



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

DIVISION OF SUPERVISION
AND REGULATION
DIVISION OF CONSUMER AND
COMMUNITY AFFAIRS

SR 23-
C-25
August 8, 2023

**TO THE OFFICER IN CHARGE OF SUPERVISION AND APPROPRIATE
SUPERVISORY AND EXAMINATION STAFF AT EACH FEDERAL RESERVE BANK
AND ALL STATE MEMBER BANKS**

**SUBJECT: Supervisory Nonobjection Process for State Member Banks Seeking to
Engage in Certain Activities Involving Dollar Tokens**

Applicability: The information contained in this letter is relevant to all state member banks.

This letter provides a description of the supervisory nonobjection process for state member banks seeking to engage in certain activities involving tokens denominated in national currencies and issued using distributed ledger technology or similar technologies to facilitate payments (dollar tokens).

Background

On January 27, 2023, the Board of Governors of the Federal Reserve System (Board) issued a Policy Statement on section 9(13) of the Federal Reserve Act (Policy Statement)¹ clarifying that the Board generally presumes that it will exercise its discretion under section 9(13) of the Federal Reserve Act² to limit state member banks and their subsidiaries to engaging as principal in only those activities that are permissible for national banks—in each case, subject to the terms, conditions, and limitations placed on national banks with respect to the activity —

¹ [Policy Statement on Section 9\(13\) of the Federal Reserve Act](#), 88 Fed. Reg. 7848 (February 7, 2023); 12 CFR 208.112.

² 12 U.S.C. § 330.

unless those activities are permissible for state banks by federal statute or under 12 CFR part 362.³

In Interpretive Letter 1174, the Office of the Comptroller of the Currency (OCC) specifically recognized the authority of national banks to use distributed ledger technology or similar technologies to conduct payments activities as principal, including by issuing, holding, or transacting in dollar tokens.⁴ However, the OCC conditioned the legal permissibility of these activities on a national bank demonstrating, to the satisfaction of its supervisors, that it has in place controls to conduct the activity in a safe and sound manner.⁵

Nonobjection Process for Dollar Token Activities

A state member bank seeking to engage in activities permitted for national banks under OCC Interpretive Letter 1174, including issuing, holding, or transacting in dollar tokens to facilitate payments, is required to demonstrate, to the satisfaction of Federal Reserve supervisors, that the bank has controls in place to conduct the activity in a safe and sound manner.⁶ To verify this requirement has been met, a state member bank should receive a written notification of supervisory nonobjection from the Federal Reserve before engaging in the proposed activities.⁷

A state member bank seeking to engage in such dollar token activities, including for the purpose of testing, must notify its lead supervisory point of contact at the Federal Reserve of the bank's intention to engage in the proposed activity and should include a description of the

³ 12 CFR 208.112(c). If a state member bank or its subsidiary seeks to engage in an activity as principal that is not permissible for a national bank or for an insured state member bank by federal statute or under 12 CFR part 362, the state member bank or its subsidiary may not engage in the activity unless the bank has received the prior permission of the Board under 12 CFR 208.3(d)(2). *See* 12 CFR 208.112(d). Insured state member banks can fulfill the filing requirement by instead receiving permission from the Federal Deposit Insurance Corporation under section 24 of the Federal Deposit Insurance Act and 12 CFR part 362.

⁴ OCC Interpretive Letter No. 1174 (January 4, 2021). The OCC uses the term “stablecoin” and the Board uses the term “dollar token,” but the terms are synonymous for purposes of OCC Interpretive Letter 1174. For the avoidance of doubt, any bank liabilities (including deposits) that meet the definition of dollar token above are “dollar tokens.”

⁵ OCC Interpretive Letter No. 1179 (November 18, 2021).

⁶ Depending on the specifics of the proposed activity, filing requirements may apply. For example, some activities involving dollar tokens may represent a change in the general character of a bank’s business. *See* 12 CFR 208.3.

⁷ If a state member bank was already engaged in such dollar token activities as principal prior to the release of this letter, it should notify its lead supervisory point of contact at the Federal Reserve of such pre-existing dollar token activities within 30 calendar days of the issuance of this letter. The bank may continue to engage in the existing activities while the Federal Reserve considers whether to provide a supervisory nonobjection for the existing dollar token activities or any planned expansion of such activities. Once the review is complete, the Board will provide a written response indicating whether a supervisory nonobjection for the existing activities and any planned expansion is granted.

proposed activity.⁸ Federal Reserve supervisory staff may follow up with the bank to seek additional information in order to better understand the proposal and the control framework that the state member bank has put in place. After receiving a written notification of supervisory nonobjection, state member banks will continue to be subject to supervisory review and heightened monitoring of these activities.

To obtain a written notification of supervisory nonobjection, a state member bank should demonstrate that it has established appropriate risk management practices for the proposed activities, including having adequate systems in place to identify, measure, monitor, and control the risks of its activities, and the ability to do so on an ongoing basis. Federal Reserve staff will focus on the risks discussed in the preamble to the Policy Statement with respect to dollar tokens, including, but not limited to:⁹

- **operational risks**, including those risks associated with the governance and oversight of the network; clarity of the roles, responsibilities, and liabilities of parties involved; and the transaction validation process (e.g., timing and finality of settlement of transactions, potential irreversibility of transactions, and the central authority of transaction records);
- **cybersecurity risks**, including risks associated with the network on which the dollar token is transacted, the use of smart contracts, and any use of open source code;
- **liquidity risks**, including the risk that the dollar token could experience substantial redemptions in a short period of time that would trigger rapid outflows of deposits;
- **illicit finance risks**, including risks relating to compliance with Bank Secrecy Act and Office of Foreign Asset Control requirements, which include requiring banking organizations to verify the identity of a customer, perform due diligence to understand the nature and purpose of the customer relationship, and perform ongoing monitoring to identify and report suspicious activity; and
- **consumer compliance risks**, including risks related to identifying and ensuring compliance with any consumer protection statutes and regulations that apply to the specific dollar token activity.

Federal Reserve staff will also assess whether the bank has demonstrated that it understands and will comply with laws that apply to the proposed activities.

⁸ This notification will also serve as the state member bank's notification under SR letter 22-6/CA letter 22-6, "Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations" (August 16, 2022).

⁹ 88 Fed. Reg. 7850. In January 2023, the Board, the Federal Deposit Insurance Corporation (FDIC), and the OCC (collectively, the agencies) stated that, based on the agencies' current understanding and experience to date, the agencies believe that issuing or holding as principal crypto-assets (referring generally to any digital asset implemented using cryptographic techniques) that are issued, stored, or transferred on an open, public, and/or decentralized network, or similar system is highly likely to be inconsistent with safe and sound banking practices. Board, FDIC, and OCC, [Joint Statement on Crypto-Asset Risks to Banking Organizations](#), at 2 (January 3, 2023).

Reserve Banks are asked to distribute this letter to the supervised banking organizations in their districts and to appropriate supervisory staff. In addition, a supervised banking organization may send questions via the Board's public website.¹⁰

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Cross References:

- Policy Statement on Section 9(13) of the Federal Reserve Act
- SR letter 22-6/CA letter 22-6, Engagement in Crypto-Asset-Related Activities by Federal Reserve-Supervised Banking Organizations
- Joint Statement on Crypto-Asset Risks to Banking Organizations

WITHDRAWN

¹⁰ See <https://www.federalreserve.gov/apps/contactus/feedback.aspx>.