and BSA/AML proposals simultaneously, accompanied by a unified analysis of their cumulative effects, or (2) repropose the prudential framework after the BSA/AML and sanctions requirements have been finalized. At a minimum, the agency should explain how it evaluated the interaction of the two proposals and provide a comprehensive assessment of their combined costs, operational burdens, and effects on safety and soundness.

II. The Final Rule Must Substantially Strengthen the Proposal's Weak Prudential Framework

Throughout the Proposal, the FDIC repeatedly describes its approach as “tailored” and “principles-based.”²⁷ While flexibility may appear attractive in a rapidly evolving industry, recent financial history demonstrates that prudential frameworks built primarily upon broad principles rather than clear, enforceable standards frequently result in inconsistent supervision, regulatory arbitrage, and pressure on supervisors to accommodate industry preferences.

This concern is especially acute in the stablecoin context. History shows that PPSIs will compete aggressively on profitability, reserve composition, operational flexibility, and product design. Where regulatory requirements are vague or highly discretionary, market participants inevitably devote resources toward securing favorable interpretations rather than improving safety and soundness. The result is a race toward the lowest practical supervisory standard.

²⁵ FinCEN and OFAC. Notice of Proposed Rulemaking. “GENIUS Act Anti-Money Laundering and Sanctions Compliance Program Requirements for Permitted Payment Stablecoin Issuers.” 91 FR 69 (April 10, 2026), available at: <https://www.govinfo.gov/content/pkg/FR-2026-04-10/pdf/2026-06963.pdf>.

²⁶ Financial Action Task Force, *Targeted Report on Stablecoins and Unhosted Wallets — Peer-to-Peer Transactions* (March 3, 2026), available at: <https://www.fatf-gafi.org/en/publications/Virtualassets/targeted-report-stablecoins-unhosted-wallets.html>. The report highlights how stablecoins’ price stability, liquidity, and interoperability support legitimate use but also make them attractive for criminal misuse. The report urged countries to impose AML/CFT obligations on stablecoin issuers, require technical controls including wallet freezing and smart contract restrictions, and recognize the specific money laundering, terrorist financing, and proliferation financing risks that stablecoins present.

²⁷ *Supra* 2 at 18534.

The experience preceding the 2008 financial crisis provides a cautionary example that the FDIC must heed. Excessive reliance on supervisory discretion, principles-based oversight, and institution-specific accommodations contributed to the accumulation of risks that were insufficiently constrained by objective requirements. Congress responded by directing regulators to establish clearer and more enforceable prudential standards for systemically important financial institutions. The FDIC should not repeat these mistakes in a newly created sector with significant run-risk characteristics.

The Proposal contains serious analytical and structural deficiencies that, taken together, would produce a regulatory framework that would be weak and fragile in periods of market stress, rapid scaling, and loss of confidence. As described in detail below, the Proposal's capital requirements rest on an unanchored, principles-based foundation that assigns the same minimum floor to a \$50 million stablecoin and a \$50 billion one. Its reserve framework enforces the critical one-to-one backing requirement only on a quarterly basis—a cadence that is functionally meaningless in a run that can unfold in hours. Its treatment of step-in risk is nonexistent and must be comprehensively introduced. Its assessment of system-wide financial stability implications is inadequate for a product that—at the scale Congress has anticipated—would become one of the largest concentrated holders of short-dated Treasuries in the world. Its presumption-based approach to the yield prohibition creates an enforcement regime that is reactive by design and easily evaded.

These and other deficiencies identified below reflect a single overarching failure of analytical ambition. It would appear the Proposal was designed to reflect what stablecoins are today—a \$250 billion market dominated by two issuers, operating largely offshore, with limited integration into the domestic banking system²⁸—rather than what the Act may produce in the future. Multiple analyses—including by the Treasury Borrowing Advisory Committee and the Federal Reserve Bank of Kansas City—have contemplated a stablecoin market measured in the trillions of dollars within a few years. Yet the Proposal largely evaluates the rule as though stablecoins will remain a niche financial product. The agencies cannot simultaneously rely on projections of trillion-dollar growth to justify the Act's benefits while ignoring the corresponding systemic risks that would accompany a stablecoin market of that scale.²⁹ A framework calibrated to today's relatively nascent market will be structurally inadequate for that potential future market, and the cost of that inadequacy—borne by community banks, small businesses, depositors, and taxpayers—will far exceed any benefit from moving quickly.

²⁸ See International Monetary Fund. *Understanding Stablecoins*, No. 2025/009 Monetary & Capital Markets Department. (December 2025), available at: <https://www.imf.org/-/media/files/publications/dp/2025/english/usea.pdf>.

²⁹ Treasury Borrowing Advisory Committee. *Digital money*. (April 30, 2025), available at: <https://home.treasury.gov/system/files/221/CombinedChargesforArchivesQ22025.pdf>, Federal Reserve Bank of Kansas City. Noll, F. *Stablecoins could increase Treasury demand, but only by reducing demand for other assets*. (February 24, 2026), available at: <https://www.kansascityfed.org/research/economic-bulletin/stablecoins-could-increase-treasury-demand-but-only-by-reducing-demand-for-other-assets/>. Federal Reserve Board of Governors, FED Notes, *Stablecoins in 2025: Developments and financial stability implications*. (April 8, 2026), available at: <https://www.federalreserve.gov/econres/notes/feds-notes/stablecoins-in-2025-developments-and-financial-stability-implications-20260408.html>.

Accordingly, Better Markets urges the FDIC to replace broad principles wherever feasible with objective, transparent, and enforceable requirements. At a minimum, the agency should establish quantitative standards governing capital, liquidity, operational resilience, redemption capacity, and reserve asset management rather than relying primarily upon supervisory judgment and institution-specific determinations.

Better Markets urges the FDIC to treat the following as minimum requirements for a final rule that is worthy of the responsibility Congress has assigned to it.

A. The Final Rule Must Significantly Strengthen Capital Requirements for PPSIs

The Proposal would establish baseline capital requirements for payment stablecoins intended to promote the safety and soundness of PPSIs. However, the proposed requirements are not supported by a rigorous or transparent analytical framework demonstrating that they are sufficient to withstand stress conditions.

Under the Proposal, a PPSI would be required to maintain capital equal to the greater of (1) the minimum amount specified in a *de novo* or other FDIC approval order, or (2) \$5 million. The FDIC would set a specific capital minimum that an FDIC-supervised PPSI must observe during its “*de novo* period”—generally the three-year period following the approval of the PPSI. Thereafter, the Proposal does not specify a particular minimum capital level or ratio but rather would require that an FDIC-supervised PPSI maintain capital “commensurate with the level and nature of all risks to which it is exposed.” In effect, the capital framework would be principles-based and supervisory-discretion-driven post-*de novo*, with the FDIC monitoring capital adequacy, primarily through examinations.

The Proposal does not provide a clear empirical basis for the calibration of capital requirements (especially the minimum \$5 million), nor does it assess whether existing buffers would be adequate to absorb losses arising from asset liquidation, operational failures, or market dislocations. Absent a reasoned explanation grounded in empirical analysis, the proposed \$5 million minimum capital floor risks being “arbitrary and capricious.” Under the Administrative Procedure Act, an agency rule is considered “arbitrary and capricious” if the agency has “relied on factors which Congress has not intended it to consider, entirely failed to consider an important aspect of the problem, offered an explanation for its decision that runs counter to the evidence before the agency, or is so implausible that it could not be ascribed to a difference in view or the product of agency expertise.”³⁰ The FDIC’s proposed minimum capital requirement does not appear to satisfy this standard because neither the preamble nor the impact analysis offer a reasoned derivation for the \$5 million figure. For example, the Proposal should have provided peer comparisons, loss-history analyses, stress scenarios, and explanations of how \$5 million relates to any identified risks of stablecoins. The Proposal introduces the \$5 million figure without any connection to an identified risk, regulatory comparator, or empirical foundation.

³⁰ Motor Vehicle Manufacturers Association v. State Farm Mutual Automobile Insurance Co., 463 U.S. 29 (1983).

Capital requirements are the foundational prudential constraint on which all other safety and soundness requirements depend; a floor selected without analytical grounding provides no assurance that it reflects the minimum necessary to protect the financial system. While the FDIC’s impact analysis did not attempt a projection of future stablecoin issuance, the OCC’s proposal estimated that stablecoin issuance could reach between \$1 trillion to \$2 trillion. At \$1 trillion in total outstanding issuance spread across the FDIC’s projected 5 to 30 PPSIs, a \$5 million floor would represent a vanishingly small fraction of any meaningful issuer’s liabilities. The FDIC has not explained why this figure was selected, what risk it is calibrated to address, or why it is appropriate for an asset class whose run dynamics can render it insolvent within hours. A final rule that retains the \$5 million floor without supplying that reasoning may be vulnerable to challenge as arbitrary and capricious under the APA, and Better Markets urges the FDIC to either provide a rigorous, published rationale in the final rule or replace the flat floor with the scaled, tiered framework described below.

Economists from the Bank for International Settlements recently concluded that both capital and liquidity thresholds for stablecoin issuers can be empirically derived and calibrated to specific microprudential and macroprudential risk targets. The paper, which includes a discussion of how to gauge issuer default probability and the expected price impact of forced bond sales on Treasury markets, undermines any claim that the FDIC or any other federal agency would lack the analytical tools to ground its capital requirements for PPSIs in an evidence-based approach.³¹

In addition to the concerns about the lack of justification for the capital requirements, the Proposal ignores the systemic risk implications of a thinly capitalized stablecoin. A stablecoin with \$50 million in circulation and one with \$50 billion in circulation pose fundamentally different risks to the financial system. A \$5 million capital cushion is roughly 10 percent of a \$50 million stablecoin—a meaningful loss absorption. Conversely, for a \$50 billion stablecoin, it is 0.01 percent—a rounding error. The operational risks, counterparty exposures, and potential for disorderly redemption cascades are categorically different at scale. The FDIC’s capital framework for state nonmember banks does not apply a singular requirement that applies equally to global systemically important banking organizations (“GSIBs”) and community banks, nor should it for stablecoins. In fact, no other prudential framework for banking organizations in the United States applies a flat aggregate capital requirement across institutions with orders-of-magnitude differences in scale and risk.

The FDIC should adopt a tiered framework to apply capital requirements based on quantitative metrics. Historical evidence has shown that bespoke capital requirements set by examiners can be effective, but in the absence of a strong floor for such requirements, there is a

³¹ See Goel, Lewrick, and Agarwal. Bank for International Settlements. *Making Stablecoins Stable(r): Can Regulation Help?* BIS Working Papers No. 1355. (June 2026), available at: <https://www.bis.org/publ/work1355.pdf>.

tendency for a race-to-the-bottom outcome.³² Therefore, the FDIC should construct a multi-indicator capital requirement framework based on a number of variables, including size and volume, along with the type of reserve asset. This approach could range in complexity from the FDIC's category system for prudential standards to a more complex quantitative framework, like the Federal Reserve Board's GSIB surcharge framework.³³

Critically, this tiered framework must incorporate a leverage ratio requirement. Consistent with its application in prudential requirements for banks, a leverage ratio is the simplest and most direct measure of loss-absorbing capacity for PPSIs. It directly measures what percentage of losses an issuer can absorb before it is insolvent and can no longer honor redemptions at par. The community bank leverage ratio is now at 8 percent³⁴ and is applicable to far less run-prone institutions whose liabilities are protected by federal deposit insurance. Stablecoin issuers have no such backstop, are demonstrably more prone to runs, and hold reserve assets that can decline in value precisely when redemption pressure peaks. The final rule should codify a mandatory minimum leverage ratio rather than retreat to a principles-based approach that will generate supervisory inconsistency and industry pressure to set capital as low as possible.³⁵

The Proposal would require FDIC supervisors to apply the post-*de novo* period capital requirements. While this approach can work with a small number of non-complex issuers, it introduces inconsistency and the risk of regulatory capture or political pressure at scale. The FDIC's impact analysis estimates that the FDIC would supervise between 5 and 30 PPSIs, a significant range which the agency acknowledges is due to uncertainty. If the higher side of the estimate were to occur, it would be challenging for the agency to implement bespoke standards, especially for highly complex stablecoins. This process would be further hindered by the FDIC's

³² See Tufts and Moloney, *The History of Supervisory Expectations for Capital Adequacy*, OCC (October 25, 2022), available at: <https://www.occ.gov/publications-and-resources/publications/economics/moments-in-history/pub-moments-in-history-supervisory-expectations-part2.pdf>. Congress legislatively mandated minimum capital ratios in the International Lending Supervision Act of 1983 in response to the failure of examiner-discretion-based approaches to setting bespoke capital requirement. See also Jonathan Rose, *Bank Capital Standards*, Federal Reserve History (March 8, 2024), available at: <https://www.federalreservehistory.org/essays/bank-capital-standards>.

³³ See 12 CFR 217.400-6. Subpart H – Risk-based Capital Surcharge for Global Systemically Important Bank Holding Companies, available at: <https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-217/subpart-H>.

³⁴ Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System, & Federal Deposit Insurance Corporation. Final Rule. *Regulatory capital rule: Revisions to the community bank leverage ratio framework*. (April 23, 2026), available at: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20260423a.htm>.

³⁵ For example, the OCC's recent BitGo trust charter approval established a precedent for applying bespoke risk weights and leverage ratio adjustments to PPSIs. See Office of the Comptroller of the Currency, *Conditional Approval of Application by BitGo Trust Company to Convert to a National Trust Bank* (December 12, 2025), available at: <https://www.occ.gov/news-issuances/news-releases/2025/nr-occ-2025-125c.pdf>.

supervisory appeals process, which will incentivize regulated entities to challenge supervisory determinations, like capital requirements set in a bespoke manner (see Section II.N). A formulaic scalar or multi-indicator framework would provide transparency, predictability, and a higher minimum floor that would benefit supervisors to focus on other issues where discretion is more appropriate.

Better Markets urges the FDIC to specifically address, in the final rule, the more stringent capital requirements that should apply to “complex” stablecoin structures. For these purposes, a complex stablecoin structure should be defined as any PPSI that: (i) holds government MMF shares as a significant component of its reserves (creating and potentially amplifying “run on run” dynamics, where a run on the stablecoin triggers redemptions from the MMF, which may itself experience stress); (ii) holds a material proportion of uninsured bank deposits as reserves (creating a second layer of “run on run” risk through the uninsured deposit channel, as vividly illustrated by the Circle experience in the SVB failure in March 2023, when Circle stablecoin holders ran the stablecoin to \$0.87 on the dollar upon learning of Circle’s SVB deposit exposure³⁶); (iii) is affiliated with or white-labeled by a bank (creating the step-in risk described in Section II.E); or (iv) issues stablecoins exceeding \$10 billion in outstanding issuance (creating systemic risk).

Complex stablecoin structures should be subject to higher prudential standards specifically: a minimum leverage ratio of at least 15 percent³⁷; risk-based capital requirements that use historically stressed loss rates on reserve assets rather than Basel standardized risk weights (which assign zero weight to Treasuries despite demonstrated price volatility); mandatory annual stress tests submitted to the FDIC; and mandatory recovery and resolution plan submissions (further described in Section II.D). These requirements should be codified as rules and not left to supervisory discretion.

B. The Final Rule Must Significantly Strengthen Reserve Requirements for PPSIs

Similar to the Proposal’s capital requirements, the Proposal would establish baseline reserve requirements. However, these requirements are similarly not supported by a rigorous, analytical framework demonstrating that they are sufficient to withstand stress conditions, especially rapid and large-scale redemption demands.

Although the Proposal requires stablecoins to be backed on a one-to-one basis by liquid assets, the range of permissible reserve assets includes instruments that may not maintain liquidity or value under stress. Financial history, including in recent years, has repeatedly demonstrated that assets widely considered liquid in normal market conditions can become impaired or subject to significant discounts during periods of market turmoil. For example,

³⁶ *Supra* 13.

³⁷ The level of the leverage ratio requirement should be empirically justified to be no lower than necessary to absorb operational, market, custody, and run-related losses.

MMFs in 2008³⁸ and 2020³⁹ required emergency intervention by the Federal Reserve Board to retain their par value at one dollar. Similar to such recent historical experiences, PPSIs could be forced to liquidate assets at fire-sale prices, thereby amplifying losses and accelerating redemption pressures.

The Act requires PPSIs to maintain identifiable reserves backing their outstanding payment stablecoins on at least a one-to-one basis and specifies eight categories of permissible reserve assets (including U.S. cash and currency, balances held at a Federal Reserve Bank, funds held as demand deposits at an insured depository institution, short-term Treasury bills, notes or bonds, overnight repos and reverse overnight repos on short-term Treasuries, MMFs that hold only the foregoing assets, “similarly liquid” federal government-issued assets if approved by the PPSI’s federal regulator and “tokenized” versions of permitted reserve assets).

The Proposal outlines regulations governing valuation, segregation, custody, reporting, access and monetization of reserves, and the withdrawal of surplus reserves. Notably, the Proposal would require that reserve assets, measured at fair value, equal or exceed the outstanding par value issuance of payment stablecoins “at all times,” which may effectively require real-time valuation controls and a cushion to absorb ordinary market movements in permitted reserve assets.

The Proposal’s requirement that reserves be valued at fair value rather than at amortized cost is a positive step, but it remains insufficient. This is mainly due to the fact that the “at all times” requirement is only enforced on a quarterly basis—meaning that if a PPSI fails to maintain adequate reserves, it is prohibited from issuing new stablecoins, and if it fails at two consecutive quarter-ends, it must begin liquidating. However, in a run on a PPSI, quarterly checkpoints are effectively meaningless. The final rule should require daily reserve attestations during stress periods and grant the FDIC authority to require intraday reporting if a PPSI reports unusual redemption volumes and its reserve assets value were to fall below its requirements.⁴⁰ At a minimum, large and complex PPSIs (e.g., those above \$10 billion or that meet the other criteria cited above) should be required to report at a much higher frequency than quarterly, similar to the prudential bank requirements for the largest banking organizations under the liquidity coverage ratio and net stable funding ratio frameworks.

³⁸ See Federal Reserve Board. “Federal Reserve Board announces the creation of the Money Market Investor Funding Facility (MMIFF).” (October 21, 2008), available at: <https://www.federalreserve.gov/newsevents/pressreleases/monetary20081021a.htm>.

³⁹ See Federal Reserve Board. *Money Market Mutual Fund Liquidity Facility*, available at: <https://www.federalreserve.gov/monetarypolicy/mmlf.htm>.

⁴⁰ *Supra* 2 at 18540. The Proposal would only require notifying the FDIC if the value of reserve assets were to fall below the requirements at the close of the day. “However, the PPSI would only need to notify the FDIC as described in proposed § 350.4(i)(1) if the reserve asset value of the required reserves is less than the par value of outstanding payment stablecoins at the PPSI’s close of business.”

The Proposal’s reserve requirements effectively push issuers toward holding large quantities of short-dated Treasuries (93 days or less). Under stress, PPSIs would likely be forced to sell large amounts of such Treasuries to meet redemptions—and unstable holders of Treasuries now make up a growing share of the Treasury market.⁴¹ The Proposal acknowledges monetization risk—requiring issuers to demonstrate “operational capability to access and monetize” reserves—but simply planning for orderly monetization does not prevent the systemic consequences of many issuers simultaneously selling Treasuries.

The FDIC solicits comment on whether to expand the permissible maturity of Treasury reserve assets beyond the 93-day maximum specified in the Act to include Treasuries with remaining maturities of up to two years. Better Markets strongly opposes any such expansion and urges the FDIC to maintain the 93-day maximum as an absolute ceiling in the final rule.

The Act’s 93-day maturity limit reflects a deliberate congressional judgment that stablecoin reserves must be short enough in duration to minimize interest rate risk—the risk that the market value of reserve assets declines at precisely the moment redemption pressure peaks. That judgment has been validated emphatically by recent market experience. In April 2025, 10-year Treasury yields surged more than 60 basis points in a single week—their largest weekly move since 2021—producing price declines of approximately 5 percent on 10-year Treasuries and significantly larger losses on longer-duration instruments.⁴² While stablecoin reserves are currently limited to 93-day instruments, whose price sensitivity to a 60 basis point yield move is materially lower, extending the permissible maturity would expose issuers to exactly the interest rate volatility that the Act was designed to exclude from reserve portfolios.

The FDIC’s reserve requirement framework is premised on the ability of PPSIs to maintain one-to-one backing “at all times”—a standard that would be directly undermined by holding reserve assets that could potentially lose 5 percent or more of their value in a week under foreseeable market conditions. The FDIC should not expand permissible maturities in the final rule and should explicitly state in the preamble that it interprets the Act’s enumeration of eligible reserve assets as establishing a maximum, not a floor, for acceptable reserve risk.

a. The Final Rule Must Address Risks Associated With Third-Party Custody of Reserve Assets

The Proposal permits reserve assets to be maintained through “eligible financial institutions” rather than requiring direct custody by the issuer. While this approach may provide operational flexibility, the Proposal fails to adequately analyze the risks created by introducing additional intermediaries into the reserve management framework.

⁴¹ See MarketWatch. *Hedge funds’ record Treasury bets risk sending a shockwave through the global bond market, Apollo says*. (April 17, 2026), available at: <https://www.marketwatch.com/story/hedge-funds-record-treasury-bets-risk-sending-a-shockwave-through-the-global-bond-market-apollo-says-cfe079ba>.

⁴² See Federal Reserve Bank of New York. *Treasury Market Liquidity Since April 2025* (April 2, 2026), available at: <https://libertystreeteconomics.newyorkfed.org/2026/04/treasury-market-liquidity-since-april-2025/>.

The entire stablecoin model depends on the ability of payment stablecoin issuers to access reserve assets immediately and without interruption during periods of market stress. Yet the Proposal provides no analysis of what would occur if an eligible financial institution experienced operational disruption, cyberattack, liquidity stress, legal disputes, resolution proceedings, or other circumstances that could delay access to reserve assets during precisely the period when redemptions are most likely to accelerate.

Recent banking stress events demonstrated that even institutions that technically appear to be “well capitalized” can experience severe operational and liquidity disruptions under stress (e.g., Signature Bank, SVB and Credit Suisse). Stablecoin reserve assets must remain immediately available regardless of conditions affecting custodial institutions.

Accordingly, the FDIC should require reserve assets maintained through third-party custodians **to be segregated from all other assets**, protected through bankruptcy-remote arrangements, independently verified on a daily basis, and subject to direct regulatory access and reporting. The FDIC should also require issuers to demonstrate their ability to access reserve assets within a four-hour period under stressed conditions, consistent with the unprecedented speed of the run on SVB.

b. The Final Rule Must Ensure Reserve Diversification

The Proposal recognizes that reserve asset concentration, liquidity, and maturity transformation present significant risks to the stability of FDIC-supervised PPSIs. However, the Proposal does not propose to impose the objective, quantitative requirements necessary to ensure that reserve assets remain readily available during periods of market stress. Instead, the Proposal largely relies upon broad supervisory discretion while merely requesting comment on whether additional liquidity and maturity requirements should be adopted in the future.

This approach is shortsighted because reserve asset requirements are a critical aspect of a sound prudential framework. The viability of a payment stablecoin depends almost entirely on the ability of the issuer to satisfy redemption requests quickly and reliably under stressed conditions. If reserve assets cannot be converted into cash at the speed required during a run, neither capital requirements nor supervisory discretion will prevent instability.

The Proposal would impose a concentration limit that generally restricts no more than 40 percent of reserve assets from being maintained at a single eligible financial institution. While this limitation is preferable to no concentration limit at all (as recklessly proposed by the OCC), it remains far too permissive for this novel and risky product. A PPSI could maintain nearly half of its reserves with a single institution and experience substantial operational disruption if that institution becomes subject to liquidity stress, cyber incidents, operational failures, legal disputes, or resolution proceedings. The FDIC should significantly strengthen this requirement by imposing lower concentration limits and requiring meaningful diversification across custodians, counterparties, and banking organizations.

More fundamentally, the FDIC asks whether it should impose requirements similar to those applicable to MMFs, including minimum daily and weekly liquidity requirements,

weighted average maturity limits, and restrictions designed to ensure reserves remain readily monetizable during periods of stress. The FDIC should answer that question affirmatively. Stablecoins are highly susceptible to run dynamics and therefore require objective liquidity requirements at least as rigorous as those applicable to products with similar redemption characteristics.

At a minimum, the FDIC should require substantial portions of reserve assets to be maintained in immediately available cash, reserve balances, or instruments that can be converted into cash on a same-day basis without reliance on favorable market conditions. Likewise, the FDIC should impose strict weighted average maturity limits and require issuers to demonstrate that reserve assets remain operationally—not merely theoretically—liquid under stressed conditions.

The distinction between theoretical and operational liquidity has repeatedly proven decisive during financial crises, including during SVB’s rapid collapse (in which the bank held a portfolio of assets that were technically liquid but operationally unusable at the speed required during a run).⁴³

Accordingly, as outlined below, the FDIC should establish mandatory quantitative liquidity and maturity requirements, strengthen reserve concentration limits, and require issuers to demonstrate their ability to monetize reserve assets rapidly during severe redemption scenarios. Prudential standards governing reserve assets should not be left primarily to supervisory judgment after issuance begins; they should be established clearly in any final rule.

First, the FDIC should prohibit any payment stablecoin issuer from maintaining more than 10 percent of its total reserve assets at any single insured depository institution. Diversification across multiple institutions would reduce concentration risk, operational dependency, and the potential for disruptions at a single institution to impair a stablecoin issuer’s ability to satisfy redemption requests. A 10 percent cap would require meaningful diversification across at least ten institutions and ensure that the failure or impairment of any single institution could not jeopardize a material portion of a PPSI’s reserves. A 10 percent cap likewise is a reasonable threshold for total exposure to a depository institution given crypto market turmoil and the subsequent collapse of SVB in 2023. At the time of SVB’s failure, Circle’s U.S. Dollar Coin (“USDC”) had \$3.3 billion of roughly \$40 billion in reserve assets, or 8 percent, held at

⁴³ As a baseline point of comparison, the SEC’s Rule 2a-7 requires MMFs to maintain at least 25 percent of assets in daily liquid assets and 50 percent in weekly liquid assets, with a maximum weighted average maturity of 60 days. These requirements were strengthened following repeated episodes of stress, including the 2008 crisis and the March 2020 “dash for cash,” where MMFs required extraordinary Federal Reserve support to maintain stability. Stablecoin issuers present more acute run dynamics than MMFs, given their 24/7 operability, instantaneous redemption expectations, and lack of access to central bank liquidity. At a minimum, any reserve framework for PPSIs should meet or exceed the liquidity standards applicable to government money market funds, rather than fall below them. *See* 17 CFR § 270.2a-7(d)(4)(ii)–(iii).

SVB.⁴⁴ Even that level of diversification was unable to stop a substantial depegging of USDC; the FDIC should therefore not adopt a rule that permits substantially more concentration, as this Proposal does. Finally, if GSIBs are not allowed to become excessively exposed to a single counterparty⁴⁵, stablecoin issuers should not be permitted to become excessively dependent on a single reserve custodian.

Second, the FDIC should prohibit any IDI from accepting aggregate payment stablecoin reserve deposits in excess of 5 percent of its total deposits. Allowing institutions to become materially dependent upon payment stablecoin reserve deposits would create a new source of concentrated, confidence-sensitive funding risk that could amplify stress throughout the banking system. The 2023 banking crisis demonstrated that concentrated, uninsured, confidence-sensitive funding sources can become unstable with extraordinary speed. A 5 percent cap would ensure that no insured depository institution becomes materially dependent on payment stablecoin reserve deposits as a funding source.

Better Markets' proposed 10 percent limit on reserve concentration and 5 percent limit on acceptance by an IDI of stablecoin reserve deposits are not intended to represent the only permissible calibrations. Rather, they illustrate the order of magnitude necessary to materially reduce concentration risk relative to the Proposal's insufficiently justified 40 percent threshold and the absence of other safeguards to limit concentrated deposit risk at IDIs. The FDIC should evaluate alternative calibrations using empirical analysis, stress testing, and other supervisory tools, but any final rule must meaningfully reduce the concentration and funding risks created by large-scale stablecoin reserve deposits.

Third, IDIs that accept significant volumes of payment stablecoin reserve deposits should be subject to enhanced liquidity requirements calibrated to the unique volatility characteristics of such funding. The FDIC should require institutions to demonstrate their ability to withstand substantial outflows of payment stablecoin reserve deposits over extremely compressed time horizons without reliance on extraordinary government support or emergency liquidity facilities. Stablecoin reserve deposits possess characteristics that make them more volatile than many categories already assigned elevated runoff rates under existing liquidity regulations. Unlike ordinary corporate depositors, PPSIs have a legal obligation to meet redemption requests and may therefore be compelled to withdraw deposits immediately during periods of stress. The crypto market in which stablecoins are used as a payment mechanism and collateral source is also highly volatile and susceptible to sentiment-driven runs and herd behavior. IDIs with significant PPSI reserve exposures must be equipped with sufficient liquidity requirements to manage such exposures.

⁴⁴ Ge Huang, Vicky, Hannah Miao and Caitlin Ostroff, Wall Street Journal, *Circle's USDC Stablecoin Breaks Peg With \$3.3 Billion Stuck at Silicon Valley Bank*, (March 11, 2023), available at: <https://www.wsj.com/articles/crypto-investors-cash-out-2-billion-in-usd-coin-after-bank-collapse-1338a80f>.

⁴⁵ See Single-Counterparty Credit Limits. 12 CFR 252, Subpart H, available at: <https://www.ecfr.gov/current/title-12/chapter-II/subchapter-A/part-252/subpart-H>.

Finally, the FDIC should treat payment stablecoin reserve deposits similarly to unstable operational deposits for purposes of supervisory liquidity analysis. The defining lesson of the 2023 banking crisis is that funding sources capable of moving at digital speed should not be assumed to remain stable during periods of stress. Payment stablecoin reserve deposits possess many of the same characteristics that make other concentrated, uninsured deposits vulnerable to rapid withdrawal and should therefore be subject to comparable supervisory treatment.

Absent such safeguards, the Proposal risks creating a new category of runnable wholesale funding that could simultaneously increase risks to both payment stablecoin issuers and the insured depository institutions that hold their reserve assets.

c. The Final Rule Must Explain and Show How the Proposed 40 Percent Concentration Limit Was Derived

The FDIC must substantially strengthen its justification for the proposed 40 percent single-counterparty concentration limit before any final rule. As currently presented, the rulemaking record does not demonstrate that the Agency engaged in the reasoned decision making that the Administrative Procedure Act requires and that the novel statutory mandate demands. The FDIC's sole stated rationale that 40 percent was chosen so that no single eligible financial institution custodies a majority of a PPSI's reserve assets is circular and unsupported. It explains what the threshold does mechanically but provides no basis for concluding that the majority/minority line is the correct policy approach, that 40 percent is appropriately calibrated relative to actual counterparty risk in reserve management, or that alternative thresholds would produce materially worse outcomes for payment stablecoin holders.

The APA requires agencies to “examine the relevant data and articulate a satisfactory explanation for [their] action including a rational connection between the facts found and the choice made.” Therefore, where an agency adopts a specific numerical threshold, that requirement demands more than a general description of what the number achieves. The agency must explain why that number, rather than the range of plausible alternatives, best serves the regulatory objective given available evidence.

The FDIC has not met this standard for its proposed 40 percent limit to prevent a PPSI from being “overly exposed to or concentrated in a single eligible financial institution” and would “ensure that a PPSI has multiple arrangements for meeting redemption requests.” These are descriptions of the goal of any concentration limit, not justifications for the specific threshold chosen. The FDIC has provided no data, stress-testing, modeling, or empirical analysis demonstrating that 40 percent—as opposed to 25 percent, 33 percent, 50 percent, or a risk-weighted alternative—produces meaningfully superior outcomes in a redemption-stress scenario. The Proposal's own explicit acknowledgment, in Question 47, that commenters should address whether the 40 percent threshold is appropriate and whether other percentages would be more appropriate, confirms that the current record does not support the chosen figure. An agency that genuinely does not know whether its chosen number is correct has not yet met its obligation to explain why it chose that number.

d. The Final Rule Must Address Whether Stablecoin Reserve Deposits Create a New Source of Unstable Wholesale Funding for the Banking System

The Proposal also fails to adequately analyze the consequences of permitting large volumes of stablecoin reserve assets to be held as deposits at insured depository institutions. In practice, such deposits may constitute highly concentrated, confidence-sensitive funding that can move rapidly between institutions during periods of market stress. The FDIC should evaluate whether reserve deposits create a new category of potentially volatile wholesale funding and should consider concentration limits, enhanced liquidity requirements, or other safeguards for institutions that receive substantial payment stablecoin reserve deposits.

As described above, this omission is particularly striking given the failures⁴⁶ of SVB, Signature Bank, First Republic Bank, and Credit Suisse. Although the circumstances surrounding each institution differed, all four episodes demonstrated the speed with which large, uninsured, concentrated, and confidence-sensitive depositors can withdraw funding once concerns emerge regarding an institution's financial condition. In each case, technological advances, digital banking platforms, and social media accelerated withdrawal behavior far beyond the assumptions embedded in many traditional liquidity frameworks.

The Proposal never explains why payment stablecoin reserve deposits would behave differently. To the contrary, reserve deposits backing payment stablecoins may prove even more volatile than traditional uninsured deposits. Stablecoin issuers are legally obligated to satisfy redemption requests. If confidence in a payment stablecoin declines or redemption activity accelerates, issuers may be forced to withdraw reserve deposits immediately and at scale. Unlike many traditional commercial depositors, stablecoin issuers cannot reasonably delay access to reserves without risking further erosion of confidence and additional redemption pressure.

The result is that reserve deposits may constitute a new category of highly concentrated, confidence-sensitive wholesale funding that is uniquely vulnerable to rapid outflows. Yet the Proposal contains no analysis quantifying these risks, no discussion of potential contagion channels to insured depository institutions, and no assessment of how reserve deposits would perform under stress conditions similar to those experienced during the 2023 banking crisis.

Before finalizing the Proposal, the FDIC should conduct and publish a comprehensive analysis evaluating how the proposed framework would perform under scenarios modeled on the failures of SVB, Signature Bank, First Republic Bank, and Credit Suisse. At a minimum, the FDIC should evaluate the effects of sudden reserve deposit withdrawals, concurrent redemption requests

⁴⁶ See Federal Reserve Board, *Review of the Federal Reserve's Supervision and Regulation of Silicon Valley Bank* (April 28, 2023), available at: <https://www.federalreserve.gov/publications/files/svb-review-20230428.pdf>; Federal Deposit Insurance Corporation, *FDIC's Supervision of Signature Bank* (April 28, 2023), available at: <https://www.fdic.gov/sites/default/files/2024-03/pr23033a.pdf>; FDIC, *FDIC's Supervision of First Republic Bank* (April 26, 2024), available at: <https://www.fdic.gov/news/press-releases/2023/pr23073a.pdf>; and Financial Stability Board, *2023 Bank Failures: Preliminary Lessons Learnt for Resolution* (Oct. 2023), available at: <https://www.fsb.org/2023/10/2023-bank-failures-preliminary-lessons-learnt-for-resolution>.

across multiple stablecoin issuers, operational disruptions affecting custodial institutions, and rapid migration of reserve deposits between institutions. In addition, it must benchmark its own reserve requirements proposal against those real-world examples of banking stress and depositor behavior. To do otherwise, would be inconsistent with safety-and-soundness and the tenets of appropriate regulation.

The FDIC should further consider imposing quantitative safeguards designed to reduce these risks, including concentration limits on reserve deposits maintained at any single insured depository institution, limits on the percentage of an institution's funding that may consist of payment stablecoin reserve deposits, enhanced liquidity requirements for institutions accepting significant reserve deposits, and heightened supervisory monitoring of institutions with substantial exposure to payment stablecoin funding.

The lessons of 2023 are clear. Funding sources that appear stable during normal conditions can become extraordinarily unstable once confidence deteriorates. The FDIC should not finalize a framework that may create a new category of runnable wholesale funding without first demonstrating that the banking system can safely absorb the resulting risks.

e. The Final Rule Must Not Include Repurchase Agreements as Reserve Assets

The Act permits certain overnight repurchase agreements backed by short-term Treasuries to be treated as eligible reserve assets, and the FDIC has incorporated that permission into the Proposal. The Proposal would permit “money received under repurchase agreements” where the PPSI acts as seller of securities, the transaction has an overnight maturity, and the transaction is backed by Treasury bills with a maturity of 93 days or less. The Proposal would also permit reverse repurchase agreements, subject to specified collateral and counterparty conditions.

Better Markets urges the FDIC to exercise its safety-and-soundness authority⁴⁷ to exclude cash received through repurchase agreements from the list of permissible reserve assets in the final rule. While the FDIC may not contradict the Act’s enumeration of permissible asset classes, it retains authority—and has an affirmative obligation—to impose more conservative requirements where a permitted asset class poses risks to the safety and soundness of the entities it supervises.

A reserve asset should be an asset the PPSI owns outright and can use to meet redemption demands at par, on demand, without dependence on short-term funding markets or counterparty willingness to roll financing. Cash received under a repo does not satisfy that minimum standard. It is cash obtained through an overnight financing transaction secured by securities that the PPSI must repurchase. The cash is therefore paired with a near-immediate repayment obligation and depends on the continued functioning of repo markets if the issuer expects to roll the financing.

That structure is inconsistent with the purpose of stablecoin reserves. During normal conditions, overnight repo financing may appear highly liquid. During stress, however, counterparties may refuse to roll transactions, haircuts may widen, operational frictions may

⁴⁷ See 12 U.S.C. § 1818(b), 12 CFR Part 308, and 12 CFR Part 324(d)(1).

intensify, and funding markets may become unreliable. In those circumstances, a PPSI relying on repo-generated cash to satisfy reserve requirements may face repayment obligations at precisely the moment redemption demands accelerate. Repo markets can facilitate the build-up of leverage in the financial system, and approximately 70 percent of activity in the non-centrally cleared segment operates with zero haircuts—conditions that can reverse suddenly in stress.

The March 2020 “dash for cash” panic demonstrated that even Treasury and repo markets can become strained under stress and may require extraordinary official-sector intervention to restore market functioning. More recently, the Financial Stability Board warned that government bond-backed repo markets remain vulnerable because of concentration, reliance on central nodes, and the tendency of counterparties to reduce funding during periods of stress.⁴⁸

The FDIC’s proposed requirement that reserve assets equal or exceed the outstanding par value of payment stablecoins “at all times” is weakened if that requirement can be satisfied with cash obtained through overnight borrowing. The FDIC should therefore require reserve assets to consist of assets the PPSI owns outright and can monetize unilaterally, without roll risk, counterparty consent, or dependence on short-term funding markets.

If the FDIC nevertheless permits repo-related assets to count toward reserves, it should impose strict limits. At a minimum, the FDIC should permit recognition only for centrally cleared transactions, impose conservative and standardized haircuts, prohibit reliance on bilateral repo for required reserves, require daily reporting of repo exposures and counterparties, and require PPSIs to demonstrate that reserve requirements would remain satisfied after the non-renewal of all overnight repo transactions.

Better Markets therefore urges the FDIC to exercise its safety and soundness authority to exclude repurchase agreements from permissible reserve assets in the final rule, and to require that all reserve assets be assets the PPSI owns outright and can monetize unilaterally—without counterparty consent, without roll risk, and without dependence on the continued functioning of short-term funding markets that history has repeatedly shown to be unreliable precisely when PPSIs would need them most. To the extent the FDIC permits repurchase agreements to count toward reserve assets, it should strictly limit recognition to centrally cleared repos in order to minimize counterparty risk, impose uniform margin requirements, and ensure regulators have clear visibility into exposures across the Treasury market.

f. The Final Rule Must Require Reserves Stress Testing

The final rule should require PPSIs to conduct rigorous, standardized stress testing of reserve adequacy under severe but plausible redemption scenarios on at least an annual basis, with more frequent internal testing as market conditions warrant.

⁴⁸ See Financial Stability Board. Vulnerabilities in Government-Bond Markets. (February 4, 2026), available at: <https://www.fsb.org/2026/02/vulnerabilities-in-government-bond-backed-repo-markets/>.

These scenarios should include rapid, large-scale redemptions over compressed time horizons (e.g., 24–72 hours), the simultaneous loss of market liquidity in key reserve assets, disruptions in settlement and payment channels, and idiosyncratic shocks such as the failure or inaccessibility of a primary banking counterparty, as occurred during the SVB collapse. Stress tests should explicitly capture the liquidity and valuation effects of forced asset sales, including haircuts on U.S. Treasuries and other high-quality liquid assets under stressed market conditions, as well as constraints on repo financing and intraday liquidity.

The rule should further require issuers to maintain pre-positioned, readily deployable liquidity sufficient to meet modeled outflows without reliance on unsecured funding or extraordinary government support, and to establish clear governance frameworks with quantitative triggers that mandate timely execution of recovery actions. The FDIC should administer the stress testing of reserves jointly with the other prudential regulators for “complex” stablecoins (as defined above) that pose the largest systemic risk. Finally, the FDIC should require public disclosure of high-level stress testing assumptions and results to promote market discipline and avoid the opacity that contributed to destabilizing uncertainty in prior stress events.

C. The Final Rule Must Apply Liquidity Requirements

Question 59 of the Proposal asks whether the FDIC should apply a liquidity coverage ratio (“LCR”)-style requirement to PPSIs. Better Markets urges the FDIC, in conjunction with the other prudential regulators, to propose liquidity requirements designed for the unique risks of PPSIs (rather than mechanically applying the standard LCR framework for large banks). As explained below, the standard LCR is structurally ill-suited to PPSIs in ways that demand a purpose-built alternative.

As a general matter, the standard 30-day LCR framework requires institutions to hold sufficient high-quality liquid assets to survive a 30-day stress scenario. For banks, this framework was calibrated around the speed of traditional deposit runs—a horizon that already proved inadequate in the SVB and Signature Bank failures, where runs reached crisis proportions within hours, not weeks. Better Markets therefore recommends that the FDIC, in coordination with the Federal Reserve Board and OCC, jointly propose a stablecoin-specific liquidity framework built around three reinforcing requirements: a short-duration acute stress requirement, a prescriptive reserve monetization readiness standard, and ongoing real-time liquidity monitoring obligations—particularly for complex PPSIs.

On the acute stress requirement, the liquidity standard could require every supervised PPSI to demonstrate, at all times, the operational capacity to honor redemption requests equal to at least 20 percent of its outstanding issuance within five business days, using only assets that can be converted to cash through pre-arranged, operationally tested channels without reliance on bilateral market transactions that may be unavailable or severely impaired during stress. This requirement has several advantages over a standard LCR. First, it is calibrated to the actual speed of stablecoin runs rather than the 30-day bank run horizon. Second, it focuses on operational readiness—the ability to actually convert assets to cash—rather than the holding of liquid assets.

On reserve monetization readiness, the standard could require that, for example, each PPSI submit an annual “Reserve Monetization Readiness” certification to its primary supervisor documenting the specific operational steps and timeframes required to convert each category of reserve assets to cash, identifying any third-party custodians or counterparties involved in that process, and certifying that the issuer has tested its monetization procedures within the prior 90 days. On real-time liquidity monitoring, the standard could require all complex PPSIs with above \$10 billion in outstanding issuance to provide daily reserve attestations to the FDIC and to report any single-day net redemption volume exceeding 5 percent of outstanding issuance within two hours of occurrence—as opposed to the Proposal’s weekly reporting cadence, which is plainly inadequate for the speed at which stablecoin stress events actually develop.

D. The Final Rule Must Include Recovery and Resolution Planning Requirements

The Proposal seeks public comment on requiring resolution plans for PPSIs but does not include any affirmative recovery and resolution planning requirements. Stablecoin issuers are not subject to the Dodd-Frank Title II orderly liquidation authority, the FDIC’s standard bank resolution framework, or the Federal Reserve Board’s living will requirements.⁴⁹ If a large PPSI fails in a disorderly manner—whether through a run, operational failure, or loss of reserve asset value—there would be no federal resolution mechanism to ensure that outstanding stablecoin obligations are honored at par, that reserve assets are distributed equitably to holders, or that contagion to affiliated institutions and Treasury markets is contained. The Proposal acknowledges the liquidation scenario—requiring mandatory redemption and reserve liquidation if reserve requirements are not met for 15 consecutive business days—but is silent about how that liquidation would be conducted, who would oversee it, or what protections would apply to holders during the process.

Better Markets urges the FDIC to require, in the final rule, that every FDIC-supervised PPSI submit an annual recovery and resolution plan—modeled on the FDIC’s and the Federal Reserve Board’s living will requirements for large bank holding companies and insured depository institutions—that addresses at minimum: (i) the specific triggers and early warning indicators that would cause the issuer to activate its recovery plan; (ii) the mechanisms by which the issuer would stabilize itself during a stress scenario short of failure, including reserve replenishment procedures, communications protocols, and redemption management strategies; (iii) the specific steps by which the issuer would wind down operations and redeem outstanding stablecoins at par in an orderly manner in a failure scenario, including identification of the responsible fiduciary, the timeline for redemptions, and the priority of claims; (iv) the operational dependencies—on custodians, payment networks, blockchain infrastructure providers, and affiliated institutions—that could impair an orderly wind-down, and the issuer’s plan for addressing those dependencies; and (v) the issuer’s assessment of whether step-in

⁴⁹ See 12 CFR § 243 (Federal Reserve Regulation QQ, Resolution Plans); 12 CFR § 360.10 (FDIC Resolution Plans for Covered Insured Depository Institutions), available at: <https://www.fdic.gov/resolutions/large-idi-resolution-planning>; see also 12 U.S.C. § 5365(d) (Dodd-Frank Act § 165(d)).

support from affiliated institutions would be necessary for an orderly resolution, and a certification that no such support has been committed or implied.

These plans should be reviewed by the FDIC annually, shared with the Federal Reserve Board and OCC as part of the interagency coordination framework Better Markets urges elsewhere in this letter. The plans should also be made available in summary form to the public, similar to the process for IDIs and holding companies. Resolution planning will not prevent stablecoin failures, but it can reduce the probability that a failure produces the disorderly, contagion-amplifying outcome that poses systemic risk.

E. The Final Rule Must Address Step-In Risk and Implicit Support Expectations

A central deficiency of the Proposal is its failure to adequately consider step-in risk, or the likelihood that affiliated institutions, sponsors, or other market participants will feel compelled to provide financial support to a distressed PPSI despite the absence of a formal obligation to do so.⁵⁰

Stablecoin issuers are likely to operate within complex organizational and financial ecosystems that include banks, payment providers, and other financial intermediaries. In such arrangements, market participants may reasonably expect that affiliated or sponsoring institutions will provide support in times of stress in order to protect their reputations, preserve customer relationships, or prevent broader market disruption. These expectations can create implicit guarantees that are neither priced into the system nor backed by appropriate regulatory safeguards.

As noted above, stablecoins have similar run characteristics to MMFs. As a textbook example of step-in risk, in 2008, many large banks and asset managers stepped in to provide financial support to affiliated or sponsored MMFs, purchasing distressed assets or injecting capital to prevent losses to investors.⁵¹ Critically, these interventions were not legally required; rather, firms acted to protect their brand names and reputations, fearing that allowing a fund bearing their name to fail would trigger broader runs, damage franchise value, and spill over to their core banking operations. This circular chain of events—where the market assumes support because of a shared name—effectively turned off-balance-sheet products that did not provide any expectation of returns or deposit insurance into de facto contingent liabilities. Regulators

⁵⁰ *Supra* 4. Better Markets also noted concerns to the FDIC about previous step-in risk provided by banking organizations during the 2007-2009 global financial crisis in our comment letter on the approval proposal. Those concerns must be addressed jointly in any final rule.

⁵¹ *See* Task Force on Regulatory Consolidation Consultative Document. Basel Committee on Banking Supervision. (March 2017) available at: <https://www.bis.org/bcbs/publ/d398.pdf>.

recognized this as a key channel of systemic risk arising from threats to a bank’s reputation. This led to tighter rules by the Securities and Exchange Commission governing MMFs.⁵²

The parallel to payment stablecoins today is direct and unambiguous. If banks are permitted to sponsor, distribute, or closely affiliate with payment stablecoins, market participants and stablecoin holders will reasonably assume that a bank will stand behind a stablecoin or similar product bearing its name in a stress event—even absent a legal obligation. In a run scenario, that expectation could pressure banks to provide emergency support to avoid reputational damage, effectively transmitting stress from the crypto ecosystem onto the regulated banking system. This procyclical chain of events is foreseeable and is precisely why addressing step-in risk for stablecoins is critical for financial stability.

The existence of such implicit support mechanisms that will result from the Act and the Proposal would introduce significant moral hazard and create a pathway for risk to migrate outside the regulated banking perimeter while still ultimately being borne by entities within it. In times of stress, step-in risk can result in the effective extension of the federal safety net to activities and institutions that were not intended to benefit from it, thereby increasing systemic vulnerability and undermining the integrity of prudential regulation.

The Proposal does not meaningfully address these dynamics. It does not impose sufficiently robust structural separations between PPSIs and affiliated institutions, nor does it establish clear limits on intercompany exposures and transactions. Additionally, as noted above, the Proposal lacks requirements for credible recovery and resolution planning that would allow a PPSI to fail without triggering contagion or necessitating external support.

To mitigate these risks, the FDIC should require clear and enforceable firewalls between PPSIs and affiliated entities, including restrictions on exposures and transactions that could transmit stress. Finally, step-in risk should be explicitly incorporated into supervisory frameworks, including capital and liquidity requirements, to ensure that institutions internalize the risks associated with implicit guarantees of parent support.

F. The Final Rule Must Strengthen Restrictions on White-Label Stablecoin Arrangements that Magnify Step-In Risk and Consumer Confusion

The Proposal solicits comment on whether to restrict each PPSI to a single brand, noting that white-label and co-branded arrangements “may foster uncertainty about reserve assets and encourage contagion and run risk among brands.” Better Markets recommends that the final rule prohibit white-label arrangements and enforce a one brand per issuer standard.

White-label stablecoin arrangements—in which a PPSI issues stablecoins marketed under a partner institution’s brand—create three distinct and serious risks that the Proposal

⁵² See e.g., U.S. Securities and Exchange Commission. “SEC Adopts Money Market Fund Reforms and Amendments to Form PF Reporting Requirements for Large Liquidity Fund Advisers” (July 12, 2023), available at: <https://www.sec.gov/newsroom/press-releases/2023-129>.

acknowledges but does not resolve. First, they obscure the actual reserve backing from retail customers. A consumer holding a stablecoin marketed by a major retailer under a proprietary brand has no visible connection to the PPSI's reserve portfolio, no obvious mechanism for understanding redemption risk, and no clear signal that the stablecoin's value depends on the PPSI's financial condition rather than the retailer's.

Second, white-label arrangements create implicit step-in risk for the sponsoring institution. A retailer whose branded stablecoin is under stress faces reputational and commercial pressure to provide support to the PPSI to prevent its customers from bearing losses—creating exactly the off-balance-sheet liability that the letter argues must be addressed in the capital and step-in risk sections.

Third, multi-brand structures amplify contagion dynamics: a run on one brand of stablecoin issued by a common PPSI will rationally spread to other brands issued by the same entity, but because the brands appear to retail customers as independent products, the common underlying exposure will not be apparent until the contagion has already propagated. These risks are structural. No examination program can adequately monitor the reputational and contagion dynamics created by complex multi-brand arrangements.

The final rule should therefore impose a categorical prohibition on white-label and co-branded stablecoin issuance, require all stablecoins issued by a PPSI to be marketed under a single brand name that clearly identifies the issuer, and require that brand to appear prominently in all customer-facing materials.

G. The Final Rule Must Address the Significant Financial Stability Risks Stablecoins Pose At Scale

The Proposal also falls short in its assessment of the broader financial stability implications of integrating stablecoins into the financial system at scale. Stablecoins combine features of demand deposits, asset-backed investment vehicles, and payment instruments, creating a hybrid structure that is inherently vulnerable to rapid and destabilizing runs.

Even if individual issuers appear well-capitalized under baseline conditions, the system as a whole may be subject to correlated redemption pressures, particularly in response to market shocks or loss of confidence. Such dynamics could trigger widespread asset liquidations, placing strain on short-term funding markets and transmitting stress across financial institutions and market infrastructures. As stablecoins become larger, any level of run will cause disruptions throughout the financial system. Runs would create instability in the banking sector through uninsured deposits and in Treasury and repo markets through cash Treasuries and MMFs.

For example, the Proposal would allow a standard two-business-day redemption window, but once redemption requests exceed 10 percent of outstanding issuance within 24 hours, redemption periods automatically extend to seven calendar days and cannot proceed earlier

without FDIC approval.⁵³ This would create a cliff effect—the moment the 10 percent threshold is hit and the seven-day gate activates, it will signal distress and trigger further panic, mirroring the same dynamics that made MMF runs so destructive. Further, because under current business practice retail stablecoin holders do not have a direct redemption right with the PPSI, losses caused by run dynamics are most likely to be borne by ordinary consumers left with little recourse but to trade stablecoins back into fiat currency on the secondary market.

The Proposal does not attempt to analyze these system-wide financial stability concerns. It does not consider the potential for correlated exposures across issuers, the aggregate liquidity demands that could arise under stress, or the broader market impacts of large-scale asset sales. Nor does it fully address the implications for the stability and uniformity of money, particularly if reserve assets deviate from instruments that are effectively risk-free. Absent a comprehensive financial stability analysis, the Proposal would establish a regulatory framework that may appear sound at the level of individual firms but is fragile when viewed from a system-wide perspective. Applying both microprudential and macroprudential perspectives to regulation was a key lesson of the 2008 financial crisis and subsequent episodes of market stress. The Proposal fails to apply a macroprudential lens, and any final rule must analyze the macroprudential risks associated with payment stablecoins.

Better Markets strongly recommends that any final rule undertake and publish a more comprehensive assessment of the systemic implications of stablecoins, including multi-issuer stress scenarios and analyses of market-wide liquidity needs.

H. The Final Rule Must Solidify the Prohibition on Yield to Protect Community Banks

The Proposal at §350.3(b)(4) creates only a presumption that certain affiliate and third-party arrangements constitute prohibited yield payments. The proposal would allow issuers to rebut that presumption by submitting written materials to the FDIC. The ability to pay interest on stablecoins is a significant gap that remains inadequately addressed in the Act, despite broad recognition outside the crypto industry that it was the intent of Congress for it to not be permitted. If left unaddressed, yield-bearing stablecoin arrangements could attract depositors away from IDIs and undermine the credit intermediation function that community banks provide to the real economy.

The presumption framework is inherently inadequate as an enforcement mechanism. It is reactive rather than preventive and places the burden on the FDIC to supervise a potentially endless stream of evolving evasion arrangements rather than establishing a hard prohibition covering all third-party channels. The Proposal itself acknowledges that it cannot identify all potential evasion structures and that they will evolve over time—an admission that the presumption approach will perpetually lag the market it is trying to regulate. The framework also invites litigation, since bespoke determinations about whether particular affiliate or third-party arrangements violate the prohibition will be made without an articulated objective standard, creating an ongoing arbitrary and capricious vulnerability under the APA.

⁵³ *Supra* 2, “significant redemption request”.

The FDIC should not wait for potential congressional action to close this critical gap. Under its independent safety and soundness authority,⁵⁴ the FDIC has a sufficient basis—and a particular obligation to community banks—to tighten the presumption framework into a more categorical prohibition on yield-equivalent arrangements transmitted through affiliates or third parties, and to require that any PPSI seeking to rebut the presumption bear the burden of demonstrating affirmatively, through clear and convincing evidence, that the arrangement does not economically replicate a yield payment to payment stablecoin holders. The final rule should codify that burden allocation explicitly rather than leaving it to case-by-case supervisory judgment.

As a policy matter, permitting PPSIs or related parties to pay yield to holders poses a serious threat to the deposit base of the banking system, with disproportionate consequences for community banks and the communities they serve. As Better Markets has explained⁵⁵, the relationship between deposit growth and loan growth is significantly stronger at smaller institutions precisely because community banks rely on core deposits—not capital markets or wholesale funding—to finance their lending activity. If deposits migrate toward yield-bearing stablecoins at the OCC’s estimated scale of between \$1 trillion and \$2 trillion in outstanding issuance—even a modest yield premium (e.g., between 1 and 2 percent) would represent tens of billions of dollars annually flowing to stablecoin holders rather than remaining as deposit funding in the banking system.

Community banks, which hold approximately 15 percent of total U.S. deposits, would bear a disproportionate share of that outflow, facing a contraction in the core deposit funding they depend on to extend credit to small businesses, farms, and local commercial real estate projects—lending that the largest banks are far less likely to underwrite.⁵⁶ Independent Federal Reserve research corroborates this concern, finding that stablecoin growth at scale could materially reduce bank deposits and constrain credit intermediation, with the most acute effects concentrated at smaller institutions less able to access alternative funding sources.

The Act compounds this risk by opening the door for large non-financial corporations—such as major technology or retail companies—to issue payment stablecoins backed by short-term Treasuries, cash, and government MMF shares. It is highly implausible that a large technology or retail corporation purchasing Treasury bills to collateralize its stablecoin will

⁵⁴ *Supra* 45.

⁵⁵ See Better Markets, *Policymakers Shouldn’t Yield on Stablecoin Interest* (April 16, 2026), available at: <https://bettermarkets.substack.com/p/policymakers-shouldnt-yield-on-stablecoin>. See also, American Banker. “The CEA studied the wrong question on stablecoin yield and community banks.” (April 13, 2026), available at: <https://bankingjournal.aba.com/2026/04/the-cea-studied-the-wrong-question-on-stablecoin-yield-and-community-banks/>.

⁵⁶ See Phillip Basil. “Policymakers Are Giving Cake to Big Banks and Crypto and Leaving the Crumbs for Community Banks and Main Street.” (May 28, 2026), available at: <https://bettermarkets.org/newsroom/policymakers-are-giving-cake-to-big-banks-and-crypto-and-leaving-the-crumbs-for-community-banks-and-main-street/>.

recirculate those funds as deposits back into community banks. The result is a structural one-way flow of capital out of community institutions and into Treasury-backed reserves held by the largest corporations in the economy, permanently removing that funding from the lenders best positioned to deploy it into local communities. The FDIC should treat this structural dynamic—and not merely the discrete question of whether a specific arrangement constitutes a prohibited yield payment—as the central financial stability concern animating this section of the final rule.

I. The Final Rule Must Align with Other Prudential Regulators As Required Under the Act

As noted above in Section I.C., the Proposal does not address how the Federal Reserve⁵⁷ would gain visibility into stablecoin flows that could affect Treasury markets, repo markets, or the transmission of monetary policy—all concerns central to financial stability that the FDIC has limited experience or expertise in assessing. Critically, the FDIC has issued this Proposal unilaterally, without the coordination or endorsement of the OCC or the Federal Reserve Board—and, as of the date of this comment letter, the Federal Reserve Board has yet to publish any formal implementing proposal under the Act at all. This siloed approach is contrary to the text and structure of the statute Congress enacted. The Act is clear that all regulations issued to implement the Act “shall be issued in coordination by the primary Federal payment stablecoin regulators.”⁵⁸

Further, Section 13 of the Act directs every primary Federal payment stablecoin regulator—defined expressly to include the OCC, the Federal Reserve Board, the FDIC, and the NCUA—to coordinate on any regulations issued to carry out the Act and to submit a joint report to Congress confirming the regulations promulgated within 180 days of the Act’s effective date. Congress used clear language (“shall”) in these provisions. Therefore, the FDIC’s decision to proceed with a comprehensive, implementing rulemaking covering capital, liquidity, operational risk, reserve management, and chartering—without the Federal Reserve Board having issued so much as a parallel proposal at the time—is in tension with the coordination mandate that Congress built into the statute itself.

This is particularly significant given the novelty and systemic importance of payment stablecoins. When Congress established a new regulatory framework for an entirely new financial product with the potential to fundamentally reshape deposit flows, credit intermediation, and monetary policy transmission, it deliberately constructed an interagency architecture to administer the framework. For example, the Act vests the Secretary of the Treasury as chair of the SCRC and tasks this committee with certifying whether state payment stablecoin regulatory regimes are “substantially similar” to the federal framework.⁵⁹

⁵⁷ Note the Federal Reserve in this context includes the Federal Reserve Board and the Federal Reserve Banks, which have delegated authority to supervise Board-regulated financial entities.

⁵⁸ *Supra* 3.

⁵⁹ U.S. Department of the Treasury, *GENIUS Act Broad-Based Principles for Determining Whether a State-level Regulatory Regime Is Substantially Similar to the Federal Regulatory Framework*, 91 FR 16844 (April 3, 2026), Docket ID TREAS-DO-XX, RIN 1505-AC90, available at:

Congress additionally required all primary Federal payment stablecoin regulators to jointly promulgate implementing regulations within one year of enactment (by July 18, 2026). It further tied the Act’s effective date not to any single agency’s rulemaking, but to the date “120 days after the primary Federal payment stablecoin regulators issue final regulations implementing the Act”—meaning in effect the entire framework includes the participation of all prudential regulators acting in concert. This architecture recognizes that no single agency possesses the full range of expertise, supervisory reach, and institutional authority necessary to regulate stablecoins in isolation. As detailed above, the Federal Reserve’s unique expertise in monetary policy, systemic risk, and financial stability is therefore indispensable to the effective regulation and supervision of payment stablecoins. The FDIC’s approach under the Proposal is contrary to the direction in the Act and disregards this judgment entirely.

Therefore, stablecoin issuers operating under the FDIC’s framework will likely be subject to a materially different prudential regime than those supervised under frameworks developed by the Federal Reserve Board. It is unclear and confounding why a PPSI that is a state member bank supervised by the Federal Reserve should have a materially different regulatory regime than a state nonmember bank. However, that is exactly what is likely to occur due to the FDIC’s unilateral approach in this Proposal.

Indeed, the FDIC itself recognized this risk as it expressly sought public comment on “the extent to which the primary Federal payment stablecoin regulators should further align in their final rules to promote consistency of regulations applicable to all PPSIs subject to the GENIUS Act.”⁶⁰ The absence of the Federal Reserve Board’s Act proposal at this stage means that any alignment efforts would be incomplete. Further, it would appear that the final regulatory landscape may further diverge in precisely the areas that matter most for financial stability.

Nevertheless, the Proposal tacitly presumes that the coordination obligation under the Act has been satisfied when it has not. The absence of interagency coordination at the proposal stage creates the regulatory fragmentation that sophisticated market participants will inevitably exploit—charter and supervisor shopping—a race to the bottom in search of the most permissive prudential standards. Rather than establishing a unified, robust framework that provides consistent safeguards across the financial system, the FDIC’s approach risks creating a patchwork of standards that undermines safety and soundness for the entire banking system.

The risks posed by the FDIC’s fragmented approach are compounded by the absence of any mechanism to identify, track, and publicly account for the prudential differences that Better Markets has consistently noted will inevitably emerge across regulatory regimes due to the OCC’s and FDIC’s misguided approaches. Each year, the OCC, the Federal Reserve Board, and

<https://home.treasury.gov/system/files/136/NPRM-GENIUS4c-Principles.pdf>. See also Better Markets Comment Letter. (June 2, 2026), available at: <https://bettermarkets.org/wp-content/uploads/2026/06/Better-Markets-Comment-Letter-TREAS-GENIUS-Act.pdf>.

⁶⁰ *Supra* 2.

the FDIC are required by Congress under Section 37(c) of the Federal Deposit Insurance Act⁶¹, to jointly submit to Congress a report describing any differences in the accounting and capital standards applicable to the institutions they regulate. The most recent such report, submitted in December 2025, confirmed that the agencies have not identified any material differences in their accounting and capital standards as applied to insured depository institutions—a testament to decades of careful interagency harmonization following the comprehensive 2013 capital rule revision that unified the agencies' risk-based and leverage capital frameworks.⁶²

The careful approach taken by the agencies in the areas of capital and accounting standards is now being undermined by the FDIC's approach to PPSIs under the Act. If the FDIC moves forward with a stablecoin framework developed without full Federal Reserve Board participation, the prudential standards applicable to FDIC-supervised PPSIs will diverge—potentially significantly—from those applicable to institutions supervised by the Federal Reserve Board. These differences in capital requirements, liquidity standards, and supervisory expectations will have real and compounding consequences for deposit flows, credit availability, and systemic risk.

The FDIC should therefore commit to including, in all future annual differences reports submitted pursuant to 12 U.S.C. § 1831n(c), a comprehensive description of any differences in the prudential standards applicable to PPSIs across their respective regulatory perimeters. Given the scale of potential deposit migration and the systemic implications of stablecoin growth documented in recent Federal Reserve Board research⁶³, any such differences are material policy choices with economy-wide consequences that Congress and the public deserve to understand.

J. The Final Rule Must Clarify the Redemption Process

For stablecoins to emerge as a reliable form of payment and a bona fide money substitute, all customers who have undergone appropriate onboarding should have the right to redeem a stablecoin directly with the PPSI. The FDIC should also require that PPSIs establish a minimum redemption threshold not to exceed one stablecoin. If the FDIC allows a continuation of current practice—in which PPSIs typically limit redemptions to a small number of institutional intermediaries—it will force retail stablecoin holders to rely upon third parties for liquidity and

⁶¹ 12 U.S.C. § 1831n(c).

⁶² See Office of the Comptroller of the Currency, Federal Reserve Board & Federal Deposit Insurance Corporation, *Report to Congress: Differences in Accounting and Capital Standards among the Federal Banking Agencies* at 1-2 (December 2025). (“The agencies have not identified any material differences among the agencies' accounting and capital standards applicable to the institutions they regulate and supervise.”), available at: <https://www.federalreserve.gov/publications/files/2025-Report-Regarding-Differences-in-Accounting-and-Capital-Standards.pdf>.

⁶³ See Federal Reserve Board, *Banks in the Age of Stablecoins: Implications for Deposits, Credit, and Financial Intermediation* (December 17, 2025), available at: <https://www.federalreserve.gov/econres/notes/feds-notes/banks-in-the-age-of-stablecoins-implications-for-deposits-credit-and-financial-intermediation-20251217.htm>.

will allow market intermediaries with redemption rights to profit from depegging events at the expense of retail customers.⁶⁴

If the FDIC does proceed by allowing PPSIs to limit redemption requests to a subset of stablecoin customers, the agency should require disclosures to customers explaining that individuals without direct redemption rights must rely on crypto exchanges or brokers to convert their stablecoins back into fiat currency. The FDIC should also require PPSIs to publicly and conspicuously name all parties that have direct redemption rights, as well as the venues on which the stablecoin trades in the secondary market. This information will allow customers to gauge the possible risks of an institutional firm ceasing to market-make in the stablecoin or the risks of a secondary market potentially failing, thereby impeding customers' liquidity back to fiat currency.

PPSIs should likewise provide disclaimers that third parties such as crypto exchanges may charge customers seeking to redeem their stablecoins indirectly via trading fees. Such information will empower consumers to understand potential transaction costs in the stablecoin ecosystem.

K. The Final Rule Must Ensure Redemption Requirements Will Function During a System-Wide Run

The Proposal does not demonstrate that the proposed redemption requirements would remain operational during the precise circumstances for which prudential regulation exists: a large-scale loss of confidence resulting in simultaneous redemption demands across multiple issuers. Confidence in PPSIs will likely disappear rapidly, with redemption requests accelerating within hours rather than days. The Proposal optimistically assumes that issuers holding eligible reserve assets will be able to convert those assets into cash and process redemption requests under stressed conditions. That rosy assumption remains largely untested.

The experience of March 2020 demonstrates that markets for even the safest and most liquid assets can experience severe dysfunction during periods of market stress. Government MMFs, Treasury markets, and short-term funding markets all required extraordinary Federal Reserve intervention.⁶⁵ Yet the Proposal contains no comparable analysis demonstrating that a stablecoin ecosystem with hundreds of billions of dollars in outstanding issuance could withstand similar redemption pressure without extraordinary government support.

⁶⁴ Circle notes in a regulatory filing that only its 'Circle Mint' customers are able to redeem USDC stablecoins with Circle. "Circle Mint is currently available only to institutions, such as exchanges, institutional traders, wallet providers, banks, and consumer apps companies. Circle Mint is not available to individuals." See Circle Internet Group, Inc. "Form S-1 Registration Statement Under the Securities Act of 1933." (April 1, 2025), available at: <https://www.sec.gov/Archives/edgar/data/1876042/000119312525070481/d737521ds1.htm>.

⁶⁵ See Coronavirus Disease 2019 (COVID-19), available at: <https://www.federalreserve.gov/covid-19.htm>.

Accordingly, the FDIC should require all permitted payment stablecoin issuers to demonstrate operational capacity to satisfy redemption requests under scenarios involving 25 percent, 50 percent, and 75 percent redemptions over short-term time horizons. Also, as noted above in Section I.D., the FDIC, along with the other prudential regulators, should conduct and publish the results of a system-wide redemption stress exercise before finalizing the framework.

L. The Final Rule Must Address Consumer Protection

While the Act contemplates a future in which payment stablecoins become a widely used mechanism for consumer, household, and business payments, the Proposal provides minimal discussion regarding the application of existing federal consumer financial protection laws to stablecoin transactions. The Proposal establishes extensive prudential requirements relating to reserves, liquidity, governance, and risk management, but it does not explain how consumers will be protected when using stablecoins as a substitute for traditional deposit-based payment mechanisms.

In particular, the Proposal does not address how the Electronic Funds Transfer Act⁶⁶ and its implementing Regulation E will apply to stablecoin transactions. Consumers using traditional deposit accounts benefit from a well-established framework governing unauthorized transfers, error resolution procedures, disclosures, and liability limitations. The Proposal does not explain whether, or to what extent, those protections will apply when consumers transact using stablecoins issued by a PPSI, including a PPSI affiliated with an insured depository institution.

This ambiguity is particularly concerning because banks and credit unions may offer consumers both traditional deposit products and stablecoin-based payment products through affiliated entities. Consumers may reasonably expect substantially similar protections when conducting economically equivalent transactions, regardless of the payment rail used. Yet the Proposal does not explain whether consumers using stablecoins will receive protections comparable to those available when using checking accounts, debit cards, or other traditional electronic payment methods.

The Proposal likewise does not address how remittance transfer protections under federal law will apply when stablecoins are used for cross-border payments. The Proposal also does not discuss the application of other federal consumer protection requirements that may become increasingly important as stablecoins are adopted for retail payment purposes. As a result, consumers may face uncertainty regarding their rights and remedies in the event of fraud, unauthorized transactions, operational failures, or payment disputes.

Finally, the final rule should clarify how the FDIC intends to coordinate with the Consumer Financial Protection Bureau, the OCC, the NCUA, the Federal Reserve Board, and state regulators regarding the supervision and enforcement of federal consumer protection laws, including prohibitions on unfair, deceptive, or abusive acts or practices. Without clear

⁶⁶ See Electronic Funds Transfer Act, 15 U.S.C. §§ 1693–1693r; 12 CFR Part 1005 (Regulation E).

interagency coordination, consumers may be left with a fragmented and inconsistent set of protections depending on the regulatory status of the issuer and the payment mechanism used.

Accordingly, Better Markets recommends that the FDIC, in coordination with other relevant federal agencies, provide additional guidance regarding the application of existing consumer financial protection laws to stablecoin transactions and evaluate whether additional safeguards are necessary to ensure that consumers receive clear, consistent, and effective protections when using payment stablecoins.

M. The Final Rule Must Strengthen Consumer Protections to Prevent Confusion Regarding Deposit Insurance

Better Markets supports the Proposal's clarity that deposits maintained as reserve assets backing payment stablecoins are insured to the issuer under existing deposit insurance rules and are not insured to payment stablecoin holders on a pass-through basis.⁶⁷ This unambiguous treatment is essential and reflects the economic reality that payment stablecoin holders are not bank depositors and are not entitled to such protections provided by the DIF.

However, clarification in the Proposal will not be sufficient to adequately address potential consumer confusion. Stablecoin issuers and affiliated platforms have frequently marketed their products using terminology that appears designed to closely resemble traditional banking services, including deposit insurance protection. Therefore, consumers may reasonably infer that a stablecoin backed by deposits held at an insured depository institution provides protections comparable to those associated with insured bank deposits.

The risk of confusion is further heightened by the Act itself, which provides the option for the involvement of IDIs in issuing PPSIs, the regulation and supervision of the federal banking regulators, and a comprehensive prudential framework. In combination, these may create the appearance of government backing for PPSIs where none exists.

The FDIC should therefore require standardized disclosures explaining that payment stablecoins are not deposits, are not insured by the FDIC, are not guaranteed by the United States Government, and may be subject to losses or delays in redemption under certain circumstances.

⁶⁷ *Supra* 2 at 18535. "The proposed rule would also amend the deposit insurance coverage rules in part 330 that apply to all FDIC-insured depository institutions by clarifying that deposits held as reserves backing a payment stablecoin would be insured to the PPSI under the FDIC's coverage rules for corporate deposits, but would not be insured to payment stablecoin holders on a pass-through basis. Lastly, the proposed rule would clarify the treatment of tokenized deposits under the FDI Act."

Such disclosures should be required at issuance, redemption, wallet onboarding, and in all marketing materials.⁶⁸

N. The Final Rule Must Not Apply the FDIC’s Supervisory Appeals Board to PPSIs

As noted in Better Markets’ comment letter on the proposed approval process⁶⁹, we have significant concerns that FDIC has not adequately addressed how supervisory disputes, appeals, or challenges to FDIC findings involving PPSIs would be handled. That omission is significant because, as described above, stablecoin activities present materially different supervisory risks than traditional banking activities.

Because PPSIs can scale rapidly, operate continuously on a 24-hour basis (including when the traditional payment system is closed), and deteriorate quickly during periods of stress, delays of supervisory determinations that could be manageable in the context of IDIs could prove uniquely ill-suited for PPSIs. The FDIC appears to assume (incorrectly) that a supervisory appeal involving a PPSI can proceed according to traditional supervisory timelines and processes. A stablecoin issuer experiencing operational weaknesses, reserve deficiencies, cyber vulnerabilities, redemption stress, illicit finance deficiencies, or liquidity deterioration may require immediate supervisory intervention to prevent broader contagion to affiliated IDIs, payment systems, or financial markets. Any framework that permits prolonged appeals, delayed remediation, or uncertainty regarding supervisory directives risks allowing unsafe practices to continue precisely when rapid supervisory intervention may be most necessary. The FDIC’s new Office of Supervisory Appeals (“OSA”)⁷⁰ introduces meaningful friction into the oversight of FDIC-supervised PPSIs. Under the revised Guidelines, an approved PPSI subsidiary that disputes a material supervisory determination—including a CAMELS downgrade, a matter requiring attention, or a finding of noncompliance with reserve requirements, among other potential disputes—can trigger an appeals process that spans up to 135 days before a final decision is issued.

⁶⁸ See Federal Deposit Insurance Corporation. “Advisory to FDIC-Insured Institutions Regarding Deposit Insurance and Dealings with Crypto Companies.” FIL-35-2022 (July 29, 2022), available at: <https://www.fdic.gov/news/financial-institution-letters/2022/fil22035.html>. The Advisory warns that inaccurate or misleading representations regarding deposit insurance may create consumer confusion and directs institutions to monitor and address such risks in relationships with crypto firms. See also Federal Deposit Insurance Corporation. “FDIC Issues Cease and Desist Letters to Five Companies for Making Crypto-Related False or Misleading Representations about Deposit Insurance” (August 19, 2022), available at: <https://www.fdic.gov/news/press-releases/2022/pr22060.html>. The FDIC found that crypto-related firms made false or misleading statements regarding the scope of FDIC insurance protection. These actions reflect the FDIC’s own recognition that consumers may misunderstand the applicability and scope of deposit insurance in connection with crypto-related products.

⁶⁹ *Supra* 5 at 22.

⁷⁰ See Federal Deposit Insurance Corporation. “Guidelines for Appeals of Material Supervisory Determinations.” 91 FR 16. (January 26, 2026), available at: <https://www.federalregister.gov/documents/2026/01/26/2026-01433/guidelines-for-appeals-of-material-supervisory-determinations>. See also Better Markets Comment Letter (September 16, 2025), available at: <https://bettermarkets.org/wp-content/uploads/2025/09/Better-Markets-Comment-Letter-FDIC-Guidelines-for-Appeals-of-Material-Supervisory-Determinations.pdf>.

To make matters worse, during the appeal, the FDIC will generally delay any associated enforcement action. This delay is particularly consequential for PPSI oversight given the speed at which reserve shortfalls, liquidity stress, and depegging events can escalate. In practice, the redemption-run dynamics that the Act’s reserve and liquidity requirements are designed to prevent can materialize far faster than the FDIC’s slow, cumbersome, and litigious appeals process. Compounding this concern, the OSA’s reviewing panels are staffed by officials drawn from traditional bank supervisory and industry backgrounds who will likely lack direct familiarity with the novel risks specific to payment stablecoin issuance—including blockchain operational failures, smart contract vulnerabilities, and the reserve requirements. The standard of review, which asks whether a determination is consistent with FDIC policy and “overall reasonable,” gives a sophisticated PPSI applicant meaningful grounds to contest examiners’ judgments on inherently fact-intensive questions like reserve asset quality and monetization capability. Therefore, the OSA’s structure risks importing appellate delays and industry deference into a supervisory context where speed and examiner discretion are essential safeguards. To mitigate these obvious process concerns with stablecoin oversight, the FDIC should therefore clarify in any final rule that:

- supervisory directives involving liquidity, operational resilience, reserve management, illicit finance compliance, cybersecurity, redemption practices, or consumer protection remain immediately enforceable, notwithstanding any appeal;
- no appeal process should automatically stay or delay remediation requirements;
- the FDIC retains full authority to impose emergency supervisory restrictions or conditions where necessary to protect safety and soundness or the DIF; and
- PPSIs remain subject to heightened supervisory expectations given the speed with which stress events may develop in digitally native financial products.

These safeguards are particularly important because sophisticated stablecoin issuers may possess substantial financial, technological, and legal resources and may aggressively challenge supervisory findings. The Proposal should not inadvertently create procedural mechanisms that allow unsafe activities to persist through delay, litigation, or administrative appeals.⁷¹ The FDIC’s supervisory framework must prioritize timely remediation and financial stability over procedural gamesmanship. Further, the FDIC should expressly clarify that repeated supervisory findings, unresolved remediation deficiencies, or material operational incidents may serve as independent grounds for restricting growth, limiting activities, or revoking approval authority for PPSIs.

O. The Final Rule Must Significantly Increase Secondary Market Monitoring

The Proposal is conspicuously silent on one of the most significant risk management obligations a PPSI must maintain: monitoring secondary market activity. Under the Proposal, a PPSI’s reporting and risk management obligations are focused almost entirely on primary market

⁷¹ For more information on Better Markets significant concerns with the recent supervisory appeals changes by the federal banking agencies, see Christopher Appel. “OCC Proposal Puts Bankers in Charge of Supervising Bankers-Turning Risks into Crises for Main Street and Taxpayers. (April 20, 2026), available at: <https://bettermarkets.org/newsroom/occ-proposal-puts-bankers-in-charge-of-supervising-bankers-turning-risks-into-crises-for-main-street-and-taxpayers>.

activity—in other words, the issuance and redemption of payment stablecoins directly between the issuer and its customers. This silence creates two distinct and serious gaps, one in safety and soundness oversight and one in illicit finance compliance, that any final rule must close.

From a safety and soundness perspective, the secondary market for payment stablecoins is where early warning signals of run dynamics and systemic stress would likely first appear. Large, rapid movements of stablecoin balances, unusual concentration of holdings, accelerating transfer velocity, and wallet-level patterns consistent with panic selling are all observable on-chain in real time and are available to any PPSI that has invested in adequate blockchain analytics infrastructure. A secondary market price deviation from the intended \$1.00 peg is the stablecoin equivalent of an MMF's shadow net asset value falling to \$0.9975: it is an unambiguous signal that confidence in the stablecoin's fundamentals is waning and that supervisory intervention may be imminent.

Therefore, it is inexplicable that the Proposal contains no requirement that PPSIs monitor, detect, or report such deviations to the FDIC in real time (not just at the end of the business day). The final rule should remedy this directly by requiring every FDIC-supervised PPSI to file a current report with the FDIC within one business day whenever the secondary market trading price of its payment stablecoin deviates downward from \$1.00 by more than one quarter of one percent (i.e. \$0.9975)—mirroring the threshold and reporting timeline that the SEC applies to MMFs under Form N-CR⁷², which requires a fund to report within one business day when its market-based net asset value per share deviates downward from its stable price by more than a quarter.

Currently, the Proposal requires only weekly reporting on secondary market trading activity—a cadence inadequate for a product where a full-scale run, as the 2023 USDC episode demonstrated, can unfold within hours. A current reporting obligation keyed to a ¼ of 1 percent price deviation would give the FDIC real-time visibility into emerging stress at the precise moment when supervisory intervention is still capable of averting a crisis.

From an illicit finance perspective, the secondary market monitoring gap is equally serious and is compounded by the FinCEN/OFAC implementing proposal, which explicitly excludes secondary market transactions from PPSIs' suspicious activity reporting obligations—covering only primary market issuance and redemption activity.⁷³ Yet secondary market transactions—peer-to-peer transfers among holders on distributed ledger networks—are precisely where sanctions evasion, money laundering, and other illicit activity will be concentrated. The Act itself recognizes this, directing the Secretary to issue guidance

⁷² See U.S. Securities and Exchange Commission. Form N-CR, Part D (17 CFR Part 270); see also U.S. Securities and Exchange Commission, Money Market Fund Reforms, 88 FR 51,396 (August 3, 2023), available at: <https://www.federalregister.gov/documents/2023/08/03/2023-15124/money-market-fund-reforms-form-pf-reporting-requirements-for-large-liquidity-fund-advisers-technical>.

⁷³ *Supra* 24.

establishing standards for PPSIs to monitor blockchain activity, digital asset mixing services, and tumbler services.⁷⁴

The FDIC should not wait for that guidance before requiring its supervised issuers to have secondary market monitoring infrastructure in place. The final rule should require every FDIC-supervised PPSI to maintain a real-time on-chain analytics program capable of detecting unusual transaction patterns, large wallet movements, mixing and tumbling activity, and indicators of sanctions evasion, and to report material anomalies to the FDIC on an expedited basis. Together, a price-deviation current reporting requirement and a mandatory on-chain monitoring program would give the FDIC the supervisory tools it needs to oversee an asset class where the risks—both financial stability and illicit finance—manifest in the continuous flow of transactions.

P. The Final Rule Must Explain How the FDIC Will Address Risks of Decentralized Finance

The Proposal does not envision how the agency will police the trading of noncompliant stablecoins on decentralized finance, or DeFi, protocols. The FDIC, with the Treasury Department and other banking agencies, must explain how the agencies seek to enforce legal requirements limiting stablecoin use in the United States to PPSIs. If stablecoins offered outside of the requirements of the Act are permitted to be available to U.S. users via DeFi, it will undercut the core purposes of the Act and cause a race to the bottom in terms of the reserve asset composition and customer protections afforded to stablecoin customers.

Likewise, the Proposal does not meaningfully contemplate the risks of stablecoins being deposited into DeFi protocols. Recent incidents highlighting these risks include a hack draining \$300 million from Kelp Dao, with severe knock-on effects to the DeFi protocol Aave.⁷⁵ This comes on the heels of another nearly \$300 million hack on Solana's Drift Protocol.⁷⁶ Given the predominant use of stablecoins in lending and borrowing arrangements on DeFi, the Proposal does not sufficiently grapple with the downstream risks to PPSIs from their stablecoins being used in these highly-levered, unregulated arrangements with a high degree of cybersecurity risk. The final rule should account for a stablecoin's use in the DeFi ecosystem when considering the risk-based capital or operational requirements applied to a PPSI.

Conclusion

⁷⁴ *Supra* 3. § 4(a)(6).

⁷⁵ See "Hackers Target DeFi Protocol Kelp in Massive \$300 million exploit." Yahoo Finance (April 18, 2026), available at: <https://finance.yahoo.com/markets/crypto/articles/hackers-target-defi-protocol-kelp-205525995.html>.

⁷⁶ See "Lessons from the Drift Hack" Chainalysis (April 9, 2026), available at: <https://www.chainalysis.com/blog/lessons-from-the-drift-hack/>.

The FDIC's Proposal is a legally required but fundamentally premature and materially flawed attempt to establish a federal regulatory framework for PPSIs. As this letter has detailed, the Proposal would apply capital and reserve requirements that are not anchored to empirical analysis, enforced on timescales incompatible with the speed of a stablecoin run, and calibrated to the stablecoin industry's current \$250 billion footprint rather than the trillion-dollar scale Congress and independent analysts project. The Proposal would proceed in direct tension with the Act's coordination mandate, inexplicably before the Federal Reserve Board has published any implementing proposal and while the critically important BSA/AML and customer identification frameworks remain incomplete.

The Proposal also fails to address step-in risk and implicit guarantees that could transmit stablecoin stress directly onto the regulated banking system. It provides no recovery and resolution framework for an asset class excluded from every existing federal resolution mechanism. It leaves consumers without clarity on payments law protections, and it opens backdoor pathways for large technology and retail companies to obtain federal charters while evading the activity restrictions and consolidated supervision that apply to every other federally chartered institution.

Stablecoins have demonstrated, repeatedly and under real market conditions, that their structural architecture—run-prone, reserve-dependent, without deposit insurance, and operable 24 hours a day across permissionless global networks—creates risks categorically different from those of the institutions the FDIC has supervised since it was created in 1935. The history of financial regulation teaches consistently that frameworks calibrated to today's market, without adequate buffers for the scale and interconnectedness of tomorrow's, produce precisely the crises they were designed to prevent. The 2008 financial crisis, the 2020 dash for cash, and the 2023 banking crisis all resulted, in part, from regulatory frameworks that underestimated systemic risk at scale. The FDIC has an opportunity and an obligation to learn from those episodes rather than repeat them.

The path to a final rule that is worthy of that responsibility runs through full interagency coordination with the Federal Reserve Board and the OCC; a robust analysis of the impact of this Proposal on the DIF; rigorous, capital, liquidity, and reserve requirements grounded in empirical stress analysis with tiered requirements for complex stablecoins; enforceable firewalls against step-in risk and white-label arrangements that would extend the federal safety net to unintended beneficiaries; mandatory recovery and resolution planning for every PPSI; robust consumer protections that provide retail stablecoin holders with the same clarity and recourse they receive in equivalent deposit and payment transactions; and a supervisory infrastructure the FDIC has demonstrated it is capable of deploying before a single PPSI is approved by the agency.

Better Markets urges the FDIC not to finalize this Proposal unless and until it addresses the deficiencies identified in this letter. The framework Congress enacted must be implemented in a manner that protects financial stability, preserves the integrity of the banking system, safeguards consumers, and promotes market integrity. The Proposal, as drafted, does not yet meet that standard.

Sincerely,

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